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# Support for Farmers' Cooperatives

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*Case Study Report*  
**Internationalisation  
of Second-tier  
Cooperatives:  
The Case of  
Conserve Italia,  
Italy**

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***Internationalisation of Second-tier  
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## **Preface and acknowledgements**

In order to foster the competitiveness of the food supply chain, the European Commission is committed to promote and facilitate the restructuring and consolidation of the agricultural sector by encouraging the creation of voluntary agricultural producer organisations. To support the policy making process DG Agriculture and Rural Development has launched a large study, "Support for Farmers' Cooperatives (SFC)", in order to provide insights on successful cooperatives and producer organisations as well as on effective support measures for these organisations. These insights can be used by farmers themselves, in setting up and strengthening their collective organisation, by the European Commission, and by national and regional authorities in their effort to encourage and support the creation of agricultural producer organisations in the EU.

Within the framework of the SFC project, this case study report on the internationalisation of second-tier cooperatives and in the case of Conserve Italia has been written.

Data collection for this report has been done in the winter and spring of 2012.

In addition to this report, the SFC project has delivered 32 other case study reports, 27 country reports, 8 sector reports, 6 EU synthesis and comparative analysis reports, a report on cluster analysis, a report on the development of agricultural cooperatives in other OECD countries, and a final report.

The authors would like to thank the representatives of Conserve Italia for their willingness to collaborate in this project and to share information on this second-tier cooperative; special thanks go to Sergio Tondini, Corporate Affairs and Communication Manager of Conserve Italia.

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# 1. Introduction

## 1.1 Objective and research questions

This report focuses on a second-tier agricultural cooperative, Conserve Italia, Italy, which represents a successful example of internationalisation. Conserve Italia is the main processing and marketing cooperative in the Italian fruits and vegetables sector. Via its subsidiaries in France and Spain, Conserve Italia is able to obtain supplies from local, non-member farmers. The central issues to be addressed by this case study is 1) whether structure (e.g., collaboration between cooperatives in the sector and between members of Conserve Italia) has had a significant impact on the success of Conserve Italia and, 2) what has been the experience of contractual relationships in the tomato industry thus far, and what role has been played by Conserve Italia in setting up, maintaining, and nurturing these relationships. In addressing these issues, the case study also sheds light on related, equally important themes, including the impact of relevant policy measures on the study cooperative.

Addressing these issues is very important because it enables us to draw conclusions and implications for the ability of second-tier cooperatives to achieve significant benefits on behalf of their members, their wider farming/rural communities, as well as consumers. The results reported in this case study also inform public policy making at both the national and EU levels.

## 1.2 Analytical framework

We start by asking: why do cooperatives that go international use a different institutional arrangement<sup>1</sup> to organize their relationship with farmers than they do at home? Two complementary scholarly approaches of New Institutional Economics (NIE) attempt to explain this phenomenon: Transaction Cost Economics and Agency Theory. The first uses differences in the institutional environment and in transaction characteristics to explain the adoption of particular institutional arrangements. The latter suggests that the explanation can be found by studying the divergence of interests between managers and principals in cooperative firms.

A more normative question is whether cooperatives that go international could be induced to invite foreign suppliers to become members of the cooperatives, thus giving them similar decision rights and income rights compared to the members in the cooperative's home country.

### *Institutional environment and Transaction Characteristics*

When companies go international their foreign operations work in a different socio-cultural, political, legal and economic environment compared to their home country (Hofstede et al., 2010). In order to operate efficiently in a foreign environment, they may apply different governance structure than they have applied at home. This is in line with the NIE literature (e.g., North, 1990), which posits that a different institutional environment may call for a different institutional arrangement. The NIE explanation is that due to differences in the social, legal and economic environment, firms may use different contractual relationships with their customers and suppliers, in order to keep the transaction costs in these relationships as low as possible. This line of argumentation also follows Menard (2011), who posits that different transactions (of the same firm) may be carried out through different governance structures, thus leading to a so called plural form. Explanations can be found in technological diversity, complexity of the transaction (including the need for knowledge transfer), strategy of the firm, or ambiguity about the costs and benefits of specific investments.

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<sup>1</sup> Institutional arrangement (North, 1990) is a synonym for governance structure (as used by Williamson, 1985).

Combining the theoretical approaches of North (1990) and Williamson (1985) leads to the following hypotheses:

**H1:** Cooperatives going international will choose a different institutional arrangement in dealing with suppliers due to differences in the institutional environment.

**H2:** Cooperatives going international will choose a different institutional arrangement in dealing with suppliers due to differences in the characteristics of the transaction (such as specific investments, environmental and behavioural uncertainty, and coordination needs).

### *Second-tier cooperatives*

When local cooperatives are member of a second tier cooperative, the interaction between the members of the local cooperative and the managers of the second tier cooperative is very weak (unless for the board members). Thus, the business units of the second tier cooperative are more likely to be run like an IOF. When the second tier cooperative is starting foreign operations, it will just mimic its domestic operations, which implies that it is not likely to invite foreign suppliers to become member of a cooperative.

**H4:** Second tier cooperatives that go international are less likely to establish member-relationships with their foreign suppliers.

There are several other questions to be raised about the structure of the second tier cooperatives, their viability and their true cooperative character. First, second tier cooperatives are more likely to set up an IOF-type of structure and decision-making. Second-tier cooperatives have not direct membership relations with farmers, as their members are local, first-tier cooperatives, not farmers. Thus, farmers have only indirectly influence on the strategies and policies of the second tier cooperative. Second, second-tier cooperatives may disappear over time. In a number of EU countries the number of second-tier cooperatives is declining as either a local cooperative is taking over the activities of the second-tier coop, or the second-tier cooperative is transformed into a primary cooperative. Rationales behind this development are usually the need for closer supply chain relations between farmers and the business units of the second tier cooperatives. Sogaard (1994) argues that federative structures, like second tier cooperatives, are inherently instable and he presents three models through which they may transform into primary cooperatives. Third, as farmers have no direct control over the second tier cooperative, one may wonder to what extent they are true cooperatives in the sense that they work in the interest of the farmers. There are multiple examples of second tier cooperatives that have ventured into new business activities that have few links with the members of the primary cooperatives (e.g., Bijman, 2005; Fulton and Hueth, 2009).

**H5:** Second-tier cooperatives are likely to disappear because they lose connection with farmer interests.

### *Life cycle of cooperatives*

Hind (1999) has argued that when cooperatives become larger, their goals tend to reflect relatively more the interests of the business compared to the interests of members. As a result, one would expect that larger cooperatives also apply organisational structures that give managers more power compared to the board of directors. Given the weak link between domestic members and foreign operations, the latter are most likely to be set up as an IOF-type of structure.

**H6:** Larger cooperatives are less likely to invite foreign suppliers to become member than small cooperatives.



The key question is whether we can find a tipping point in the transformation of the cooperative towards a more IOF structure. Is there a tipping point or is it more a gradual process? If there is a tipping point, what makes the cooperative tip? Is it related to age, to size, to diversity of its activities, to strategy, or to a change in leadership?

### *Cooperatives and bargaining associations*

There seem to be a trend among members of large cooperatives to form separate associations. This development has been occurring already in the 1990s in the Netherlands, when the F&V auctions transformed into large marketing cooperatives (Bijman and Hendrikse, 2003). These large cooperatives were marketing many different products, and members supplying these products felt the need to better represent their product-specific interest vis-à-vis the large cooperative. Thus, producer of vine tomatoes, producers of peppers, and producers of cucumber all set up their own association. Some of these associations then started to behave like bargaining associations, negotiating within the cooperative about favourable treatment for its members.

A development among members of a large cooperative setting up separate associations, uniting members from the same region or country, or members producing the same product, can also be seen in other sectors. We expect that this trend will become stronger when cooperatives become larger and more international.

**H7:** Larger cooperatives are more likely to see their members set up new associations.

**H8:** Cooperatives going international are more likely to see their members set up new associations.

**H9:** More diversified cooperatives are more likely to see their members set up new associations.

In addition to addressing the abovementioned research hypotheses, we also concentrate on two relevant policy issues. The first refers to the EU's Common Market Organisation for fruits and vegetables. The second focuses on competition issues arising from increased market share and stronger bargaining power vis-a-vis the cooperative's members (the latter might explain the formation of within-the-cooperative bargaining associations). More generally, this case study identifies relevant support measures that might have helped or constrained Conserve Italia in going international.

## **1.3 Method of data collection**

In order to address the above hypotheses and policy issues we adopt a primarily qualitative approach. Information used for this narrative is taken from the already existing database on EU agricultural cooperatives, websites and publications, scholarly and professional journals, popular press and electronic media and other sources of information.

Additional information has been collected through personal interviews with various cooperative stakeholders. For this particular study, board members and managers of Conserve Italia have been interviewed. Standard techniques and approaches used in case study research were used in order to maximise reliability and avoid biases.

## **1.4 Structure of the report**

In addition to the introduction, this report is structured in four sections. Section 2 presents all available information on Conserve Italia's evolution and adopted structure and strategies. The same section discusses the impact of support measures on the cooperative's success. Section 3

analyses the aforementioned information in order to test the hypotheses derived in section 1.2 and provide insights on how structures and strategies interact in internationalised agricultural cooperatives. Section 4 extends the results of the analysis and reflects on the findings of this report while section 5 concludes the report.

## **2. The Case of Conserve Italia**

### **2.1 The processed F&V sector in Italy and selected European countries**

The fruit and vegetables sector is the most important within Italian agriculture, thanks to a production value of 11.4 billion Euros in 2011, which represents almost 27% of the country's agricultural goods output (Appendix A, Table 1).

The production value of the fruit and vegetables sector increased over the 2000-2011 period. In recent years the production value has remained rather stable, despite the fruits & vegetable sector's vulnerability to weather conditions and fluctuating prices.

Italy represents around 19% of the entire European fruit and vegetable sector; this share rises up to 22% considering only fruit production and 21% referring just to vegetables. The share of Italy's potato production is much lower (6%). The importance of the Italian agriculture within the overall European fruit and vegetables sector has been slightly reduced over the 2000-2011 years. A decreasing fruit production in Italy and a simultaneous increase in the fruit production of other Mediterranean, EU countries have caused this development.

Fresh fruit and vegetables produced in Italy are sold either to the final consumption market (in Italy and abroad) or to the processing industry.

In 2008, 2,000 Italian companies were involved in processing fruits and vegetables. A similar number of firms were active in 2000 (Appendix A, table 2). However, the industry's turnover almost doubled over the years 2000-2008. These numbers suggest a significant increase of the average size of firms in the examined period.

Italian fruits and vegetables firms are very export-oriented. A production systematically higher than domestic consumption explains this phenomenon. Further, the availability of a wide range of fruits and vegetables has enabled Italy to gain and maintain a leadership position in the international market.

### **2.2 The evolution of Conserve Italia**

Conserve Italia is the leading firm within the Italian fruit and vegetables supply chain. It was founded in 1976 by the second-tier cooperative Calpo (owner of the brand Valfrutta) and other fourteen processing cooperatives, as a sales agent for the distribution of their fruit and vegetables products. Conserve Italia's formation was motivated by the intense competition among several fruits and vegetables cooperatives. Given the limited product portfolio offered by a single cooperative, as compared to the distribution requirements and considering the absence of consolidated brands, Conserve Italia represented an opportunity to create added value by ensuring a product/brand supply proposition through a single sales organisational structure.

Cooperative-members realised that there was a need not only to sell together, but also to plan and develop a common system for production (plants) so as to standardise the finished products. A management system for company operations, including quality assurance, finance, logistics, purchasing, etc., was created so as to ensure a global management approach. This new approach required important changes regarding the structure and the governance of the cooperative.

Initially, Conserve Italia was formed as a third-tier cooperative. In 1994, the second-tier cooperative-members of Conserve Italia merged and management of the manufacturing process

was transferred to Conserve Italia; as a result the organisation became a second-tier cooperative, responsible for both processing and sales activities.

On the other hand, the development of Conserve Italia was made possible through several acquisitions of brands (e.g. Derby, Yoga, etc) and plants across Italy at the national level and the simultaneous expansion outside Italy since the 1980s<sup>2</sup>.

The aforementioned expansion was a significant part of the cooperative's strategic plan, designed to add significant value to farmer-member's produce. Over the years the cooperative has constantly increased its capacity to process fruits and vegetables into finished goods ready to be marketed under the Group's brands.

From the cooperative's formation up to now, the choices of the cooperative's management, backed up by farmer-members, have contributed to achieving a rapid growth and leadership positions at both the national and European levels.

Over the last 25 years Conserve Italia has become one of Europe's largest agri-food industry companies with a global turnover of 940 million Euros in 2010/11<sup>3</sup>. This figure has significantly increased over the last ten years (+29% compared to year 2001/2002).

Branded sales represent around 70% of the total turnover<sup>4</sup>; the remaining turnover comes from sales of unbranded products to retailers, and semi-finished products sold to IOFs. The main customer is the retail chain, which represents approximately 63% of the group's turnover. The Ho.Re.Ca. (Hotel Restaurant and Catering) channel is also important, especially for beverages as well as for the Foodservice lines. Globally these three channels (retail, Ho.Re.Ca. and foodservice) represent 80% of sales.

The Group processes 564,000 tonnes of raw materials every year (of which 442,000 tonnes in Italy); fruit, vegetables and tomatoes, grown over a surface area of over 20,000 hectares, with over one million tonnes of finished goods which are packaged in 12 production plants (eight in Italy, three in France and one in Spain), distributed by 12 logistic centres (four in Italy, two in France, one in Spain and one in Germany) and marketed by company's brands (Valfrutta, Yoga, Cirio, Derby Blue, De Rica, Jolly Colombani, St Mamet, Juver).

The company has 1,783 full time employees (911 of which in Italy) and around 1,291 temporary workers (1,074 of which in Italy). Approximately 62% of the production is sold in Italy. The remaining 38% in Europe and other countries: 15% in Spain, 13% in France, 3% in Germany, 2% in Great Britain, 4% in the rest of Europe and 1% in the rest of the world.

Today, Conserve Italia is the mother company of a large group (graph 1) which controls and coordinates many subsidiaries in Europe: Conserves France (France), Juver Alimentación (Spain), Warburger (Germany), Mediterranean Growers (United Kingdom) and Tera Seeds (Italy).

The group's turnover is primarily generated by the following companies (Appendix B, Graph B-1):

- Conserve Italia cooperative (the mother company): 689 million Euros (68.3%).
- Conserves France (the French subsidiary): 161 million Euros (15.9%).
- Juver Alimentación (the Spanish subsidiary): 154 million Euros (15.2%).

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2 The process of Conserve Italia's internationalisation will be described in more depth in section 2.3.

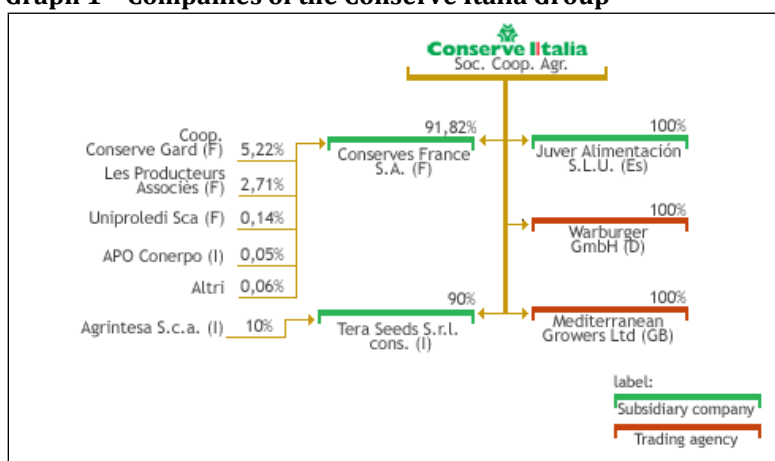
3 This is the turnover referring to the consolidated balance sheet. As shown in Appendix B, Graph B-1, the sum of the turnovers of the Group's companies exceeded 1 billion of Euros because the latter also considers intra-group trading.

4 Hereinafter, if not specified, the company data refer to year 2010/2011.

With respect to the group's turnover by product category, juices and fruit drinks represent 44% of Group's turnover, followed by tomato products with 21%, canned vegetables with 16%, and by canned fruits with 11%. Other products (jams, ready meals and fresh cut vegetables) cover the remaining 8%.

Thanks to these accomplishments, Conserve Italia has gained a strategic position and a significant market share in every productive segment in which it is involved (Table 1).

**Graph 1 - Companies of the Conserve Italia Group**



Source: Conserve Italia web site – www.conserveitalia.it

**Table 1 - The market position of Conserve Italia by productive segment**

Fruit juices, nectars and fruit drinks	<ul style="list-style-type: none"> <li>➤ Top producer of juices and nectars in Italy and Spain;</li> <li>➤ Market leader in Italy both in Retail and Ho.Re.Ca markets with the Yoga, Derby Blue, Valfrutta brands;</li> <li>➤ Market leader in Spain with the Juver brand;</li> </ul>
Tomato based products	<ul style="list-style-type: none"> <li>➤ Market leader in Italy with the Cirio, De Rica, Valfrutta and Jolly Colombani brands;</li> <li>➤ Market leader in Europe for peeled and chopped tomatoes.</li> </ul>
Preserved vegetables	<ul style="list-style-type: none"> <li>➤ Top producer of preserved vegetables in Italy and 3rd in France;</li> <li>➤ Market leader in Italy with the Valfrutta, Cirio and De Rica brands</li> </ul>
Fruit in syrup	<ul style="list-style-type: none"> <li>➤ Top producer of preserved fruit in Italy and France;</li> <li>➤ Market leader in Italy with the Valfrutta brand and France with the St Mamet brand</li> </ul>

Source: Conserve Italia's Annual Report (2010/2011)

Over the two-year period 2006/07-2008/2009, Conserve Italia has experienced an important growth of its turnover, both at the group and cooperative levels. However, in the last two years sales were reduced, due to the effects of the economic crisis and its impact on consumption (table 4). The latter decrease has been experienced particularly abroad, especially because of a reduction in the sales of the French subsidiary, Conserve France, partially caused by an institutional change.

In 2010, a law (known as the LME Law which means "*Loi de modernisation de l'économie*") was introduced by the French Government. In order to give more transparency to prices, this law eliminated the possibility for retailers to invoice to the manufacturers for promotional activities carried out in retailers' their own structures. This has clearly reduced the value of the products sold by manufacturers in retail chains, because it no longer includes the value of promotional activities. Therefore, the provision has had a greater impact on the turnover than on the margins of firms.

In addition to the adverse effects of the economic crisis, Conserve Italia currently faces yet another challenge; strong competition from private label products. This trend has become even more significant since 2009, when the economic crisis effects started to be perceived more heavily by consumers<sup>5</sup>. The development of private labels has primarily affected the Italian market, as in the main European markets private labels had already consolidated their market share in previous years/decades. The decreasing contribution of brand products to Conserve Italia's total turnover (table 4) seems to be linked to the concurrent increase in the market share of private labels. As a result, in recent years Conserve Italia has been forced to increase the products sold to retailers without own brand, although even today most of its sales refer to branded products.

However, Conserve Italia has not changed its approach and strategy versus its members. Over the years 2006-2010 the overall values and quantities of raw materials supplied by its members increased, despite that raw materials processed by the Group decreased significantly in 2011. The latter decrease is mainly associated with tomatoes (around 100,000 tons out of 142,000 tons). The quantity of sweet corn and fruits processed, however was also reduced in the same year; 27.000 tons and 10.000 tons, respectively. During the same period, the Group's turnover remained rather stable, thanks to the sale of the stock of products processed in 2010 and to the concurrent increase of price levels. The latter was caused by the increase in raw material costs caused by the lower subsidies paid to tomato and fruit producers under the decoupled payment scheme of the CAP. In the case of sweet corn, the reduction in raw materials processed is explained by adverse weather conditions, as well as a simultaneous increase in the demand for sweet corn used in bio fuel production.

Moreover, it should be pointed out that the share of products supplied by members has remained stable at nearly 90% of total raw materials processed along the entire period examined (table 2). These data suggest a strong link between the cooperative's performance and economic benefits distributed to its farmer-members.

**Table 2 –Conserve Italia's performance and benefits for its members over the last 5 years\*.**

<b>Financial Years</b>	<b>2010/11</b>	<b>2009/10</b>	<b>2008/09</b>	<b>2007/08</b>	<b>2006/07</b>
Turnover of the Group (million Euros)	941	933	996	963	915
Turnover of the cooperative (million Euros)	652	658	678	649	603
Share of branded products on total turnover (Group)	69%	71%	73%	73%	74%
Raw materials processed (000 tons) by the Group	564	705	647	657	702
Raw materials processed (000 tons) by the cooperative	442	541	468	504	408
Raw materials processed by the cooperative and coming from farmer members (000 tons)	387	476	408	402	357
Share of product supplied by farmer members	88%	88%	87%	80%	88%
Value of raw materials coming from farmer members (million €)	47	56	58	46	36

*\*Consolidated data*

Source: Conserve Italia

<sup>5</sup> During the current economic crisis, the demand for private label products has increased due to their lower price.

## 2.3 Strategy and structure of Conserve Italia

Conserve Italia is a second-tier farmer cooperative, whose first-tier cooperative-members supply the raw materials produced by approximately 14,000 farmer-members. The cooperative is governed by its Board of Directors, on which both executives and supervisors serve.

In June 2011, the cooperative's membership was made up of the following 49 members:

- Thirty-four ordinary cooperative-members. These are farmer cooperatives which supply raw materials. According to the Italian law: 1) the membership relation between Conserve Italia and ordinary co-operator members is linked to supply of agricultural produce; 2) most of the voting rights in the General Assembly must be distributed to this type of members.

The capital provided by these members of Conserve Italia is proportional to their patronage potential. Ordinary cooperative-members also finance Conserve Italia through capital retains which are allocated to equity reserves.

Ordinary cooperative-members can have multiple voting rights (a minimum of one vote and a maximum of 5 votes) in proportion to contributed capital (and thereby to quantity/value of agricultural product delivered, considering the above mentioned relation between the agricultural produce supply and the capital contribution).

- Twelve subsidizing members. Their membership (and thus their rights) is linked to the capital provided (and independent of quantity/value of raw materials delivered). Capital shares of 50 Euros contributed by subsidizing members are registered and transferable. The return on these shares cannot be more than 2% higher than the dividend paid to co-operator members. The amount of votes reserved for subsidizing members in the General Assembly is allocated among them according to the amount of subscribed capital, with a maximum limit of five votes per each subsidizing member.

Ten of these twelve members are farmer cooperatives that also supply Conserve Italia with fruits and vegetables. However, their membership in Conserve Italia is associated with capital contributed, not patronage. The remaining two members are institutional investors; The Tuscany Region and Fondo Sviluppo S.p.a.<sup>6</sup>, which contributed 1.2 and 9.3 million Euros, respectively.

- One financing member which represents another type of membership provided by Italian law. As for subsidizing members, also the membership of financing members is linked to the amount of capital invested. Capital shares bought by financing members are registered and transferable and the value of each share is 100 Euro. Capital subscribed by financial members is allocated in a specific equity fund (divisible reserve). The return of these shares cannot exceed 10%. The number of votes reserved for financial members in the General Assembly is allocated amongst them according to the amount of capital invested.

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<sup>6</sup> The latter is a non-profit company, established in 1993, which manages a Mutual Fund for promotion and development of cooperatives. According to articles 11 and 12, law 59/1992, Mutual Funds are established and managed by the representative Associations of the cooperative movement with the aim of promoting and financing development of cooperatives in various manners, e.g. through participation in their capital. All cooperatives must allocate 3% of total annual profits to the Mutual Funds. Also, in the event of dissolution of a mainly mutual cooperative, its residual assets have to be allocated to these Funds. In this scenario, Fondo Sviluppo Spa is the Mutual Fund promoted and managed by Confcooperative, one of the five national Associations of cooperatives, with which Conserve Italia is associated.

The financing member of Conserve Italia is the Istituto Sviluppo Agroalimentare (I.S.A.) (Agriculture and Food Development Institute). The latter is the Institute for Financial Investments of the Italian Ministry of Agriculture, Food and Forestry (MIPAAF). It promotes and supports development plans to improve the financial condition of business enterprises engaged in the agricultural sector. I.S.A. is authorized to assist businesses in the agricultural sector that are involved in the transformation and commercialization phase of production. According to Conserve Italia's bylaws, I.S.A. appoints two representatives serving on the cooperative's board of directors.

- One ordinary co-operator and, at the same time, subsidizing member (Apo Conerpo);
- One special cooperative-member (ALPO) that represents a specific type of membership provided by the cooperative's bylaws. Compared to ordinary cooperative members, the special cooperative member has restricted rights. This type of membership is temporary, according to what was determined by the Board of Directors at the time of the admission. The representatives of the special cooperative members cannot be elected in the Board of Directors of Conserve Italia; furthermore, they can vote in the General Assembly only for formally approving the cooperative's annual report.

In June 2011, the total value of Conserve Italia's equity capital was 214 million Euros. Member equity in the form of shares was valued at 78 million Euros; of which 44% was contributed by ordinary cooperative-members and the remaining 56% by financing and subsidizing members. It should be noted that farmers cannot directly own shares of Conserve Italia. The rest of equity capital was in the form of reserve funds of 136 million Euros (table 3).

Reserve funds are mostly collectively owned and are consisted of net proceeds reserved over the years that may never be distributed to members, even in case the cooperative is liquidated. Unlike indivisible reserve funds accumulated over the years, capital shares contributed by ordinary cooperative-members and subsidizing members are redeemable (for instance in the event of member withdrawal)<sup>7</sup>.

**Table 3 – Conserve Italia's equity capital contributed by type of member in June 2011.**

	Value (Euros)	Percentage of total capital (%)
Capital subscribed by ordinary co-operator members	34,206,950	43.69%
Capital subscribed by subsidizing members	14,066,600	17.97%
Capital subscribed by financing member	30,000,000	38.32%
Capital subscribed by special co-operator member	20,800	0.03%
<b>Total Capital of Conserve Italia cooperative</b>	<b>78,294,350</b>	<b>100.00%</b>
Reserve Funds	136,004,330	/
<b>Total Equity of Conserve Italia cooperative</b>	<b>214,298,680</b>	/

Source: Conserve Italia Annual Report (2010/2011)

Regardless of capital contributions, at least 2/3 of the votes in the General Assembly must be allocated to ordinary cooperative-members.

To this regard, it should be noted that Conserve Italia is recognised by the State as a "mainly mutual cooperative".

<sup>7</sup> For more details on the equity structure of Italian cooperatives and the connection with the Italian fiscal framework provided for cooperatives, see Bono (2012).



The Italian law distinguishes between two types of cooperatives: 1) mainly mutual cooperatives, where the activity of the cooperative is mainly carried out for the benefit of its members; 2) other cooperatives. In the case of farmer processing cooperatives (such as Conserve Italia), the predominant activity with members criterion is fulfilled only when the quantity or value of the agricultural products provided by members is more than 50% of the total procurement. Recognition as a mainly mutual cooperative is very important because of specific provisions of the law (mutual clauses) and favourable tax treatment<sup>8</sup>.

According to the Italian law for mainly mutual cooperatives, in any case the number of votes of subsidizing and financing members of Conserve Italia, as a whole, may not represent more than 1/3 of the total number of votes cast in the General Assembly of members.

On the occasion of the formal approval of the 2010/2011 Conserve Italia's annual report, there were 38 members representing 96 votes (out of 111 votes belonging to all 49 Conserve Italia members); 80 of these 96 votes belong to ordinary cooperative members, 11 votes to subsidizing members, and five votes to the financing member.

The defined membership policy adapted by Conserve Italia is strictly linked to its mission statement as well as its expansion in foreign markets. Taking a look into the past, after important acquisitions of IOFs, Conserve Italia often decided to change the supply network of the acquired companies. Under these circumstances, firms which supplied the acquired companies were replaced by the already existing or new cooperative-members of Conserve Italia. At the same time, the development of new products required the acceptance of new cooperative-members able to supply the additional fruits and vegetables needed.

Overall, from 2000 to 2010, Conserve Italia Group strengthened its focus on the downstream phases of the chain, by increasing its capacity to market branded products thanks to significant investments in the development of its own brands (e.g. Valfrutta, Yoga, Cirio, Juver, St Mamet, etc.). In the meantime, sales of intermediary products to other food industry firms dropped significantly. This is consistent with the differentiation market strategy followed by the Conserve Italia Group, which intends to develop branded products with higher value added<sup>9</sup>.

As seen in the previous section, the Conserve Italia's product portfolio of processed fruit and vegetables is broad: juices and fruit drinks, tomato products, canned vegetables, canned fruit, jams, ready meals and fresh cut vegetables. In each of these market segments, the Group's strategy is to place its various brands in a complementary way so as to strengthen its market position. Over the last decade, the focus of Conserve Italia's activity remained on the abovementioned products, as these are the products supplied by its members.

Lastly, it should be noted that the development and performance of the Conserve Italia Group over the last decades have been led by both an internal and external growth strategy. The latter refers to acquisitions and the establishment of processing and marketing companies in Italy and abroad. This has strengthened the market and production position of Conserve Italia in the processed fruit and vegetable industry.

*The internalisation process: brief description of foreign subsidiaries and timeline of events*

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<sup>8</sup> For more details on the Italian legal framework provided for mainly mutual cooperatives, see Bono (2012).

<sup>9</sup> However, as previously seen, over the latest years, the competitive pressure of private label products has slightly reduced the development of Conserve Italia brands in the second part of the past decade. Table 2 shows the reduction of branded products share on total turnover, due to the concurrent increase of the Group's sales of private label products to retailers.

Conserve Italia's expansion outside Italia began in 1983 with the opening of a London-based subsidiary, Mediterranean Growers, Ltd, whose goal was to market the cooperative's products in the UK and Ireland. In April 2009 the company was transformed into sales agency and operates either as contractor and service provider or as a broker for food products.

In the ensuing decades, Conserve Italia's expansion in foreign markets accelerated rapidly and, as a result, the cooperative extended its presence across Europe. In 1991, Conserve Italia acquired the German company Warburger GmbH, producer of preserved vegetables, located in the city of Warburg in the Westphalia region. Today Warburger GmbH operates as a trading agency for German, Scandinavian, Dutch and Austrian markets, which were previously covered directly by Conserve Italia.

The presence of Conserve Italia in France has been strengthened through the acquisition of several companies over time, up to the establishment of the company Conserves France, S.A. in 1998, with its headquarters in Nimes in southern France. Indeed, the company is the result of a merger between Otra, S.A., Barbier Dauphin S.A (both acquired in 1990, specializing in tomatoes products, ready meals and French specialities), Lomco, S.A. (acquired in 1996) with a plant for sweet corn and tinned vegetables, and Verjame S.A. (acquired in 1997) with the leading French brand for preserved fruit - St Mamet.

Nowadays, Conserves France, S.A. has a turnover of more than 160 million Euros (employing almost 500 full time employees involved in the processing of almost 110,000 tons of raw materials) thanks to three production plants all located in the south of France; Vauvert, Saint Sylvestre and Tarascon. Vauvert produces preserved fruit and fruit purées; Saint Sylvestre, sweet corn and preserved vegetables; Tarascon, tomato based products, sauces, ethnic specialities and ready meals. Two French cooperatives (both recognized as POs) are minority shareholders of Conserves France (i.e. Conserve Gard and Uniproledi<sup>10</sup>).

With respect to the presence of the Conserve Italia Group in Spain, in September 2003 Juver Alimentación, S.A., producer of fruit juices, was acquired from the Swiss multinational company Hero. This company is co-leading the Spanish market for juices and fruit drinks, thanks to the Juver brand. The Juver production plant is located in Churra near Murcia. Juver Alimentación S.A is wholly-owned by Conserve Italia. The annual turnover of the Spanish subsidiary exceeds 150 million Euros. The company employs around 350 workers involved in the processing of 14,000 tons of raw materials.

After 1983, Conserve Italia also established other subsidiaries across Europe but these companies were liquidated later on, in order to improve the Group's efficiency. This was the case of Konserwa Polska S.p.z.o.o. in Poland (established in 1996 and liquidated in 2009), and the S.E.C., S.A. holding company in Luxemburg (established in 1993 and liquidated in 2006).

Delving into the internationalisation issues considered in the hypotheses stated in section 1, next we focus exclusively on France and Spain, where the Conserve Italia's subsidiaries carry out not only agency and marketing functions (such as in Germany and the UK) but also productive activities that imply supply relations with foreign farmers. Today the Conserve Italia Group has four plants outside Italy; three in France (managed by Conserves France) and one in Spain (managed by Juver Alimentación).

*Goals of the internationalisation strategy and institutional arrangements in dealing with foreign farmers*

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<sup>10</sup> For more details on the French cooperatives of Conserves France see in the next pages.

Conserve Italia's decision to expand in foreign markets was dictated by the objectives set by the cooperative's management and approved by its cooperative-members. In particular, when this process started, Conserve Italia had already realized the importance of having a direct presence abroad, in terms of both production and marketing activities, in order to expand in European countries.

As soon as opportunities arose, Conserve Italia acquired IOFs located both in France and Spain to strengthen its production and marketing capacity in these two countries. Indeed, these acquisitions guaranteed Conserve Italia's access to processing capacity, distribution and commercial networks, and brands well known in France and Spain. Thanks to these assets, Conserve Italia increased its sales of products processed in France and Spain, as well as those processed in Italy (marketed by Italian brands).

Thereby, these operations surely favoured productive and marketing synergies at the Group level. This is important with respect to the international development of Conserve Italia in France, if we consider the similar characteristics of the agricultural production areas, which supply raw materials to the processing plants of Conserve Italia and Conserves France. Indeed, in southern France, where Conserves France's processing plants are located, it is possible to collect fruits for processing, tomato, sweet corn, and legumes, i.e., products also supplied by Italian members and subsequently processed in the Group's Italian plants. Given that raw materials sourced in Italy and France are similar, and often substitutes, Conserve Italia can move raw materials between its processing plants in extraordinary or special events (e.g., in the event of low production in an area because of adverse weather conditions).

Despite its expansion abroad, Conserve Italia has not yet accepted foreign farmers or their cooperatives as members. Indeed, farmers which supply agricultural raw materials to the French and Spanish processing subsidiaries of Conserve Italia are not members of the Italian cooperative. As the evidence collected suggests, this option was never considered by Conserve Italia due to several reasons.

First, the cooperative's primary goal is to serve its Italian, first-tier cooperative-members. These members are withdrawn from a preselected set of Italian regions (Emilia Romagna, Toscana, Veneto and Lombardia along with other regions) and thus Conserve Italia is mainly focused on products sourced from these regions. In this framework, the entrance and admission of foreign members could cause perplexity and opposition first of all among Conserve Italia's cooperative-members, due to deeply-rooted cultural differences (language and communication barriers, history, and traditions)<sup>11</sup>.

Admission of foreign farmers or cooperatives seems to face significant challenges also due to:

- Differences in European agricultural markets, and thereby in price levels, among products of similar quality, due to productive and agronomic specificities. For instance, in the case of sweet corn processed by Conserve Frances plants, productive yields in France are much higher compared to that of Italian lands; obviously this has an impact on sweet corn prices, which are higher in Italy.
- Diversity of institutional environments in each European country. To this regard, an example comes from differences regarding: 1) national agricultural policies; 2) national modulation of European policies, i.e., the way of implementing these European policies at the national level.

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<sup>11</sup> The same challenge is faced by Conserve Italia even when a need to expand its membership in Italy arises. This happens, for instance, in the case of mergers between farmer cooperatives. Only in recent decades, the number of mergers amongst Italian farmer cooperatives (and thereby joining of farmers/cooperatives in a single membership) has increased significantly as a reaction to the even stronger competitive pressure.

All these policies are different in France, Spain and Italy, also strictly referring to agricultural production in which Conserve Italia Group is specialized, such as tomato and fruit. Moreover, generally speaking, also national legislations focused on the agricultural sector create different operating conditions across Europe.

These important differences among European countries, along with the historical hesitancy of Italian farmers towards farmers who appear to be deeply different (e.g., in terms of culture and dominant socioeconomic characteristics), seem to have a strong impact on how the supply relationship of Conserve Italia with foreign farmers are arranged. These differences would require the adoption of a more complex governance structure, for example in terms of defining quantities to be supplied by Italian and foreign members and prices to be paid to members for raw materials delivered to the Italian cooperative. All these considerations discourage first-tier as well as second-tier cooperatives to accept foreign farmer/cooperative-members. In spite of this, however, among French suppliers, there are two farmer cooperatives (Conserve Gard and Uniproledi), which are minority shareholders of the French subsidiary of Conserve Italia.

To understand the relation between the French subsidiary Conserves France and these two French farmer cooperatives, it is necessary to go back to the history and development of Conserve Italia's presence in France. As mentioned above, after the acquisition of three French processing firms, Conserve Italia completed its expansion in France with the acquisition of a fourth company in 1997 (Verjame, S.A.). One year later these four companies merged and, as a result, a new company was established (Conserves France).

The supply relations of the French subsidiary with the farmer-owned cooperative, Conserve Gard, starts in 1998 and it is linked to the acquisition of Verjame, S.A. by Conserve Italia in the previous year, given that Verjame, S.A. was acquired from Conserve Gard itself. The latter sold its subsidiary (Verjame, S.A.) with its processing plant<sup>12</sup> to Conserve Italia, because of the bad performance and financial situation of Verjame, S.A., which was near to crash. In the acquisition deal, the entrance of the French cooperative Conserve Gard as a minority shareholder was agreed by the shareholders of Verjame, S.A. and thereby by the subsequently established Conserves France one year later (when the four French subsidiaries of Conserve Italia merged). This agreement was the result of the willingness of both firms (Conserve Italia through its new French subsidiary, and Conserve Gard) to build a long-term supply relationship. In this way, Conserve Italia could continue to deliver agricultural products to Verjame, S.A., as it did previously when the company was its subsidiary and, in the meantime, Conserve Italia could count on local suppliers of raw produce required for the processing activity of its French subsidiary. Moreover, with the acquisition of Verjame, S.A., Conserve Italia could count on the leading French brand for preserved fruit (St Mamet) to develop sales in France.

Since 1998 and up to now, Conserve Gard is selling all of its agricultural production (mainly peach, pears, and canning cherries) to the processing plants of Conserve Frances. This relationship is based on long-term contracts because of the nature of the fruit products involved, which require long term plans for quantities produced and delivered<sup>13</sup>. Nowadays Conserve Gard is also a Producer Organization and a member of the international APO (Association of Producer Organization) F.IN.A.F. (First International Association Fruit); the admission of Conserve Gard in this international APO F.IN.A.F. was favoured by Conserve Italia which is member of Apo Conerpo, an Italian Producer Organization, also a member of F.IN.A.F.

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<sup>12</sup> Before its acquisition by Conserve Italia, Verjame, S.A. was the processing subsidiary of the French cooperative Conserve Gard; in other words, Conserve Gard delivered its agricultural production to Verjame, S.A. and the latter was involved in the processing and marketing of the raw produce supplied by Conserve Gard.

<sup>13</sup> More generally, the supply of fruits is regulated by long terms plans and contracts whereas in the case of vegetables, production plans are facilitated by yearly contracts.

Another French farmer cooperative, i.e., Uniproledi (graph 1), is a minority shareholder of 'Conserve France'. Uniproledi is specialized in the production of fresh sweet corn, tomato, and green beans. Also, Uniproledi is a French Producer Organization, which, like the other French cooperative, Conserve Gard, is a member of the international APO F.I.N.A.F. In 2010, Uniproledi was admitted to F.I.N.A.F. and at the same time it became a minority shareholder of 'Conserve France'. Unlike Conserve Gard, Uniproledi sells to 'Conserve France' only part of its agricultural production.

'Conserve France' has a third French member, i.e., Les Producteurs Associés, which is not a cooperative firm. The latter was established subsequent to the acquisition of OTRA, S.A. by Conserve Italia in 1990, by farmers who previously supplied raw materials (mainly tomatoes) to the French company acquired by the Italian cooperative. After this acquisition, these farmers decided to set up a new company (Les Producteurs Associés, S.A.) with the specific objective to become a minority shareholder of 'Conserve France' and continue to supply agricultural products, especially tomatoes, to the processing plants of 'Conserve France'.

Following each of these acquisitions, Conserve Italia invested heavily in buildings and stabilising close relationships with the local farmers who previously supplied the companies acquired. The choice to admit these suppliers as shareholders of the newly-established French subsidiary 'Conserve France' was part of this strategy. Along the same lines, 'Conserve France' gives priority to fresh fruits and vegetables supplied by its three French shareholders (Conserve Gard, Uniproledi and Les Producteurs Associés).

Moreover, the importance of these suppliers for the processing activities of the Conserve Italia Group is suggested by its (accepted) request in 2010 to the two French cooperatives (and Pos) members of 'Conserve France' to take part in the international APO F.I.N.A.F., together with other Italian cooperatives operating in the same industry (fruit and vegetables).

Unlike what happened in France, the establishment of stable supply relations with local farmers has not been achieved in Spain, mainly because of the higher fragmentation of fruit suppliers of the Spanish processing subsidiary.

Nowadays, the two foreign processing subsidiaries of Conserve Italia operating in France and Spain process 108,000 tons and 14,000 tons of fruit, tomato and vegetables, respectively.

The three French shareholders of 'Conserve France' supply approximately 80% of the raw materials processed by Conserve Italia's French subsidiary. The rest mostly refers to fruits to be processed<sup>14</sup>, whereas all tomatoes and vegetables processed come from these three suppliers.

Focusing on the role of Conserve Gard, table 4 shows a decrease in the raw materials supplied (delivering all its agricultural production) to 'Conserve France' over the examined years. This is especially noted in the latest year, and is mainly due to 1) the decision to sell the stock of products processed in previous years (especially tomatoes) and concurrently to slow down its processing activities, because of the high prices for raw materials; and 2) the dramatically low production of pears and peaches. However, considering the contemporary strong decrease of all raw materials processed by 'Conserve France', the supply role of Conserve Gard remained rather stable; 13% in 2006-07, 10% in 2009-10, and 11% in 2010-11.

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<sup>14</sup> Conserve Gard is not able to produce all quantities required by 'Conserve France' and it covers around 60% of the fruits processed by the 'Conserve France' plants.

**Table 4 – Fruits and vegetables processed by Conserve Italia’s subsidiaries in France and Spain (in thousand tonnes)**

	Financial Year				
	2010/11	2009/10	2008/09	2007/08	2006/07
Juver Alimentación (Spanish subsidiary)	14	10	15	10	11
Conserves France (French subsidiary)	108	155	164	142	147
<i>Of which, coming from Conserve Gard</i>	12	16	12	19	19

Source: Conserve Italia

*Impact of the cooperative’s size and structure on the cooperative-member relationship.*

Founded in 1976 as a third tier cooperative, Conserve Italia became a second tier cooperative in 1994 when its cooperative-members transferred the management of processing plants to Conserve Italia in addition to the marketing responsibilities which it had already assumed. This structural change was dictated by the need to establish closer supply chain relations between farmers and Conserve Italia.

Nowadays Conserve Italia remains a second-tier cooperative, in which the role of its first-tier cooperative-members varies by the particular product chain involved.

In the case of vegetable products, the operational relations are organised directly between farmers and Conserve Italia, while first-tier cooperatives mainly carry out a representative function. The collection and purchase of seeds, machineries as well as production planning and the coordination of agronomists who provide on-site consulting to producers, are all activities directly managed by Conserve Italia.

In the case of tomatoes, Conserve Italia does not accept all farmer-members’ produce, as this exceeds the production capacity of the cooperative’s processing plants. A part of the tomatoes produced by farmer- members (around 30%) is directly sold to processing IOFs by Apo Conerpo, which is a cooperative-member of Conserve Italia and at the same time, a Producer Organisation. The rest of fresh production is used by Conserve Italia as input in processing activities.

Finally, regarding the fruit supply chain, there should be a distinction between fruit for consumption and fruit to be processed. Focusing on fruit specifically destined for processing plants, Conserve Italia manages the entire supply chain. On the other hand, in the case of fruits to be sold as either fresh or processed, first-tier cooperatives play a key role in managing relationships with their farmer-members and closing deals with buyers.

It seems that in the fresh fruits and vegetables chain still nowadays Conserve Italia mainly operates in the service of its cooperative-members, considering also that it does not control the entire supply chain which, on the contrary, is partially managed by the first-tier cooperatives. Focusing on fruit and tomato products, first-tier cooperative members decide quantities to be delivered to Conserve Italia by a planning activity shared with Conserve Italia.

Regarding the structure of the cooperative, another issue to be addressed is if the significant increase in the size of Conserve Italia over the last decades (Appendix B, Graph B-1) has had an impact on the relationship with first-tier cooperatives and their farmer members.

As previously explained, data and information gathered suggest that Conserve Italia has been operating to the benefit of its members. A large part of raw materials processed by the cooperative are still sourced from its cooperative-members. In the meantime, the strategic decisions of the cooperative’s management are always fully shared by farmers’ representatives

who are arguably able to align the actions of management with the aims and interests of farmer-members.

The significant development of Conserve Italia over the last decades has been strictly linked to the agricultural production of its primary cooperative-members and thus of their farmer-members. As further evidence it should be noted that after the acquisition of Italian processing IOFs, which caused an increase in Conserve Italia's size over the last decades, the priority of Conserve Italia management was to shift, when possible, the production and supply of raw materials required by acquired plants to its farmer-members (e.g., this is what happened subsequently to the acquisition of Cirio Spa).

In conclusion, it does not seem that the increase in Conserve Italia's size 1) has created a distance between its members and the cooperative's management, in terms of interests pursued, and 2) is perceived by members as an attempt of the management to turn the company into an IOF.

However, the cooperatives' representatives are aware of the risk that a significant increase in size could cause a transformation of the cooperative into an IOF structure. Also for this reason, there is a strong and constant participation of the representative bodies in the definition of strategic purposes. At the same time, they supervise management so that managerial decisions are in line with farmers' interests.

To this regard, the leadership of member representatives is perceived to play a key role in keeping strategy and objectives of the cooperative focused on farmer-members' needs. Indeed, representatives of primary cooperatives and their farmer members have to choose both the most efficient strategies for the development of their cooperatives and Conserve Italia, and communicate the pros and cons of strategies pursued to cooperative-members. Obviously, this task becomes even more difficult in larger cooperatives. This is why managing member relations becomes more complex when conflicts of interest among members emerge. Especially under such circumstances, a high-quality and reliability leadership is required.

#### *Description of the role and structure of formal bargaining groups within the cooperative*

Within the cooperative there are no groups/associations, which have a formal representative function, as expression of the General Assembly (GA) of members. As previously discussed, representatives of first-tier cooperatives within Conserve Italia's General Assembly are elected in proportion to both capital provided and volume/value of agricultural produce delivered by primary cooperative-members. In the meantime, the Board of Directors, which is nominated by the cooperative representatives, consists of 17 members. Nomination of board members takes into account the importance of each in the General Assembly in terms of voting rights. Moreover, board members are elected based on the spatial representation of first-tier cooperative-members as well as the value of products delivered by them.

Three board committees are responsible for managing the supply of fruits and vegetables:

- Fruit Board/Committee;
- Tomato Board/Committee;
- Vegetable Board/Committee.

These are technical bodies which include representatives of both Conserve Italia (Chairman of the Board of Directors, General Manager, Production Manager, Agronomic Manager) and first-tier cooperative-members (Chairmen of the Board of Directors but also managers/staff<sup>15</sup>).

These are consultative groups with operational, technical and management functions. In particular, they are responsible for the definition of: 1) quantities to be delivered by Conserve Italia and farm land area for its cooperative-members; production planning (seeding/planting, harvesting and delivery); 3) quality control procedures; 4) agricultural practices and farming techniques for the members; 5) agricultural Research and Development for products and farming<sup>16</sup>. The arrangement of all these aspects is formalized in product regulations<sup>17</sup>.

Summing up, through these three product Committees, Conserve Italia and its cooperative-members agree and define all requirements and aspects of their supply relation to which they have to apply. For what concerns prices to be paid for production delivered by cooperative-members, usually Conserve Italia and its cooperative-members decide in advance only a price range, but the exact definition of prices to be paid takes place only after the final yearly assessment of the Conserve Italia's activity. Obviously, prices paid to cooperative-members (and consequently to their farmer-members) partially depend on the economic performance of Conserve Italia.

The importance of these product Committees has increased over the last decades because of the development of Conserve Italia's activities in terms of wider product variety and higher quantities sold, as well as the internationalisation of processing activities. Indeed, these developments have made the efficient coordination of the supply even more critical to the success of the cooperative.

## **2.4 The Effect of policy measures**

The most important policy that has benefited Conserve Italia over the last decade certainly is the EU's Common Market Organisation (CMO) for fruits and vegetables<sup>18</sup>. The latter could represent the key policy to the future development of this sector.

Conserve Italia is not a Producer Organization, given its exclusive focus on processing activities, whereas the management of the agricultural production is carried out by its cooperative-members. Conserve Italia has had access to funds provided by CMO Regulation for fruits and vegetables through participation in the Producer Organization Apo Conerpo since 2000. The latter organisation is, in turn, member of the transnational Producer Organization F.IN.A.F., and at the same time a member of Conserve Italia.

Apo Conerpo is a second-tier cooperative involved in marketing fresh fruits and vegetables. Most of its first-tier cooperative-members, which are also members of the respective Producer Organization, are cooperative-members of Conserve Italia<sup>19</sup>. As a result, according to the current

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<sup>15</sup> There are no regulations that formally define functioning of product Committees as well as who could be nominated to represent Conserve Italia and their cooperative-members. Thereby, representatives of Conserve Italia and first-tier cooperative-members can change from time to time.

<sup>16</sup> The Board of Directors intervenes only in the case of a tie in the product Committee on one or more of these aspects.

<sup>17</sup> These product Regulations can be modified only by the General Assembly of members.

<sup>18</sup> See Council Regulation (EC) No 2201/96 and successive amendments and corrections incorporated in its basic text. The Common Organisation of the processed fruit and vegetables market was radically changed in a 2007 reform.

<sup>19</sup> To this regard, it should be noted that in 2000 Apo Conerpo had 42 first-tier members, which were also members of Conserve Italia. Currently, Conserve Italia has fewer cooperative-members (i.e., 35), as



CMO Regulation, nowadays Conserve Italia is considered as a “subsidiary” of the Producer Organization Apo Conerpo, and it is responsible for providing the processing activities defined for the Producer Organization<sup>20</sup>.

In this framework, Conserve Italia has access to the Operational Fund provided by CMO and nowadays it covers around 30% of the entire Operational Programme of the Producer Organization Apo Conerpo.

Up to the 2010 CMO Regulation, the Operational Fund was strictly focused on fresh production (and related activities), whereas activities mainly focused on the processing phases were excluded. Consequently, Conserve Italia used grants provided by the Operational Fund mainly for improving its activities closest to the agricultural phase: collecting and planning, logistics, storage, agronomics on field, research and development, machinery for farmers, food quality security, etc. All investments made in these activities improved the performance of Conserve Italia and its membership.

On the other hand, the previous CMO Regulation did not encourage investments in the downstream phases of the fruit and vegetables chain much. This could be considered a limit of this regulation considering that, in the specific case of Conserve Italia, the cooperative is focused on processing activities and most of the value added to the agricultural production comes from manufacturing and marketing activities.

However, the last reform of CMO Regulation has ameliorated this constraint and nowadays it is also possible to finance solely manufacturing investments. Surely, this represents a favourable shift of the policy’s framework towards the development of Conserve Italia, as well as for its cooperative and farmer-members which can benefit even more from the added value created in the downstream phases of the fruit and vegetables chain, also thanks to investments financed by the Operational Fund.

At the same time, the last reform of the CMO for fruits and vegetables also introduced a change, which will certainly cause negative effects in the near future to Conserve Italia’s development and, consequently, to farmers associated with its first-tier cooperatives. Indeed, from 2014 on, the part of the Operational Fund assigned to processing activities should be calculated using a lowering coefficient (based on flat rates) which will cause a reduction of financing for investments on processing activities. Up to 2014, the value of the Operational Fund available for processing activities is calculated by applying a percentage to the entire difference between the value of processed products (considering only those obtained by raw materials coming from farmer-members) and the value of agricultural production delivered by farmer-members. From 2014 on, a flat rate will be used to reduce the above mentioned differential value. In other words, while the Operational Fund assigned to fresh produce will continue to be calculated on the total value of marketed production, in the case of processed product the Operational Fund will be calculated considering only a part of the added value created by manufacturing activities. As a result, this new policy will not facilitate the supply chain relations between Conserve Italia and farmer-members. Moreover, it will likely affect the capacity of farmer-members to integrate downstream through Conserve Italia in order to gain a stronger position in the food chain. This seems to be incoherent with the overall goals of the new CMO reform and its aim to improve the position in the food chain of farmers. Indeed, the new CMO reform has extended the type of processing and marketing activities that could have access to the Operational Fund; in this

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previously showed. Even today, most of the first-tier cooperative-members of these two second-tier cooperatives are the same.

<sup>20</sup> Before the last CMO reform, Conserve Italia participated in carrying out the Operational Programme of Apo Conerpo, but in the latter case it was considered as member of the Producer Organisation.

manner, investments on activities required to add value to the agricultural production of farmers has been encouraged.

Another relevant policy that has benefited Conserve Italia is the Programme Contracts (*Contratti di Programma*), which is regulated by the Italian law (662/1996) and financed by national funds. The Programme Contracts policy is based on a formal agreement between the Italian Government and firms to carry out an investment programme comprising a number of different projects (industrial investments; workers training programs; research centres and projects) in specific geographical areas. Firms participating in the Programme Contract have access to grants from the Italian Government, on the condition that they carry out investments defined in the agreement and create a pre-determined number of new jobs. This policy supported Conserve Italia, along with many other firms, in improving the productive capacity and technologies adopted by its plants.

However, Conserve Italia benefited from the latter policy up to 2008. Indeed, the Council Regulation 1698/2005 on support for rural development by the European Agricultural Fund for Rural Development (EAFRD) excluded large-sized cooperatives from the EAFRD grants. This policy also modified the framework for State aid measures. As a result, exclusion of large-sized firms was also extended to national financing policies such as Programme Contracts. The grant exclusion of large-sized cooperatives from EAFRD, and consequently from accessing national financing policies, negatively affected the development of Conserve Italia over the last years, considering that these policies previously significantly supported Conserve Italia to carry out investments required to improve its capacity to add value to raw materials delivered by farmer-members<sup>21</sup>.

Another issue to be investigated refers to the role played by Conserve Italia in building and nurturing stable contractual relationships in the tomato industry over the last decade.

To this regard, first of all, it should be underlined that, from 2000 on, the supply chain relations in the tomato industry have significantly changed several times, as a result of relevant modifications in the supporting measures' framework for this sector. Indeed, following the 2000 reform of the CMO for fruits and vegetables, the European aid for tomatoes was paid directly to Producer Organizations and its value depended on product quantities<sup>22</sup>, whereas prior to this reform European aid was paid to manufacturers, which had to pay a minimum guaranteed price to agricultural producers. In 2007, the new CMO reform shifted the criteria for calculating payments to be paid to Producer Organisations from quantities to the area cultivated. Lastly, from 2011 on, in Italy there is no direct payments to Producer Organizations linked to quantities or cultivated area, given that they have been incorporated into the Single Payment Scheme. As a result, contractual relationships between farmers (through their Producer Organizations) and manufacturers operating in the tomato chain collapsed, given that these relations were strictly linked to the previous support scheme.

Conserve Italia plays a key role within the tomato industry in stabilizing supply chain relations, regardless of changes in support policies. Indeed, tomato supply chain relations between Conserve Italia and its first-tier cooperatives involved in the tomato chain have always been regulated by the cooperative's product regulations rather than according to what was established by European support framework on contracts between Producer Organizations and manufacturers.

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<sup>21</sup> To this regard it should be noted that this policy (i.e., the exclusion of large sized-firms from the European Agricultural Fund for Rural Development) is highly debated within the ongoing CAP reform proposals.

<sup>22</sup> In the meantime, contracts among Producer Organizations and manufacturers should be signed according to prearranged terms.

Conserve Italia is not a Producer Organisation and thereby it could not benefit from support measure targeting Producer Organisations in order to arrange relations with farmers, such as the opportunity to define prices to be paid to farmers at the end of the financial year. At the same time, its member Apo Conerpo is the Producer Organization responsible for marketing fresh produce of the members' base of Conserve Italia<sup>23</sup> to IOFs for the portion of tomatoes that is not delivered to the processing plants of Conserve Italia.

As a result, nowadays Conserve Italia arranges their supply chain relation with farmer-members as it has always done, making reference to inter-cooperative product regulations. On the contrary, when the European aid specifically set aside for tomatoes disappeared (2010), in most cases, contracts between farmers and manufacturers not involved in cooperative firms, came down due to the instability of prices and to the stronger bargaining power of processing firms and retailers.

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<sup>23</sup> As also mentioned before, the primary cooperative-members of Apo Conerpo and Conserve Italia are mostly the same. In the meantime, Conserve Italia is member of Apo Conerpo as well as the latter is member of Conserve Italia.

### 3. Conserve Italia Analyzed

Thanks to the information and data gathered and reported in section 2, it is now possible to analyze Conserve Italia, first of all in respect to the hypotheses stated in section 1.

#### 3.1 Institutional environment

**H1:** Cooperatives going international will choose a different institutional arrangement in dealing with suppliers due to differences in the institutional environment.

The case of Conserve Italia seems to provide support for this hypothesis. As reported in section 2, over its internationalisation process the Italian cooperative did not accept foreign farmer-members which supply agricultural raw materials to its French and Spanish processing subsidiaries. This choice seems to be linked to relevant differences in the socio-cultural, political, legal and economic environment in which farmers operate (Hofstede et al., 2010). Indeed, according to New Institutional Economics (e.g. North, 1990), differences among European countries (in agronomic, productive, economic, and institutional terms), along with historical perplexities and doubts of Italian farmers towards farmers who appear to be deeply different, seem to have had a strong impact on Conserve Italia's structuring of contractual relationships with foreign farmers.

However, referring to the supply relations with French farmers, it should be noted that amongst these, there are two farmer cooperatives and another farmer firm which are also members of the French subsidiary of Conserve Italia, i.e. Conserves France. The choice to admit these suppliers as shareholders of the French subsidiary aimed at stabilising the relations with local specialized suppliers through long-term contracts. The stable collaboration between these suppliers and the French subsidiary of Conserve Italia is also suggested by the request made in 2010 to the two French cooperatives (and Pos) members of Conserves France, to take part in the international APO F.IN.A.F., together with other Italian cooperatives operating in the same industry (fruit and vegetables). To this regard, the CMO regulation for fruits and vegetables has further strengthened the supply relationships among Conserve Italia Group and French suppliers.

**H2:** Cooperatives going international will choose a different institutional arrangement in dealing with suppliers due to differences in the characteristics of the transaction (such as specific investments, environmental and behavioural uncertainty, and coordination needs).

The information collected does not seem to suggest that the characteristics of the transaction involved in the internationalisation process (e.g. technological diversity, complexity, etc.) are relevant in explaining the adoption of a particular institutional arrangement in dealing with foreign suppliers. As reported above, the latter circumstance seems to be linked mainly to other issues.

However, it is interesting to notice that supply relationships arranged by the French and Spanish subsidiaries of Conserve Italia seem to be different also according to the characteristics of suppliers. Indeed, in France Conserve Italia have stabilized contractual relations with part of foreign suppliers by admitting three of them (two cooperative and another farmers' firm) as shareholders of its subsidiary as well as by basing these relations on long term contracts. This did not happen in Spain mainly due to the higher fragmentation characterising the supplier of raw materials.

## 3.2 Second-tier cooperatives

**H4:** Second-tier cooperatives that go international are less likely to establish member-relationships with their foreign suppliers.

As seen in hypothesis 2, also in this case information gathered does not seem to support this hypothesis. Indeed, the analysis of Conserve Italia's international expansion suggests a weak causal link between the tier of the cooperative and the probability to invite foreign suppliers to become members. The latter matter is instead strictly related to other issues previously addressed (see H1). Not by chance, Italian transnational cooperatives are rare exceptions among second-tier as well as first-tier farmer cooperatives<sup>24</sup>.

**H5:** Second-tier cooperatives are likely to disappear because they lose connection with farmer interests.

Taking a look at the long term development of Conserve Italia, this case study suggests that federated cooperatives tend to go closer to the farmers over the firm's life, as shown by the shifting of Conserve Italia structure from a third-tier cooperative to a second-tier cooperative in 1994. However, reasons that push towards this change do not seem to be linked to the risk of losing the true cooperative character or losing connection with the interests of farmers.

The share of raw materials processed by Conserve Italia cooperative sourced from its first-tier cooperative-members has always remained constant, at nearly 90%. At the same time, quantities delivered by Conserve Italia's members as well as value paid to them tends to increase, except in the case of extraordinary events. Moreover, the development of Conserve Italia has been facilitated by the tight coordination of production planning as well by common objectives and strategies shared by all cooperative-members.

Reasons that may increase the instability of federated cooperatives seem, instead, to be related to the need to improve the efficiency of the supply chain, as well as to the history and development of cooperatives. Conserve Italia was founded in 1976 to market products of its second tier cooperative-members. The latter kept their independence, building up a third-tier cooperative. Eighteen years later, after the results and the clear success of Conserve Italia activity, they decided to merge, enabling the transformation of Conserve Italia from a third to a second-tier cooperative.

This is consistent with what is observed more generally in Italy. In the last decades Italian farmer cooperatives often decided to build up a cooperative consortium rather than merge with other cooperatives, due to the opposition of farmers/cooperatives to join in a single cooperative with other farmers which appeared to be different<sup>25</sup>. After the cooperative consortium gradually incorporated functions and activities of its cooperative-members, and because the success of the newly established cooperative became evident, farmers' opposition gradually disappeared and a stronger integration became possible. This process gradually led to transformation of third-tier cooperatives to second-tier cooperative or that of second-tier cooperatives to first-tier cooperative<sup>26</sup>. Summing up, the instability of federated cooperatives seems to be linked to the need for closer supply chain relations between their management and farmers, to improve the

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<sup>24</sup> To this regard see Bono (2012), where only two transnational cooperatives are reported (out of almost 6,000 farmer cooperatives in Italy).

<sup>25</sup> To this regard it should be noted that in Italy there are cultural and historical differences among regions.

<sup>26</sup> MIFAAF, 2009, "2006-2007 Report of the Italian agricultural cooperatives Observatory".

efficiency of the cooperative. In many cases, these relations were mediated by first-tier cooperatives that over time have gradually lost their functions. The final result, often after many years, usually is that federated cooperatives are replaced by lower-tier cooperatives. The instability of the federated cooperatives, instead, does not seem to be linked mainly to losing connection with members' interests as a consequence of adopting IOF-type of structures and decision-making routines.

Going back to the Conserve Italia case study and looking into the future, the theoretical transformation of Conserve Italia from second-tier cooperative to first-tier cooperative is not the consequence of losing connection with farmers' interests. While currently not on the cooperative agenda, a future adoption of the first-tier structure would be explained by the need to rationalize the entire supply chain management through closer relations between farmers and Conserve Italia. Such a transformation could potentially improve performance of the activities even more and consequently benefit farmers.

### **3.3 Life cycle of cooperatives**

**H6:** Larger cooperatives are less likely to invite foreign suppliers to become members than small cooperatives.

Overall, the development of Conserve Italia over the last decades has been strictly linked to the agricultural production of its first-tier cooperative-members and thus its farmer-members. It does not seem that the increase in size of Conserve Italia has created a distance from the cooperative and its members, moving toward becoming similar to an IOF. The risk that a significant increase in size can cause a transformation of a cooperative towards an IOF structure is held under control by the participation of the representative bodies in the definition of strategic purposes, as well as by supervising activity on the coherence among management's work and farmers' interests. To this regard, the leadership of representatives of members has a key role in keeping strategy and objectives of the cooperative aligned with the interests of its farmer-members.

Focusing on the arrangement adopted in dealing with foreign suppliers, there is no link with the increase in size of Conserve Italia. As seen in the report, the choice of not inviting foreign suppliers to become members is strictly linked to other reasons, rather than to the size of Conserve Italia. Moreover, to this regard it should be noted once more that Italian transnational cooperatives are rare exceptions. The possibility of a cooperative to become transnational is not determined by its size or its transformation process towards a more IOF like structure.

### **3.4 Cooperatives and bargaining associations**

**H7:** Larger cooperatives are more likely to see their members set up new associations.

**H8:** Cooperatives going international are more likely to see their members set up new associations.

**H9:** More diversified cooperatives are more likely to see their members set up new associations.

First of all, it should be underlined that within Conserve Italia there are no groups/associations established that have a formal representation function, as expression of the General Assembly of members. At the same time three product Committees have been formed. These are technical bodies, responsible for planning and managing the supply of the three product categories that characterize Conserve Italia activity (fruit, tomato and vegetables), through defining all aspects

and requirements of the relation between Conserve Italia and its cooperative-members. The importance of these product committees has been rising over the last decades because of the expansion of Conserve Italia's activities.

Summing up, these products Committees do not have a representative function and they are not governance bodies set up by members to demand better treatment by the cooperative; not by chance, these product committees have been part of the Conserve Italia's governance structure since its formation.

However, it should also be noted that the development of Conserve Italia over the last decades (in terms of turnover, internationalisation and diversification of products marketed) does not seem to have caused significant competitive pressures among its members. This is because: 1) product categories to which Conserve Italia is focused have remained basically the same (fruit, tomato and vegetables); 2) the internationalisation of processing activities did not cause an enlargement of members base abroad, which could increase pressures from "older" members; 3) the economic growth of Conserve Italia mainly involved the original cooperative-members which have experienced an increase in agricultural production withdrawn by their farmer members and processed by Conserve Italia; in many cases the same members have shifted agricultural production to specific fruit and vegetables products, according to market trends and planning activity with Conserve Italia management.

### **3.5 Policy issues**

Besides being useful in addressing the above-tested hypothesis, the information gathered on Conserve Italia also sheds light on other important themes that could be informative for public policy making.

We especially refer to: 1) the experience of contractual relationships in the tomato industry and the role of Conserve Italia within it; and 2) relevant policies that have benefited Conserve Italia and their impact on the cooperative's development.

To the former regard, it should be stressed that nowadays Conserve Italia continues to play a key role within the Italian tomato industry in stabilizing supply chain relations, while most of the contracts between farmers and manufacturers have been abandoned after that the EU has stopped providing support funds for tomatoes since 2010. This is thanks to the fact that the tomato supply relations between Conserve Italia and its primary cooperatives have always been regulated by the product regulation of the cooperative, rather than according to what was established by the European support framework on contracts between Producer Organisations and manufacturers.

Probably, in the near future tomato production will experience a significant reduction in Italy, due to the lack of stable collaboration between farmers and processing firms. A stable collaboration among firms operating in different stages of the chain could be guaranteed by farmer-owned cooperative firms, along with policies aimed to stabilize prices and quantities to be marketed within food chains (e.g. "Supply Chain Contracts"<sup>27</sup>). In conclusion, concentration of the supply through Producer Organizations does not seem to be enough to protect tomato producers from the opportunistic behaviour of sundry partners along the supply chain and thus lower prices.

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<sup>27</sup> The "Supply Chain Contracts" (law 289/2002, i.e. the 2003 Italian Budget Law), financially encouraged agreements among firms operating in different phases of the food chain, with the aim to stabilize relations between farmers, processing and marketing firms and retailers.

With respect to policies that have benefited Conserve Italia, the most important one certainly is the EU's CMO for fruits and vegetables. This policy has positively affected the performance of Conserve Italia and its members, encouraging cooperative investments. In particular, it has become even more relevant after the last CMO reform, which has strengthened its focus on processing activities. However, it should be pointed out that some important inconsistencies remain in the overall CMO Regulation: indeed, the new calculating method for the Operational Fund assigned to processing activities, which will come into force from 2014, will cause a significant reduction of financing provided for investments on the downstream activities to be carried out in order to gain a stronger position in the food chain.

The Programme Contracts (*Contratti di Programma*) is another relevant policy that supported Conserve Italia to strengthen its productive and technological investments up to 2008. Since 2009, Conserve Italia has not benefited from this policy, due to the exclusion of large-sized cooperatives from the EAFRD grants and its subsequent effect on the framework for State aid measures; this negatively affected development of Conserve Italia over the latest years and, consequently the economic results of farmer members of the Conserve Italia's primary cooperatives. This exclusion from the EAFRD grants does not seem to be coherent with the aim to support farmers' incomes, considering that, there is a strict bond between the development of the cooperative and the economic results of its farmer members also in case of large-sized cooperatives, as shown by the examined case study. Moreover, this exclusion could discourage the cooperatives' growth and concentration of supply.

Summing up, information gathered suggest that supply concentration is going in the right direction, but at the same time, it alone does not seem to be enough to improve and stabilize farmers' position in the fruit and vegetables chain. For this reason, policies (including Producer Organization Regulation) should fully and strongly encourage farmers towards the integration of processing activities. To this respect, farmer-owned and controlled cooperatives may represent the key instrument for the accomplishment of the strategic objectives required to add value to agricultural production and stabilize farmers' income.



## 4. Discussion

Despite being confined to a single cooperative, the results of this case study have important implications for farmers, cooperative leaders and scholars, as well as policy makers. It seems that the success of Conserve Italia and the factors that have caused this success are in line with current thinking on the role of agricultural cooperatives in capturing significant quasi-rents along fruit and vegetable supply chains and passing them on to their farmer-patrons. The contribution of successful agricultural cooperatives to various public and quasi-public goods is also demonstrated by the current case study.

The Conserve Italia case demonstrates what has been repeatedly reported in studies that compare agricultural cooperatives across agriculturally advanced countries (e.g., Iliopoulos et al., 2011). That is, it is extremely difficult to find a country with a significant presence in food markets without successful agricultural cooperatives. The pervasive positive effects of successful, producer-led collective entrepreneurship are not confined to cooperatives' farmer-members. Cooperatives tend to generate several positive externalities that influence all actors participating in food supply chains. By providing an organisational means of efficient supply chain coordination, successful agricultural cooperatives diffuse the benefits of forward vertical integration along the supply chain from input suppliers to consumers of final food products (Sexton and Iskow, 1988). Formal as well as informal contractual relationships created and nurtured by cooperatives play a crucial role to this respect.

Since the early 1980s, Conserve Italia has implemented an internationalisation strategy that brought it closer to important foreign markets for fruit and vegetable products. Implementing this offensive strategy have necessitated a restructuring of the cooperative from a third-tier to a second-tier one in order to enable a tighter, more efficient coordination of the supply chain. Similar considerations have dictated a close relationship with foreign farmer-suppliers. Yet, differences in the institutional environments facing the cooperative in each of the countries in which Conserve Italia is present, as well as the need to maintain a low degree of heterogeneity in members' preferences have played a decisive role in not accepting foreign producers as members of the mother cooperative. At the same time, in the case of France, local producers have organised collectively in order to invest in Conserve Italia's local subsidiary and secure beneficial treatment by the Italian cooperative. Therefore, the need to coordinate foreign supply chains more efficiently has also been important in the cooperative's decision to build a formal contractual relationship with French producers.

The choice of Conserve Italia to maintain its second-tier structure has not resulted in a distant relationship between the cooperative and its farmer-members. This has been achieved by implementing efficient monitoring of management and board members. Having access to high-valued leadership capital has also enabled Conserve Italia to ameliorate the efficiency-robbing constraints imposed by loosely structured second-tier agricultural cooperatives, as observed in many cases around the globe. Therefore, those claim that second-tier cooperatives will slowly be replaced by more efficient, closer to producers, organisational structures needs to be conditioned on several other factors (e.g., the prevailing local institutional environment, spatial conditions, member preferences, etc.).

The cooperative's size, as indicated by its annual turnover, number of employees and suppliers, and high market shares in several European countries does not seem to have affected its decision to stick to its original membership base. On the other hand, it might have been the cooperative's size, along with abovementioned considerations, that has dictated such a membership policy in order to optimize supply chain relationships and internal governance efficiency.

The case of Conserve Italia makes apparent the need of cooperatives to establish formal channels for communicating members' preferences to both decision making bodies and the management. Such channels are crucial in minimising influence costs and avoiding the pitfalls of inefficient decision making routines. Conserve Italia has understood this since its restructuring as a second-tier cooperative back in 1994. Subsequently, the cooperative maintained a number of so-called product committees, formed since 1976, which act as separate product and governance pools. Further, Conserve Italia has adopted a proportional representation system, which is based on spatial and product-related criteria. As a result, the cooperative has not experienced tensions among members supplying products that have so commonly distressed multipurpose and/or highly diversified cooperatives. In Hirschmann's terms, among exit, voice, and loyalty, the members of Conserve Italia have been induced to exercise the last option.

Yet, the evolution of Conserve Italia also seems to contradict some of the most commonly accepted perceptions about cooperatives. Despite being close to their farmer-members, cooperatives can and do become large, international enterprises. Of course, this is possible only if cooperatives are successful in implementing efficient ownership and governance structures that align structures to strategies. This condition is imposed by the need to act offensively in highly competitive markets in order to capture significant value along the entire supply chain.

Further, the often reported offensive strategies (e.g., internationalisation) of agricultural cooperatives need not be a move toward adopting IOF-like structures and strategies. Being forced to compete with highly efficient, IOF conglomerates, cooperatives have realised the need to get access to significant amounts of capital. Yet, the traditional cooperative structure is efficient in quite different settings. Therefore, being offensive should not always be interpreted as a move away from satisfying members' needs. Instead, in many cases it is a condition necessary for reaching sustainability and thus being able to keep serving farmer-members.

The structure adopted by a cooperative is not dictated by transaction characteristics alone; other factors are also important in making organisational decisions. This is why cooperative scholars need to shed new light on non-economic characteristics of farmer-members. For example, the reluctance of Conserve Italia's Italian farmer-member to accept foreign farmers as members of their cooperative has been explained by reference to localism and cultural idiosyncrasies. Such considerations need also influence the design of support measures at the national and EU levels. Definitely, regulations and other policies that envisage large, pan-European agricultural cooperatives have a merit. At the same time, the reluctance of European farmers to build such cooperatives also deserves the attention of policy makers. Taking into consideration the aforementioned discussion might inform policy makers interested in providing coherent policy frameworks for European agriculture.

With respect to public policies towards agricultural cooperatives, the Conserve Italia case sheds light on three important issues. First, the EU's Common Market Organisation for fruits and vegetables has been instrumental in improving Conserve Italia's position in fruit and vegetable supply chains. Funds received have financed both expansion into international markets and modernisation of processing plants. In the pre-2008 era, when support funds were accessible by the cooperative, Conserve Italia significantly benefited by the CMO regulation. Further, the cooperative was able to strengthen its capacity to stabilise contractual relationships along the fruit and vegetable supply chain by adopting coordination-enhancing inter-firm policies, such as the aforementioned product committees. This is probably why today, even though the changes in support policies which affected Conserve Italia (e.g. disappearance of direct payments to tomato Producer Organizations and their incorporation into the Single Payment Scheme, or the exclusion of large-sized cooperatives from EAFRD grants); the latter continues to play a key role in coordinating efficiently the fruit and vegetable supply chain.

These findings highlight the crucial role producer-led forward integration plays in building and maintaining well-coordinated food supply chains. Therefore, public policies intended to achieve similar goals should take advantage of the benefits available to supply chain stakeholders through well-run collective entrepreneurship organisations. Such benefits have been available to farmers of various commodities around the globe for over a century. It is no surprise, therefore, that Conserve Italia has successfully achieved its objectives. Rather, the key question to be asked is in which ways public policies should facilitate collective entrepreneurship in agriculture and ensure that farmers across Europe are aware of organisational innovations adopted by many cooperatives in order to enhance their position in the food chain. According to all evidence available, such innovations may be the only means to withstanding strong competition from IOFs and keep providing benefits to member-patrons and the wider community of stakeholders. Another policy-related finding of this research is that public policies should promote producer-initiated forward vertical integration. By adopting this strategy, producers get access to a whole range of benefits that might not be within their reach otherwise. However, public policies need to be carefully designed so as to avoid imposing on cooperatives negative externalities. Contrasted to other cases in Mediterranean countries, the experience of Conserve Italia demonstrates that a moderate policy approach should be preferred to strong governmental interference into cooperatives' affairs.

The Conserve Italia case informs policy makers and regulators in yet another way. The strong competitive position of agricultural cooperatives does not necessarily result in violation of competition rules, such as antitrust laws. One needs to seek answers to a set of related questions on the practices adopted by a particular cooperative before blaming it for abuse of competition rules. These include, among others, the following (Iliopoulos, 2012):

1. Does the cooperative operate as a user-owned, user-controlled, and user-benefitted business organization?
2. Do adopted policies, such as defined membership, represent attempts to gain excessive market power or are they a consequence of technical or marketing constraints?
3. Does the cooperative produce quasi-public goods and contribute to economic development?
4. Does the cooperative correct a market failure?
5. Would the cooperative be able to correct for market failures, provide a missing service or contribute to local economic development had it adopted the traditional cooperative structure?

Only a case-by-case examination of these issues would enable policy makers to design efficient public policies towards agricultural cooperatives.

## 5. Conclusions

Conserve Italia is a successful second-tier, agricultural cooperative. It has managed to build an efficient system of contractual relationships with all key stakeholders along the fruit and vegetable supply chains that it leads. In addition to the relationship with its members, the cooperative has managed to build strong contractual relationships with foreign farmers. Among these relationships, those with foreign farmers who supply the cooperative's subsidiaries in France and in Spain stand out as most important. Despite not being accepted as members of the Italian cooperative, these farmers have been treated fairly well by Conserve Italia, which sees them as very significant partners. This is why, at least in the case of France, these farmers have formed a local cooperative that holds a minority share in Conserve France while their produce has been given priority over that supplied by non-members of the French cooperative.

Conserve Italia's internationalisation strategy was adopted in order to enable the cooperative to capture as much value along the fruit and vegetable supply chain as possible and pass this value on to its members. This offensive strategy has been financed by farmer-patrons through their local, first-tier cooperatives; especially through the decision to set aside net proceeds accumulated over the years in equity reserve funds). However, the contribution of the EU's CMO for fruits and vegetables has also been very vital. Funds received were invested in modernising processing plants, building state-of-the-art distributions facilities, and expanding production capacity in order to serve foreign customers. National support measures have also been helpful to this respect. Yet, recent reforms of the CMO regulation have resulted in Conserve Italia's exclusion from support funds due to its size (i.e., turnover and number of employees).

Conserve Italia has primarily focused over the years on providing significant benefits to its Italian farmer-patrons. This priority in combination with institutional and cultural factors explains a large part of the cooperative's reluctance to accept foreign producers as members of the mother cooperative. The results of this case study highlight the importance of the institutional environment in structuring Conserve Italia's supply relationships with foreign, local farmers. Equally important in influencing these relationships are cultural idiosyncrasies on both sides of the transaction. While it has been difficult to track the path through which transaction characteristics might determined the abovementioned choice, nevertheless, the need to coordinate frequent transactions characterised by product and spatial specificities seems to have played a role.

Conserve Italia's success seems to be in contrast with the restructuring of many second-tiers to first-tier agricultural cooperatives observed in various countries around the world. The cooperative's success seems to rest on the high quality of its leadership and farmer-members, who have managed to implement an efficient governance system that enables farmer-members to monitor board members and the management effectively. Consequently, this system has resulted in low influence costs incurred by Conserve Italia and efficient decision making. Therefore, this case study suggests that while structure is important, other factors may play a more decisive role in achieving success.

This case study shows that farmer-owned cooperative may represent the key instrument to permanently improve the competitive position of farmers along the food chain. In many cases (especially where the agricultural sector is very fragmented) the cooperative membership is the only way to integrate the processing and marketing activities required to add value to agricultural production and stabilize farmers' income.

Policy makers should be well informed of past and recent developments in the theory and practice of agricultural collective entrepreneurship in order to design efficient and effective

public policies. While support measures have played an important role in promoting collective action in European agriculture, other public policies that set the general institutional environment in which agricultural cooperatives operate are also key to these organisations' success. Asking well-thought questions that allow policy makers to go straight to the heart of the issues discussed above seems to be the only way to achieving the goals set for the forthcoming years.

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## Appendix A. Facts and figures on the Italian and European fruits & vegetables sector

**Table A-1 - Production value (producer prices) of fruit & vegetables sector, Italy and EU-27 (billions €)**

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
<b>ITALY</b>												
Vegetables and horticultural products (excluding plants and flowers)	5.0	4.8	5.1	5.9	5.5	5.7	5.8	5.6	5.5	5.8	5.6	5.7
Potatoes (including seeds)	0.4	0.5	0.6	0.5	0.6	0.5	0.6	0.7	0.6	0.6	0.6	0.6
Fruits	4.4	4.4	4.6	4.4	5.1	4.6	4.7	4.9	5.1	4.7	5.0	5.0
<b>Total fruit and vegetables</b>	<b>9.8</b>	<b>9.7</b>	<b>10.3</b>	<b>10.8</b>	<b>11.3</b>	<b>10.9</b>	<b>11.1</b>	<b>11.1</b>	<b>11.3</b>	<b>11.1</b>	<b>11.2</b>	<b>11.4</b>
Weight of fruit and vegetables on total agricultural goods output	26.1%	24.7%	26.4%	27.4%	27.3%	28.2%	28.3%	27.3%	26.0%	28.2%	28.1%	26.5%
<b>EU-27</b>												
Vegetables and horticultural products (excluding plants and flowers)	24.1	24.4	25.2	27.3	26.3	27.8	28.4	29.6	29.4	27.1	29.7	27.4
Potatoes (including seeds)	7.4	8.7	8.1	8.4	8.2	7.2	10.3	10.9	9.9	8.9	10.3	11.0
Fruits	18.2	19.6	19.3	21.4	21.1	20.4	21.9	22.1	23.7	21.0	22.1	22.7
<b>Total fruit and vegetables</b>	<b>49.7</b>	<b>52.7</b>	<b>52.6</b>	<b>57.1</b>	<b>55.5</b>	<b>55.3</b>	<b>60.6</b>	<b>62.6</b>	<b>62.9</b>	<b>57.0</b>	<b>62.2</b>	<b>61.1</b>
Weight of fruit and vegetables on total agricultural goods output	18.1%	18.1%	18.7%	20.4%	18.9%	19.4%	20.6%	19.2%	18.3%	18.8%	19.0%	17.1%
<b>ITALY / EU 27 (Role of the Italian fruit and vegetable sector within the European Union)</b>												
Vegetables and horticultural products (excluding plants and flowers)	20.9%	19.6%	20.2%	21.5%	21.1%	20.7%	20.3%	18.8%	18.8%	21.3%	18.7%	21.0%
Potatoes (including seeds)	5.7%	5.7%	6.9%	6.0%	7.5%	7.0%	5.8%	6.4%	6.4%	7.1%	6.0%	5.9%
Fruits	23.9%	22.6%	24.0%	20.5%	24.4%	22.8%	21.5%	22.0%	21.7%	22.3%	22.8%	22.0%
<b>Total fruit and vegetables</b>	<b>19.7%</b>	<b>18.4%</b>	<b>19.5%</b>	<b>18.8%</b>	<b>20.4%</b>	<b>19.7%</b>	<b>18.3%</b>	<b>17.8%</b>	<b>17.9%</b>	<b>19.4%</b>	<b>18.0%</b>	<b>18.6%</b>

Source: Eurostat



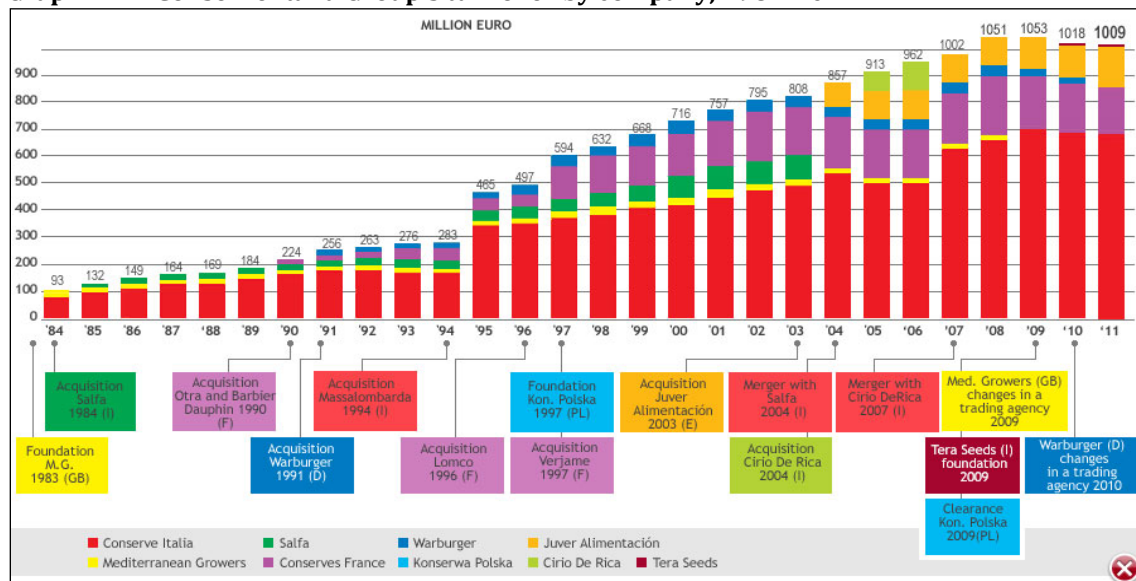
**Table A-2 - The processed fruit and vegetables sector in Italy and in the European Union.**

		2000	2001	2002	2003	2004	2005	2006	2007	2008
Number of firms	Italy	1,971	1,983	1,960	2,010	2,012	2,024	2,010	1,977	1,975
	EU-27	n.a.	n.a.	n.a.	n.a.	9,700	10,200	10,000	10,167	n.a.
Turnover (million €)	Italy	5,766	6,786	7,462	7,361	7,142	7,160	7,031	7,665	9,770
	EU-27	n.a.	n.a.	n.a.	n.a.	50,331	52,168	52,872	58,123	n.a.
Value added (million €)	Italy	991	1,070	1,287	1,340	1,426	1,334	1,273	1,271	1,458
	EU-27	n.a.	n.a.	n.a.	n.a.	11,438	11,640	11,402	12,755	n.a.

Source: Eurostat

## Appendix B. Facts and figures on Conserve Italia

Graph B-1 - Conserve Italia Group's turnover by company, 1984-2011



Source: Conserve Italia web site – [www.conserveitalia.it](http://www.conserveitalia.it)

## Appendix C. Timeline of the main events in the internationalisation process of Conserve Italia

1983	Establishment of the company Mediterranean Growers Ltd in the U.K.
1990	Acquisitions of two French companies – i.e., Otra, S.A. and Barbier Dauphin, S.A. – and their brands.
1991	Acquisition of the German company Warburger GmbH.
1993	Establishment of the S.E.C., S.A. (Société Européenne de Conserve) in Luxemburg.
1996	Acquisitions of the Swiss Metro owned company Lomco, S.A., St Sylvestre in France.
1997	<ol style="list-style-type: none"> <li>1. Establishment of the company Konserwa Polska S.p.zo.o., in Poland.</li> <li>2. Acquisition of the company Verjame, S.A., owner of the brand St Mamet (France).</li> </ol>
1998	Establishment of Conserves France, S.A. by merger among all French companies of the Group (Otra, S.A., Barbier Dauphin, S.A., Lomco, S.A., Verjame, S.A.).
2003	Acquisition of the Spanish company Juver Alimentación, S.A.
2006	Liquidation of S.E.C., S.A., Luxemburg.
2009	<ol style="list-style-type: none"> <li>1. On April, 1, Mediterranean Growers Ltd in the U.K. became a solely sales agency that exclusively serves Conserve Italia</li> <li>2. Liquidation of the company Konserwa Polska S.p.zo.o, Poland.</li> </ol>