

Italian NRN contribution to the “short supply chain” workshop

Summary :

- 1) Overview on the “short supply chain” sector in Italy.
 - 2) Supply chain in RDP: the Italian experience of Integrated Supply chain Projects (*Programmi integrati di filiera - PIF*).
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1.1) Short-supply chains in the food sector: an important opportunity

In recent years Italy has seen a vital, if spontaneous and rather piecemeal, growth in short food supply chains at the local level. Such a phenomenon is of considerable interest since it responds to a number of needs and opportunities, both of farmers and consumers. Short supply food chains in fact:

- contribute to diversifying and increasing sources of income for farmers;
- help develop closer links between consumers and farmers, thereby reinforcing a sense of the importance of the agricultural sector for a sustainable society;
- Increase the supply of fresh, high quality, relatively unprocessed food at the local level and therefore promote healthy eating without necessarily weighing down on consumers' budgets.

Moreover short supply chains are particularly suited to the highly fragmented nature of agricultural production in Italy and to the promotion of the wide range of local food specialties which are closely linked to the diversity of the Italian territory.

1.2) Typology short production and distribution chains in Italy

a) Direct sales

This is the simplest form of short supply chain. The producer opens, usually within the same company, the sale of his own products. The producers can also organize sales of their products in a set location outside the company.

The responsibility or obligation of the producer is to sell his farm's products in relevant proportion to the total amount of products offered to the consumer with the option to integrate other products from other farmers and stock-breeders.

Even in **direct sales** either outside or within the farm are subject to the sanitary and fiscal regulations of regular commercial activity. There are many benefits to this short supply chain:

the consumer can speak directly with the producer; in dealing with farm sales one can also get to know the farm, the cultivating methods and practices and the respect for the environment involved with organic farming. Finally the producer is able to assign value to the seasonability of his production as in no other form of sales.

It is also true that not all consumers can travel to do their shopping, including farms; furthermore some farms aren't situated in the easiest to reach places for the consumer.

In all of the regions in Italy there are developed markets and fairs for organic producers, sometimes placed in already pre-existing local markets with conventional producers.

More often than not these markets are designated exclusively for organic producers. It requires paying careful attention and distinction amongst merchants e producers who sell at these markets. A fruit and vegetable stand in a fruit and vegetable market is not necessarily run by its producer, often times it is run by a wholesaler. Instead farmers' markets by definition are only open to producers.

Organic markets are widespread in every region in Italy and often times in some regions they are organized weekly or at least monthly. Obviously for the consumer the markets are of the most value when they are more frequent since selling only once or twice a month forces the consumer to remember the markets dates and to organizes themselves around these times.

Moreover people cannot or do not buy fruits and vegetable just once or twice a month.

b) Buying Groups and Supplier Groups

Regulations for Buying Groups

These are groups organized by consumers, informally or with formal statute who decide to come together to buy organic products directly from the producer or from groups of producers organized in small (or medium sized) platforms, benefiting from a significant price cut on the final price by shortcutting the sales intermediaries.

The philosophy of a buying group goes beyond just produced cost; in fact the ethical and social factors seems to always be a priority and carefully evaluated like with the stewardship of the environment. To prize the culture and the methods of traditional cultivation and of the territory, to bring the relationship between the product and the land closer together and finally to respect working conditions of the agricultural worker. These are all concerns of the buying group.

From a financial point of view, formally organized buying groups with their buying activity and distribution of products to its members isn't considered to be of commercial nature; therefore it is not accountable to report IVA. A Buying group do not generate taxable income, and is not subject to taxation, as long as it carries out its activity only amongst its members and if it has a charter that respects the principals of profit sharing, to internally democratize and to be transparent with the appointed leaders of the group.

b.1) How a buying group works

The participants of the group decide on the products which they want to buy collectively. Based on this list, the members compile an order which will be placed, usually via email, to a group leader or coordinator, who in turn places the order with individual producers or to an organized group of producers.

In the next step the producer or organizer amongst the producers takes steps to make the products available or to deliver them directly to the group leader who will get it to the individual families.

Some buying groups have taken on consumer awareness as a priority with sustainable development and education on buying awareness. Solidarity amongst consumers, solidarity between the consumer and the environment, solidarity between the consumer and the producer are concerns of the group.

The strength of a buying group is the voluntarily commitment that it shows; whether it be in the collecting of the orders or in their delivery.

c) Supply Group.

These groups are useful to give continuity of the supply and for quality control.

Supply groups can be cooperatives or small companies. Even transport costs are lower.

■ **Various ways to make a shortened distribution chain**

Traditional, but also unexpected. Here are all the possible ways to buy and sell products with as few intermediaries as possible:

- **Direct farm sales** . it is the direct sale from the agricultural entrepreneur
- **agricultural markets**. Farmers' markets. Markets where the producers sell their products directly
- **Collective selling outlets**. Places where several farms work together and organize the selling of their products together.
- **Buying Groups**. Organizations of consumers which buy products together directly from farms.
- **Home delivery, box scheme (or CSA community supported agriculture)**. The producer takes the time to home deliver to the consumer a pre-determined quantity of product agreed upon together with the client.
- **Local festivals**. Public events where producers from the area can exhibit their products, hold taste testings and sell their products.
- **Vending Machines**. Milk was the first product, but others are on the way. The farm directly provides a small chain of distributors which are convenient and always open for consumers.
- **Direct farm pick-up or pick-up your own**. The consumer buys directly from the farm (picking the produce himself)

■ **The shortened distribution chain for organic agriculture: a winning choice.**

For organic agriculture the distribution chain is becoming considerably shorter. From a recent survey done in Italy (Bio Bank Report, 2009) it was shown that in 2006 direct sales from organic farms are consistently and continually rising. More than 500 buying groups (+66%); approximately 2,000 farms have their own stand or make direct sales (+47); 110 websites are exclusively dedicated to online sales (+39).

By now just about two in three Italians buy directly sold products at a minimum once a year while approximately 15% buy directly on a weekly basis (dati SWG ed Agri2000)

All of this of course has a positive impact on farm's profits. Those who sell directly are effected much less by the economic crisis compared with those who rely on the traditional commercial circuits.

1.3) Current limits to development

As is natural for the development of a grass-roots based phenomenon, the growth process has been irregular and improvised. A number of signals are however emerging which point to the need for a coordinated approach if short supply chains are to reach their full economic and social potential and not remain cornered within a “niche” positioning. Two aspects emerge as particularly significant:

- Farmers are taking on new challenges and tasks which require the development of new competencies. The spontaneous learning process currently underway can lead to organisational improvisation, with mixed results;
- A clear regulatory framework is needed to ensure, on the one hand, that farmers can benefit from the opportunities provided by short supply chains and, on the other, consumers are protected in terms of the effective quality content of food products purchased through short supply chain retail points.

1.4) Understanding short supply chains in Italy

With this in mind, the Italian Ministry for Agricultural Food and Forestry Policy [Mipaaf] has commissioned a number of studies aimed at analysing:

- The nature and extent of short supply chains in Italy (prevailing characteristics and commercial channels, marketing policies, organisational aspects, critical success factors and potential weaknesses and threats);
- Detailed case studies aimed at measuring economic sustainability both of single “farmers’ shops” and of a network of retail points;
- An extensive consumer survey (3 focus groups and CATI and CAWI interviews for over 2 000 cases, with particular emphasis on Rome and Milan), in order better to understand consumer requirements as regards the range of products, the location and accessibility of retail points, pricing, etc.;
- A first analysis of short supply chains in other countries, both inside and outside the EU, and of the policies implemented to support their growth;
- An analysis of the best options for promoting sales of short supply chain food products via web.

The output of these studies is currently being finalised and will be made available on-line.

1.5) Critical success factors highlighted by the studies

The market research carried out confirms that consumers are generally in favour of buying local products directly from farmers, largely because they believe such produce to be fresher and better quality than the equivalent bought in traditional retail points. The positive environmental externalities linked to short supply chains are also seen as important, and the majority of consumers remain price-sensitive for short supply chain products: only a minority of those interviewed feel that the greater quality of short supply chain food products justifies a higher retail price. Although there has been a rapid growth in the number of farmers markets over the last two years, consumers' experience of direct purchase from farmers generally involves farm shops and therefore does not yet constitute a significant change in regular consumption patterns. The accessibility of short supply chain retail points for urban dwellers and the presence of a broad range of goods within such shops are seen as crucial if consumers are to shift a significant part of consumption from other distribution channels to short supply chains. Other types of distribution channels – such as public catering and consumer procurement groups [Gruppi di Acquisto Solidali] – provide further opportunities for the development of short supply chains.

The “professional” management of short supply chains is therefore essential for these chains to develop to their full potential. The capacity of bringing together and organising the contributions of a wide variety of subjects at the local and national level is identified as the single most important issue for the success of short supply chains. In particular, there is scope for exploiting economies of scale at the national and the local level, regarding both the “start-up costs” and the daily management of short supply chains, including:

- Designing replicable governance models suited to different contexts. Such models should cover both organisational and contractual aspects;
- Improving the competencies of farmers involved in short supply-chain projects, in particular as regards marketing, business planning and logistics;
- Drawing up guidelines for local quality marks linked to short supply chains, in order to ensure that minimum standards regarding quality, origin and characteristics of the supply chain are met, thus protecting consumers and clarifying the position of different distribution channels;
- Communicating to both producers and consumers the potential benefits of short supply chains
- Improving the monitoring of short supply chain initiatives and of the farmers involved: this is necessary for a complete evaluation of the social and economic impact of the short supply chain phenomenon, which is currently extremely difficult to quantify, and useful insofar as it creates a potential database for putting producers in touch with each other, creating efficient networks and opportunities for new partnerships;

- Creating models for efficient local logistic systems, which are crucial to the development of short supply chains, building on the logistic capacities of farmers and cooperatives involved in short supply chain projects, as well as on third-party logistic services suppliers.

The Ministry for Agricultural Food and Forestry Policy [Mipaaf] is interested in further promoting the development of short supply chains in the food sector, where the public sector – through the Rural Network and through other ways – can play a leading role in creating the conditions for the above-mentioned economies of scale to be fully met.

2) Supply chain in RDP: the Italian experience of *Integrated Supply chain Projects* (*Programmi integrati di filiera - PIF*).

Methodology: To integrate several RDP measures for supporting the same supply chain (i.e package of measures).

Since the 2000 – 2006 programming period this innovative approach emerged in the Italian RDP. In the current programming period this approach has been extended to 12 RDPs out of 21.

For the current programming period a total number of 301 *PIF* (*Integrated supply chain projects*) has been activated in the Country so far.

The amount of resources devoted to “*Integrated supply chain projects*” in the Italian RDPs is 999.916.884 euro.

The following supply chains are particularly supported: *fruit and vegetables; wine; olive oil; wheat; milk and dairy products; meat; forestry products; floriculture.*

Tuscany; Umbria; Puglia; Lazio; Veneto; Emilia Romagna; Calabria; Campania; Marche; Basilicata, Friuli; Liguria: are the “RDPs” that implemented this approach.

How does it work ?

Integrated supply chain projects are based on the “bottom up approach” and local programming methodology (similar to LEADER e.g.).

1. **RDP Call** (package of measures supporting a specific supply chain for improving innovation and competitiveness);
2. **Creation of a partnership** involving all key subjects part of a supply chain;
3. **The Partnership presents a project** describing the impact of the intervention and the role played by every single subject involved;
4. **RDP Managing Authority** gathers, evaluates and **approves the projects**;
5. **RDP Managing Authority selects the beneficiaries of interventions.**
6. The project starts and the supply chain benefits from **RDP support through the integration of a package of RDP measures** (e.g. 121; 123; 124; 111).

Through this approach the RDP support is strategically focused to a specific supply chain, relevant for the local economy. Measures 123 and 124 are the most used in this approach.

“EU Communication of CAP after 2013” envisages the future implementation of “packages of measures” for supporting specific groups of farmers, local areas (e.g. mountain areas), local supply chains etc. For this reason the experience on “***Integrated supply chain projects***” could be interesting to share with other Countries.

Website: www.reterurale.it Channel “***progettazione integrata***”.

The Italian National Rural Network has a specific TASK FORCE devoted to “*Integrated supply chain programming*” that it is currently supporting RDPs on this issue.