

# SQUEEZED DRY

THE CRISIS IN THE TOMATO INDUSTRY  
BETWEEN EXPLOITATION AND UNSUSTAINABILITY

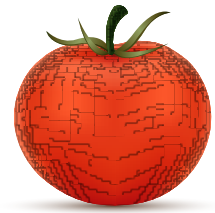
by **Fabio Ciconte and Stefano Liberti**



THIRD REPORT OF THE CAMPAIGN

**#FiliereSporca**

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## INTRODUCTION

Tomatoes are one of the most typical Italian products. Exported all over the world, they are also one of the basic ingredients of the Mediterranean diet. Supermarket shelves are full of pureed, chopped and diced tomatoes not to mention tomato sauce, in bottles and tins of every shape and size. From the traditional puree to the classic skinned plum tomato, not forgetting ketchup, tomatoes can be found in every home.

For many decades tomato sauce was made at home, Especially in southern Italy it was a time-honoured ritual in which entire families prepared the “sauce” for winter. Dozens of glass jars with handwritten labels lined up on a pantry shelf. Since then the tomato has undergone a relentless transformation. Production on an industrial level has grown exponentially, as have exports and competition with other countries, from China to the United States.

With an annual turnover of some three billion euros, industrial tomatoes represent an important share of Italian agriculture. This third #FilieraSporca report has analysed the supply chain, the focal points and the challenges.

As in the two previous reports, we have had to examine the individual supply-chain links to trace the causes of labour exploitation and *caporalato*, or illegal gangmastering and at the same time study the environmental and social sustainability of a symbolic sector for the national economic system, on which part of the credibility of the made in Italy label rests.

Our survey has revealed an often dynamic but extremely fragmented situation, in which there is no overall supply-chain policy but instead individual actors who follow personal strategies with an extreme waste of time and effort. A situation



in which the rules are often ignored, where contracts signed before the harvest become worthless as the season progresses and in which a plethora of intermediaries with conflicting interests obstructs the correct functioning of the market.

Within this framework, what is almost certainly good news is the approval of the law on illicit gangmastering, thanks to the government's political action and in particular that of the Ministers of Agriculture Maurizio Martina and of Justice Andrea Orlando, who have masterly steered the appeals received from various organized civil society actors, including the #FilieraSporca campaign<sup>1</sup>.

The law, acknowledging a phenomenon too large to be ignored, has substantially amended article 603-bis of the Italian Penal Code and extended the responsibility of the employer who "exploits workers by taking advantage of their situation of need or want". An essential law but undoubtedly inadequate for eliminating the problem once and for all. This law has a mainly repressive approach, acting after the fact and not on the causes of the problem. This is why it is urgent to link the exploitation of labour with all the other faults in the chain. Only by acting on the causes is it possible to eradicate the phenomenon, but to do this you have to realise you're dealing with a production chain that, as with many other agro-alimentary products, is opaque.

In this investigation we have analysed the unsustainable elements of the supply chain that increasingly risk transforming the product into a commodity, a standardized good that loses the particularity and typical quality of its site of production. A product more or less the same as can be found in other parts of the world - from California to Spain, from Turkey to China. This is a risk for the entire sector, because the strength of the made in Italy label lies precisely in its quality and biodiversity that varies from the top and bottom of the peninsula. An emblematic case of this development is that of the peeled plum tomato produced exclusively in southern Italy and exported worldwide. Despite its unique feature, it risks being dropped from a market that demands simple and easy-to-cook products and from a production district incapable of systemizing and capitalizing on its best specialties. Inside this system we find the Producer Organi-


<sup>1</sup> Cf. FilieraSporca report [www.filierasporca.org/2016/il-rapporto/](http://www.filierasporca.org/2016/il-rapporto/)

zations (POs), who have been unable to organize themselves to counterbalance the Large-Scale Organised Distribution (LOD), leaving the latter the power of imposing downward price trends.

The report exposes the consolidated practice of on-line auctions, a method through which the LOD forces price squeezes on the industry, and consequently on the farmers, rendering the entire supply chain unsustainable.

In the tomato supply chain we once again found one of the contradictions of the made in Italy label:

- Southern Italy, that supplies a product of excellence in terms of quality, has an uneven and disorganized district that makes it increasingly less competitive.
- In contrast, the north district has over the years managed to create a framework that makes it decidedly more competitive, almost as if pointing out that the stereotype of the organized north against the shambolic south is not so far from the truth.



This report is the result of a four-month field survey, mainly focussed on the South District which has the greatest problems but also the greatest potential. During the work dozens of actors were interviewed – workers, farmers, producers organizations, industry and LOD - involved in the production, processing and marketing of tomatoes and their by-products. The people interviewed are cited in the notes, respecting the anonymity of those who expressly requested it. All the actors were very helpful and open, granting us many hours during their annual peak harvesting and processing period. The only exception to this openness was the large-scale organized distribution (LOD) which, except for a couple of actors, did not consider it constructive to answer our questions. We hope that in the future the LOD will agree to participate in a supply-chain debate and to re-examine its role, since it currently represents one of the main obstacles to the sustainable development of the sector.

Along this fragmented supply chain, consisting of innumerable passages in which the exploited agricultural labourer, struggling producers, multinationals, large-scale organised distribution and industry co-exist, where transport is on the road and agriculture is based on a production model often dependent on chemistry, it is imperative to make the entire process transparent, providing the public with the possibility of choosing a clean and quality product.



## THE FILIERA SPORCA CAMPAIGN

Dozens of surveys, documentaries, reportage, have recounted what happens in the exploitation fields, in the refugee camps and in the ghettos. But what happens to the products picked in those fields and what is the responsibility of the multinationals, the LOD, the producer organizations, the haulage firms, the international temporary labour agencies? It is this question that prompted the #FilieraSporca campaign, in which the entire agro-alimentary production chain, from the field to the shelf, has been studied to reveal the true exploitation invisibles and to identify the distortions of an increasingly unsustainable system on both a social and environmental level. Only by acting on the subsequent links by convincing the large-scale organized distribution to make the supply chain transparent (with labels recounting the life and journey of the product) will it be possible to revitalize a struggling agriculture and a made in Italy label that seems increasingly inward looking, with throttled producers and industrialists with ever narrower margins. Because illicit gangmastering is a consequence, not a cause, of all this. A law, however advanced, is not enough to eradicate it forever. What is needed is an authentic political and cultural action capable of relaunching the entire sector. #FilieraSporca was created by three associations, Terra!Onlus, daSud and Terrelibere, aware that an integrated approach to the environment, agriculture, anti-mafia and rights is needed to tackle the phenomenon. Various local, national and international organizations (Amnesty International, Medu, Doctors Without Borders, Asgi, Flai-Cgil, Inmigracione, etc.) who have adopted the same principle have also joined the campaign (*see complete list in appendix*).







## THE INDUSTRIAL TOMATO

Tomatoes are one of the main Italian agricultural products. Every year in our country some 5 million tons of tomatoes are produced over an area of not much more than 70 thousand hectares, mainly in the provinces of Foggia, Caserta and Potenza (South District) and Parma, Piacenza and Ferrara (North District). Italy is the third tomato processor worldwide, after the United States and China<sup>2</sup>, and accounts for around 50 percent of European production. The vegetables are mostly processed to be sold in tins or bottles as peeled, pureed or pulped tomatoes. 60 percent of the production is sent abroad, 40 percent consumed internally. According to ANICAV (National Association for Industrial Canned Food and Vegetables), the turnover of the tomato industry is around 3 billion euros<sup>3</sup>. Despite these figures, the Italian tomato industry is in crisis with the price of both the raw material and the processed product falling every year.

### ITALIAN TOMATO FIGURES

#### PRODUCTION 2015

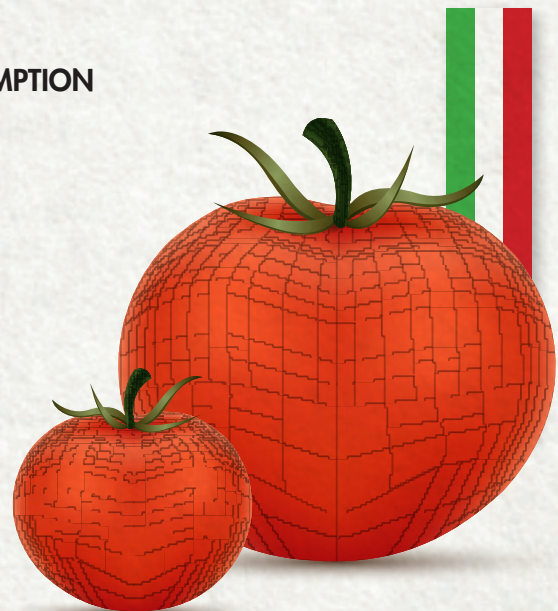
**5,5** MILLION TONS  
60% EXPORTED, 40% DOMESTIC CONSUMPTION

#### AGRICULTURAL LAND

**70** THOUSAND HECTARES  
40 THOUSAND IN THE NORTH DISTRICT  
30 THOUSAND IN THE SOUTH DISTRICT

#### TURNOVER

**3** BILLION €



<sup>2</sup> According to the latest projections, in 2016 Italy will have overtaken China to become the second processor worldwide, caused by the drop in Chinese production.

<sup>3</sup> [www.anicav.it](http://www.anicav.it)

Producers complain about low profits and reduce cultivated areas; the industrialists claim that they often sell at lower than production prices. The sector of the peeled plum tomato, a typically Italian product, is experiencing a progressive downturn (especially in southern Italy).



## THE MAIN SUPPLY-CHAIN ACTORS

**THE PRODUCER ORGANIZATIONS (POS)** created because of the constraints imposed by the European Economic Community to benefit Common Agricultural Policy (CAP) funds and to aggregate farmers making them more competitive with regards to the industry, represent one of the most controversial links in the supply chain. The majority of POs in southern Italy dealing with tomatoes are managed by former traders and not by actual producers. They sign contracts with the industries and receive European contributions under the form of business plans. In theory they organize programming, assist the individual producers over the entire production process and guarantee, through the union tool, risk sharing and innovation.

**THE PROCESSING INDUSTRIES** purchase the tomatoes from farmers during the campaign (from the end of July to the end of September) to turn them into tomato puree, pulp, sauce, etc. Many industries produce for the so-called private labels, i.e. brands directly connected with LOD.

**THE LARGE-SCALE ORGANIZED DISTRIBUTION** controls almost all the supply chain. The so-called “first price” policy and the greater use of the “below cost” policy imposes unsustainable purchase prices on the industry and consequently on the farmers. The lowest bidder mechanism for auctions (see later) further squeezes costs, forcing the industry to short sell.

**THE SEED MULTINATIONALS** the seeds used are almost exclusively hybrids and are purchased through firms able to offer a wide variety of choice, guaranteeing different yields according to hydrothermal conditions.

## **ORIGINAL SIN - IN PUGLIA THE CAMPANIA REGION RULES**

Traditionally tomatoes were grown in the Agro-Nocerino-Sarnese area (Campania) where the first canning and processing factories arrived after the Unity of Italy. It was here that a visionary Piedmont industrialist, Francesco Cirio, came to create what was to become an empire and a brand that has been associated with processed tomatoes for almost a century.

Towards the end of the Eighties, the erosion of the land following an unregulated urbanization, together with a verosis that destroyed harvests, prompted the Neapolitan producers to find new territory. For this reason tomatoes started to be cultivated on a large scale in Capitanata, province of Foggia, now the main production area of the South District, with some 30 thousand hectares yielding over 2 million tons (around 40 percent of the entire Italian output). The tomatoes picked in Puglia are then transported to the processing industries which, with the significant exception of Princes Industrie Alimentari (PIA) in Incoronata and another two small factories, are almost all based in Campania, in a relatively small area between the towns of Angri and Scafati.

The original sin of the South District is represented by this distance between production and processing sites. Packed into crates, the tomatoes travel on articulated lorries. For the entire season, that is from mid July to late September, the Napoli-Bari motorway is chock-a-block with full lorries going up to Campania and empty lorries going down to Puglia to be loaded again. The distance between production and processing areas is the first critical issue, not only in terms of costs and transport planning but also because of the various actors' incapacity to systemize and achieve a virtuous supply-chain policy, enabling efficient scheduling and strengthening their contracting clout with the LOD. The most blatant example of this ineffectiveness is the supply-chain actors' incapacity to find a headquarters in the so-called South District, formally created in 2014.

The conflict between the Foggia and the Agro-Nocerino-Sarnese actors has now created a deadlock when they should be programming and organizing this chain through coordination between producers and industrialists. This issue is also greatly weakening the Puglia region's ability to promote its tomato district because the control room is in the adjacent Campania region.







## **MACHINES OR GANGMASTERS: HARVEST OF CONTENTION**

Illicit gangmastering is a widespread phenomenon in agriculture, especially in southern Italy, where crews of workers are organised by a foreman who recruits and organizes the labourers, including transporting them from their accommodation to the fields where they work, and who gets paid for this. In this intermediation between the employer and the worker, the illegality lies in the fact that this fee is directly deducted from the worker's wage. Since the gangmaster arbitrarily decides who works and who doesn't, the worker is a weak element who can be blackmailed and thus exploited.

In the tomato sector, in which the workers who hand pick are almost all foreigners (from Sub-Saharan Africa, Romania or Bulgaria) the so-called *caporalato* is to date the only means of recruiting labour.

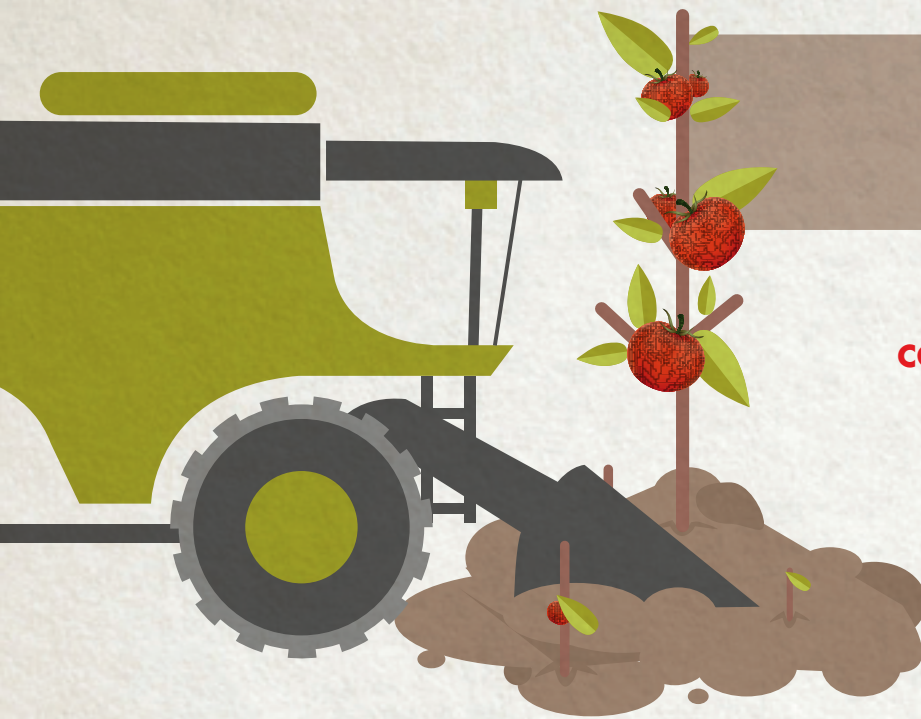
Here it is necessary to say something: the phenomenon, at least as far as industrial tomatoes are concerned, has had a serious media overexposure. Most of the harvesting is in fact mechanized and hand picking is becoming increasingly marginal.

It is difficult to estimate the percentage, also because it varies with atmospheric conditions (when it rains the machines can't enter the fields and it is necessary to pass to hand picking). However the estimates provided by those working in the sector oscillate between a maximum of 25 percent (trade-union estimates) and a minimum of 5 percent (producer estimates). The real number is probably halfway between these at around 85 percent for mechanical and 15 percent for hand harvesting.

What is certain is that hand picking declines every year. The preference for mechanical harvesting is mainly determined by a logistic calculation: on one side there is a third party who provides the harvester and a crew of seven; on the other a gangmaster and a crew of labourers. A machine is able to guarantee a faster harvest at an equal or even lower cost. In a day a machine can fill around five articulated lorries with a total of 1.320 quintals (440 crates of 3

# TOMATO HARVEST COSTS AND PERCENTAGES

## MECHANICAL HARVEST



PERCENTAGE OF TOTAL

**85%**

**COST FOR 1 ARTICULATED LORRY  
(88 3Q CRATES)**

**350€**

## HAND HARVEST



PERCENTAGE OF TOTAL

**15%**

**COST FOR 1 ARTICULATED LORRY  
(88 3Q CRATES)**

**352€\***

**\*EXCLUDING  
RECRUITMENT COSTS  
(10 € PER WORKER)**

quintals). The cost of a third party who provides the machine and crew is about 1.750 euros (350 euros a lorry).

To harvest the same amount of quintals you need a crew of 30 workers who pick a crate for 4 euros. Multiplied by the 440 crates necessary, this comes to around 1.760 euros, to which you have to add the costs for recruiting the workers – about 10 euros each. The conclusion is that hand picking, albeit paid as piece work and performed under the infamous exploitation conditions, is less profitable than mechanical picking. This helps to explain the diminishing incidence of this practice in the Foggia area.

In the areas in which hand picking is still carried out, workers are mainly recruited through the intermediation of those informal figures called *caporali* or gangmasters. In the southern Italy countryside, and in particular in the Foggia area, gangmastering has always existed as the only alternative to the lack of effective institutional mechanisms for regulating labour supply and demand. The “gangmaster” has made up for the inefficiency of the provincial employment offices. With the arrival of foreign labour, particularly used for strenuous and unskilled jobs such as the tomato harvest, the phenomenon has become more significant.

The gangmasters play a multiple role: they manage, against payment, the entire logistics of the labourers’ life, from housing to food, up to transport from the place in which they sleep to the fields. Large informal settlements appear every summer in Puglia where thousands of potential workers gather.

The most infamous is the so-called Rignano Garganico “great ghetto”, an unauthorized shantytown on unfarmed land which, despite its name, lies in the municipality of San Severo. Here at the peak of the season, 2.000-2.500 people live in self-constructed wood and corrugated iron shacks. They wait to be called by the gangmasters to whom they will pay the cost of transport to the fields (2 to 5 euros). The gangmasters will then obtain another percentage from the employer for every crate filled by the members of their crew.

The producers claim that this is the only way they have to put together efficient



crews of foreign workers since the employment centres are ineffective and the workers themselves use members of their community to find jobs. Gangmastering, in the view of those who practice it and those who make use of it, represents a simple recruitment instrument in which the organizer (called gangmaster) takes charge of the service and plays a logistic and organizational role. It is the interface between the worker crews and the farmer.

*“How on earth am I going to put together in one day 30-40 workers who don’t even speak Italian? I call someone I know and he brings me the workers whom I legally hire. That’s an illegal gangmaster? I call him a foreman,” says a farmer who makes extensive use of hand picking <sup>4</sup>.*



Migrants hired for hand picking mostly come from African or EU countries such as Bulgaria or Romania. Compared to previous years, many of them have a legal employment contract. But in reality they are paid for piece work, that is the number of crates filled.

There are two payment methods:

1. the worker is paid a number of days corresponding to the effective number of crates filled;
2. the worker is legally hired but then paid off the books, with very few working days recorded.

According to workers and operators, the reasoning is very simple: with a working day under contract, earnings come to around 45 euros. Instead, with piece work you can earn up to 80 euros, filling 20 crates at 4 euros each. Even net of the part deducted by the gangmaster, this is still a higher figure. This system is profitable for everyone: the worker earns more and the farmer doesn’t risk having workers who “stand around doing nothing since they’re paid by the

<sup>4</sup> Interview with Raffaele Ferrara, president PO La Palma, Lesina (FG), August 2016.

day,” as one of them says<sup>5</sup>. There thus exists a piece-work remuneration system, covered by a contract that is only formally exemplary.

Then there are the fake workers who create a distortion in the entire agricultural sector. That is, the farmer records Italians as day labourers who have never dirtied their hands and who in this way can benefit from unemployment indemnity and other benefits. “Fake workers pay contributions plus an amount for the inconvenience. It’s a well-known practice that somehow acts as a social-security cushion, but in recent years it has grown out of hand,” a local trade-union representative claims<sup>6</sup>.

Trading of days is a widespread practice in Capitanata, recently increased to a worrying level. In the context of a completely unregulated labour market, in which the foreign workers themselves often prefer piecework to obtain more and immediate cash, the scams involving the national social security agency (INPS) and the state have literally exploded.

Perusing the records of agricultural regions, there appears to be a great number of Italian workers who have worked for 102 days, the minimum number for obtaining unemployment benefits, the payment of annual contributions and the receipt of family allowances. This system has been made possible by the particular functioning of DMAG (Agricultural Workers Statement) where the employer has to declare the days a posteriori at the end of every quarter, thus attributing the number of days to fake workers according to any controls by labour inspectors.

The real workers are only attributed the days in which the controls were carried out, while the rest are allocated to fake workers. According to INPS, the scam involves 50 thousand false workers amounting to 400 million euros. The workforce used in the hand-picked tomato harvest works under extreme conditions, submitted to an intense work pace to earn as much as possible with piece work. The gangmaster is the intermediary.

<sup>5</sup> Ibidem

<sup>6</sup> Interview with Daniele Iacovelli, provincial secretary of FoggiaFLAI/CGIL, Foggia, August 2016.

The law approved in October 2015 by Parliament imposes strict sanctions not only for gangmasters but also for firms using their services, adding collective responsibility.

In particular, the law substantially amends article 603 bis of the Italian Penal Code (unlawful intermediation and labour exploitation) and, besides reformulating the offence of gangmastering, extends the responsibility of the employer who “subjects workers to exploitive conditions and takes advantage of their state of need or want”. As if to say that there doesn’t necessarily have to be an “unlicensed gangmaster” or a criminal organization for a worker to be exploited. It also imposes the confiscation of assets and the adoption of measures that maintain the effectiveness of the firm and, consequently, the workers’ employment.

Hopefully, all these elements will have a strong impact on the remaining pockets of illicit gangmastering in the tomato sector. The demolition of the camps announced and reiterated by the governor of Puglia Michele Emiliano, if carried out, will have the same impact. The governor has requested action on the Rignano ghetto after discovering that it was regional property. The area has been seized, with “right of use” for the harvest period. “We did not act during the summer because of public order considerations, but at the end of the season we will evacuate the Rignano ghetto. We cannot tolerate an illegal enclave where mafias and illicit gangmasters operate inside our region,” Emiliano said<sup>7</sup>. At the same time as the demolition of the so-called ghettos, the Puglia region is organizing alternative accommodation for both seasonal and permanent workers, based on a more efficient recruitment mechanism and transport from the housing to the fields supported by the same region.

The actions promised by the Puglia region for the demolition of the ghettos and the eradication of illicit intermediation – accommodation for seasonal workers, strengthening of legal intermediation methods, transport from settlement areas to work site – are all aimed at creating a legal framework for casual workers and eliminating the exploitation and inadequacies highlighted.

<sup>7</sup> Interview with Michele Emiliano, August 2016.



These are important initiatives for legalizing the agricultural sector and especially tomato production where hand picking seems destined to be entirely replaced by mechanized harvesting. Paying workers by the day and not by piece work will make the hand harvest even less profitable and will probably eliminate the residual pockets still present in this sector.



## **THE PAPER ORGANIZATIONS: TRADERS DISGUISED AS PRODUCERS**

The Producer Organizations (POs) are a fundamental element and, at the same time, relatively unknown to the layman. But, as said in the previous reports, they are responsible for many of the distortions in the agricultural sector. A good part of the malfunctioning of the supply chain can be traced back to these actors, especially in the South District where there are fragmented organizations with little functionality. In the second half of the Nineties, prompted by the constraints imposed by the European Economic Community to benefit the Common Agricultural Policy (CAP), many of the POs in southern Italy in the tomato business were managed by former traders and not by actual producers. It was at this time, starting from when the production moved to Puglia, that intermediaries between the agricultural and industrial sides turned into producer organizations. These former traders sign contracts with the industries and obtain European contributions under the form of business plans. They have to organize the planning, assist the individual producers along the entire production process and guarantee, through the union tool, risk sharing and innovation.

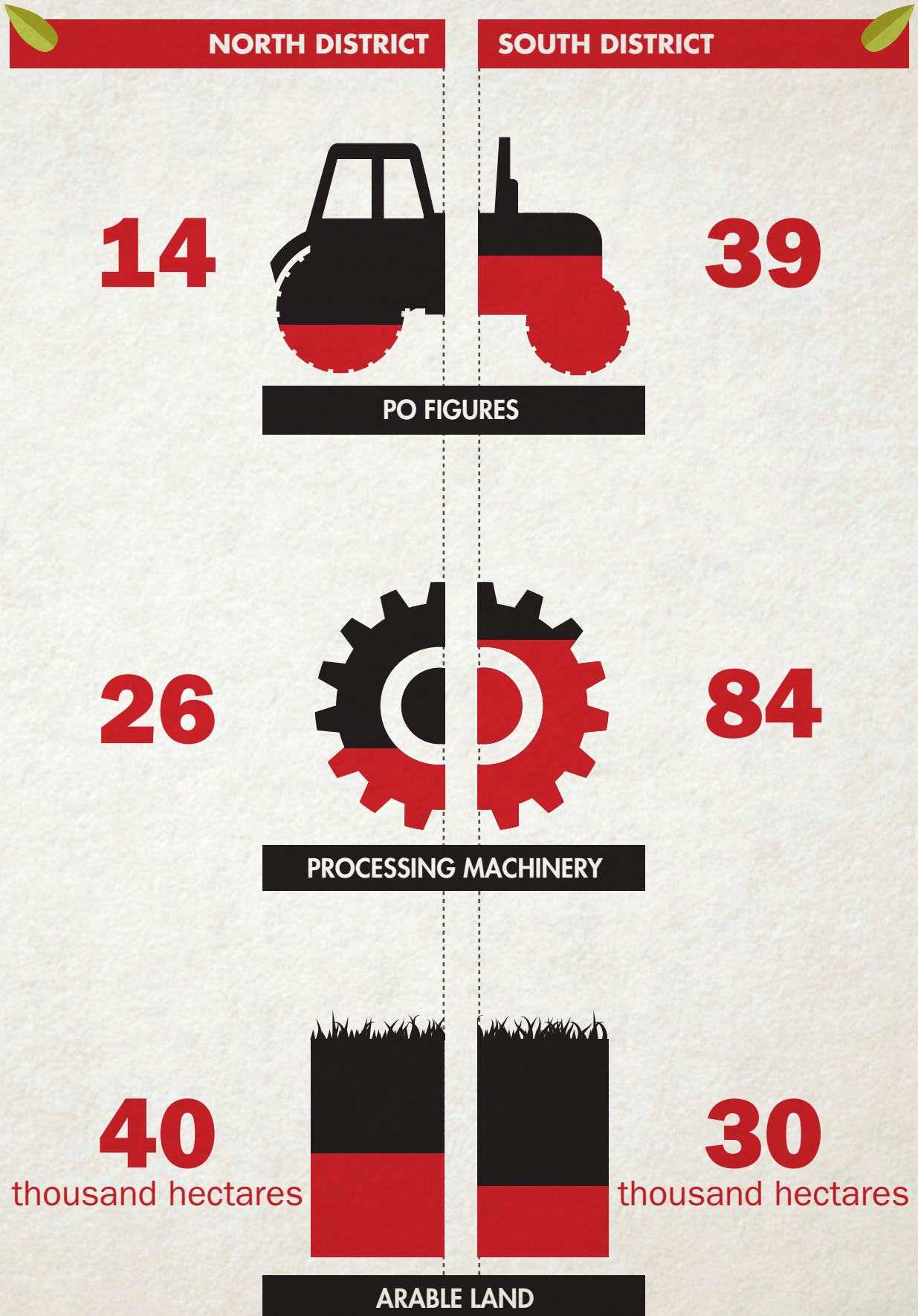
This was the theory. In the majority of cases they just collect the business plan contributions and sign the framework contracts with the industry. The fact that their offices are distant from the production areas – the majority of POs trading tomatoes have their headquarters in Campania and not Puglia – says a lot about the effectiveness of their action on site.

As a result their role in the supply chain is entirely inadequate; they are an unnecessary intermediation link that does nothing for producers in consortiums. Their number is out of proportion with the product treated and their dimensions too small.

Whereas in the North District of Parma, for example, there is a lively cooperative tradition and the producer organizations formed there have had the positive results envisaged by the reform. In the north, the POs consist of farmers who negotiate contracts with the industrialists that both parties then respect.



## POs: THE FIGURES OF A FAILURE



In the south there are intermediaries who at harvest time try to sell the crop to the highest bidder and tear up the contract signed only a few weeks earlier. The problem is that, even if not formally compulsory, it is necessary to pass through a PO to sell your products to the industry.

This filter is inevitable for many small producers and allows the system to accumulate privileges of position without providing services in exchange.

The POs of the South District therefore only sign contracts with the industries and often do not play their designated roles of organization, planning and logistics, mostly delegated to cooperatives or individual producers. The POs just produce documents for the “business plans” and intercept the funds that the European Union reserves for agriculture. Hence the name “Paper PO”.

The POs extreme fragmentation and frequent disconnection from the agricultural world make them one of the main obstacles to the development of a functioning supply chain, in which the various actors work in an integrated system. Instead of fostering the aggregation of the agricultural players to obtain better contracts with the industrial party, they cause divisions and malfunctioning. Parties in charge of negotiations with the industry are then relieved of any responsibility; the contracts are signed “in the name and on behalf of” without the PO sharing any risks. For example, if an industry fails to pay for the merchandise, it is not the PO who takes the business risk, sharing the non-payment with its members, but the individual farmer or the cooperative which has physically provided the raw material. Moreover, it is the farmer himself who has the direct contact with the processing industry without the intermediation of the PO.

Laws are needed to control the POs’ business activities, to establish a compulsory risk-sharing mechanism and to raise the turnover threshold to reduce their fragmentation, as has been successfully achieved for the Melinda apple consortium in Trentino Alto Adige. Only by requesting a minimum turnover of 5-6 million euros can the divisions and inefficiencies of the PO system in the South District be resolved and a virtuous consortium system be developed like that operating in the North District.

## THE CONTRACT THAT SELF-DESTRUCTS

Every year in spring, industrial and agricultural parties conclude an agreement to purchase the raw material. In practice a price is agreed by both parties before the harvest. This year the agreement established a purchase price of 87 euros a ton for round tomatoes and 97 euros for plum tomatoes in southern Italy and 85.2 euros for round tomatoes in northern Italy, where the plum variety is not grown. Also here there's a substantial difference between the North and South Districts. In the north the agreement is binding and is respected by both parties, whatever the harvest conditions and the availability of the raw material<sup>8</sup>. In the south it has an absolutely indicative value and tends to be disregarded by both industrialists and producers.

“The harvest is like a swollen river that sweeps everything away. When we start picking any agreement becomes worthless,” the manager of a PO in southern Italy effectively summarized the situation<sup>9</sup>. The differences count for quite a lot. For example, at the beginning of September the bad weather in the south meant that it was impossible to pick for some days and it was feared that the tomatoes would perish. They were sold to industry at 130 euros a ton because the scarcity of the product forced the industrialists to pay a higher price to have the raw material to process and respect their agreements with the large-scale distribution.

On the other hand, the abundance of tomatoes in the 2015 season made the price drop to 60 euros a ton (against 95 euros for the round and 105 for the plum variety established by the annual contract). In this case the product surplus meant that industrialists could negotiate very low prices. This price liberalization transforms the campaign into an “authentic Far West,” in the words of another player<sup>10</sup>. Instead of creating an effective supply chain based on a transparent relationship between the various links, in the south an attitude of “every man for himself” has been created which means that everyone loses and it is

<sup>8</sup> So binding is the contract in the North District that in the 2016 campaign the agricultural party had to pay a penalty of 2.5 euros a ton to the industry for having exceeded production by some 220 thousand tons because of a greater number of hectares cultivated and higher yields than expected

<sup>9</sup> Interview with Rosario Ferrara, manager of PO Apoc Salerno, Salerno, August 2016.

<sup>10</sup> Interview with Rosario Ferrara, manager of PO Apoc Salerno, Salerno, August 2016.





## THE FIAMMANTE CASE – AN EXAMPLE OF A CLOSED SUPPLY CHAIN

In reaction to the dominant system, La Fiammante, a small industry in southern Italy, is experimenting a closed supply chain, in which the relationship with producers is aimed at full cooperation. The brand belongs to Francesco Franzese, who produces tinned plum tomatoes and tomato puree at his factory in Buccino, in the province of Salerno. Fiammante delivers almost exclusively to a PO, the *Mediterranea*, with which it has a relationship of trust. It pays for the raw material at the price established at the beginning of the season, which is often higher than that set down in the contract. By doing this it removes itself from the twisted game of continuous bargaining and adopts a development strategy in which every actor in the chain has its fair profit. Franzese believes in the strength of his brand, which is expanding, and takes no part in the war between the southern industries to get the orders of the large-scale organized distribution's private labels. His experience, albeit a niche position, seems very interesting and is similar, with different proportions, to that of Mutti in northern Italy.

impossible to initiate any long-term plans. This is a hit-and-run scenario, with distortions linked to authentic speculation by some industries in the sector. On their part, the producers often gamble by scheduling planting (and therefore the harvest) according to when they think the raw material will be less available so they can sell at higher prices.

The two industrial and agricultural parties in fact work against each other with profound mutual distrust. "This year we've planted less tomatoes than actually declared," an operator told us at the beginning of the season. "You'll see that, after mid-August, the price will rise because there's a lack of tomatoes!"<sup>11</sup>. Something that actually happened. The producers, stung by the 2015 low prices, chose the opposite strategy and during the 2016 season they had a greater bargaining power with the industry. Over and above the immediate profits, this is a zero-sum game, in which the ephemeral benefit of one year becomes a loss the next year, and more in general represents a great obstacle to the development and growth of an efficient supply chain.

<sup>11</sup> Interview with the manager of a PO, province of Salerno, July 2016.

This lack of an overall strategy seems common to both industries and producers. The absence of a sound associative fabric – hindered by the paper POs mentioned earlier – makes the inversion of this trend very complicated. The single actors of the supply chain forced to move in this miasma are extremely weak since they have to define and adapt individual strategies each time. In particular, it also makes producers and industrialists very weak when facing the large-scale organized distribution (LOD) that, as we shall see later, fixes the purchase prices of the finished product thus crushing the entire supply chain.

## THE DISAPPEARANCE OF THE PEELED PLUM TOMATO. HOW THE ITALIAN TOMATO WAS TURNED INTO A COMMODITY

If the Italian tomato by-products continue to have an important market it is thanks to the strength of the made in Italy label, associated worldwide with a quality trademark. But the lack of an effective supply chain is seriously threatening the specificity and originality of the made in Italy product. In particular, the drop in the production of plum tomatoes is very worrying. As Giuseppe Cuomo, managing director of Princes Industrie Alimentari (PIA), the leading tomato processor in southern Italy points out:

*“The tomatoes cultivated in the southern Italy regions are a unique species and represent an added value for the entire chain. This strength has over time become a weakness and the Italian processed tomato market is in a deflationary trend. The products should be valued and positioned on the market better instead of simply being considered a commodity to be treated as such on a commercial level.”*



The plum tomato is the most evident symbol of Italian specificity because it is a product that only grows in the south. Despite this uniqueness, the leading players in the supply chain – both producers and industrialists – are impotently watching the decline in production, caused in their opinion “by the change in consumers’ eating habits”. Although it’s true that the pace of modern life makes the peeled plum tomato less attractive, it is also true that consumers’ current distrust of canned products would play in favour of its relaunch, since it is a product that has undergone very little industrial processing and has maintained intact its relation with the original raw material. The more enlightened players in the sector are promoting the relaunch of the peeled plum tomato and have told the industrial party that they are willing to finance 50 percent of a marketing campaign through business plans<sup>12</sup>.

<sup>12</sup> Interviews with PO managers and ANICAV leaders, Roma, Angri (SA) and Foggia, June, August and September 2016.



## THE FUNKY TOMATO EXPERIENCE

Although still a small company, Funky Tomato is interesting for the way it sells its tomato puree and sauce through a participatory, legal and transparent supply chain in southern Italy. Created to demonstrate that you can have an agricultural business without exploiting the workers, in recent years it has grown in terms of production. The tomatoes are cultivated by a network of small farmers on the basis of the Funky Tomato Charter of Intentions - that is using low-environmental-impact craft techniques, protecting workers' rights and aiming at their emancipation. Funky Tomato are tomatoes from a participatory and transparent supply chain: those who buy their products – restaurants, ethical purchasing groups, shops, canteens, individual consumers – are co-producers and members of a community.

“The plum tomato is the symbol of Italy. A campaign in favour of this is the only way we have to save the sector,” a PO manager tells us<sup>13</sup>. But a great part of the southern industrial sector, in particular the six leading groups that alone represent 50 percent of the production, has made another choice, that of supplying the large-scale distribution private labels and are therefore steered by their demand. After the disappearance of the Cirio label, acquired by Conserve Italia, the brand's market was mainly taken over by Mutti, which today controls around 40 percent. The Mutti trademark has established itself with an industrial strategy based on quality, also demonstrating that the industry can have a greater contractual power with the large-scale distribution. Over the past three years, Mutti has opened a factory in southern Italy with the intention of participating in the southern supply chain, considered more risky but also more interesting in terms of growth.

Unlike the leading industrialists in the Mezzogiorno, Mutti has a long-term business strategy and accepts initial losses because it hopes the market will develop and the brand consolidate, also by increasing the production of plum tomatoes<sup>14</sup>. The other industrial groups, with the important exception of some very dynam-

<sup>13</sup> Interview with Gennaro Velardo, manager of PO AOA and president of Italia Ortofrutta, Scafati (SA), July 2016.

<sup>14</sup> Interview with Francesco Mutti, managing director Mutti spa, Parma, September 2016.



ic young actors such as the Fiammante (*see box on page 14*), seem to want to keep concentrating on private label production for the large-scale distribution. A strategy that further weakens the contractual power of both the agricultural and industrial parties and that will lead to an increasing standardization of the product.



## **THE LOD BLACKMAIL: THE DESCENDING PRICE AUCTIONS**

The large-scale organized distribution (LOD) plays a central role in pushing prices down for both processed products and the raw material. A consistent part of processed tomatoes marketed in Italy is sold under the private labels, that is brands directly controlled by the LOD, since many industrialists do not have their own brand but supply to these labels. In recent years the important role played by the concentration of the LOD in the hands of a few actors against an extreme fragmentation of the previous links makes these latter very fragile and open to blackmail. Some large-scale distribution actors establish the price before the season by the so-called on-line auction with double descending price. The system functions like this: an initial auction among industrialists is announced by e-mail, in which an offer is requested for a certain order (for example a certain amount of tins of peeled and/or pureed tomatoes). The industrialists have twenty days to make a bid. Once the proposals have been collected, the same seller calls a second on-line auction, with the lowest bid as starting price. This second auction is again a descending-price one and everything is concluded in a couple of hours. The person who makes the lowest bid wins. This mechanism is exactly like gambling and disrupts the supply chain, both because of the rapidity with which it happens and because the industrialists sort sell. The auctions are held in the spring, when the season hasn't started and when the contract between producers and industrialists hasn't been concluded. That is when they don't yet have the tomatoes to process. "This system forces us to squeeze costs and makes us extremely weak. It has to be reviewed," claims Antonio Ferraioli, managing director of La Doria and president of ANICAV<sup>15</sup>. To safeguard competitiveness and fair business practices, the law forbids selling below cost of production. So as not to break the law, the LOD thus forces industrialists to declare a lower production cost. "This is what happens: they make us change the number in the column indicating the product price and put it lower than the selling one. If you don't do this they don't give you the order," some industrialists tell us<sup>16</sup>.

<sup>15</sup> Interview with Antonio Ferraioli, Angri (SA), September 2016.

<sup>16</sup> Interview with an industry source who preferred to remain anonymous.

This system has a series of knock-on effects for the entire supply chain. Since he has presold part of the production at very low prices, the industrialist has to recoup from the producer, in turn inflicting on him the lowest possible purchase prices and trying to wriggle out of the contractual obligations – already declaring purchase prices at subsistence level for the farmers.

Since the on-line auction is based on large numbers before the start of the season it defines the LOD's buying price from big business, especially for the so-called “basic products” or “first price products”.

We asked for explanations from the main LOD groups (Conad, Esselunga, Sma, Carrefour, Crai, Gruppo Pam Panorama, Interdis, Lidl Italia, Coop Italia, Sisa, Auchan), but only Carrefour Italia and Coop Italia responded. Carrefour replied that “the questions involved economic aspects on which, according to corporate policy, we don't give information”<sup>17</sup>.

The Coop, which has always shown greater attention to ethical issues, gave a more detailed response. It did not deny participating in the auctions but stressed that these are not aimed at “automatically assigning the order to the lowest price, but to the most advantageous offer in economic terms where, besides the price, other aspects involving the supply are considered, such as the service, the reliability and the credibility of the bidder, as well as the product features and guarantees”<sup>18</sup>.

An important specification, although it proves that the auction system is widespread, even among those more attentive LOD groups such as the Coop, that does not necessarily follow a price squeezing strategy. The leading industrialists declare that the on-line auction system is the main market distortion tool<sup>19</sup>. It is thanks to this tool – and also to the strength of the major players against a heavily fragmented industry and a supply chain with no long-term vision – that the LOD obtains its main earnings.

<sup>17</sup> Response to questions via e-mail by the CSR quality assurance manager and coordinator, October 2016.

<sup>18</sup> Response to questions via e-mail by CSR quality values sustainability and innovation manager, October 2016.

<sup>19</sup> Interview with Antonio Ferraioli, managing director of La Doria and president of ANICAV, Angri (SA), September 2016.

## **THE CHINESE TOMATO: WHAT IS TRUE AND WHAT ISN'T**

Much has been written about Italian imports of Chinese concentrated tomatoes and possible counterfeiting of made in Italy products. At more or less regular intervals the media and some sector categories launch an alarm about the invasion of Chinese tomatoes replacing Italian ones as the raw material of purees and pulps sold in our supermarkets. In fact the Chinese concentrated tomato is not used in those products - since in Italy by law it has to derive from the fresh product – but instead for ready-made sauces or tomato concentrate mostly destined for export.

The history of tomato production in China has its roots in the agro-industrial processing industry launched by the Communist party in the early Nineties. The Chinese industrial tomato is mainly produced in the western region of Xinjiang and is destined exclusively for foreign markets as a semi-worked product for ketchup, ready-made sauces or double concentrate.

Xinjiang is turbulent border region, mainly inhabited by the Uyghurs, a Turkish ethnic group that has always sought independence from Peking. When the Communist Party came to power after the 1949 revolution there was a hasty colonization in Xinjiang when land was granted to the Han people arriving from all over China. This created a kind of military colony, in which the settlers had the twofold task of defending the land with guns from both the foreign enemies (Soviet Union) and the internal ones (the Uyghurs) and at the same time turning the same land to profit with hoes. The colonists ended up as a kind of state within the state, a military corporation with its own towns, its own schools and its own judicial administration. Called Bingtuan, or “Corps”, this state-controlled military institution developed Xinjiang and set up the region’s agricultural and industrial strategies. When the Soviet Union collapsed and geo-political priorities changed, the military corps turned into a kind of corporation, whose purpose turned from defence of the territory to agro-industrial development.

In this context they started to produce industrial tomatoes and in the space of a few years China became one of the world’s leading exporters. In this prodigious

## CRITICAL ISSUES IN THE SUPPLY CHAIN



**REDUCTION OF BIODIVERSITY AND POTENTIAL DISAPPEARANCE OF PLUM TOMATO**

**PICKING AREAS DISTANT FROM PROCESSING PLANTS**

**LARGE-SCALE DISTRIBUTION (PO) CHOKES INDUSTRIALISTS AND PRODUCERS WITH POWER ON-LINE AUCTIONS**

**PRODUCER ORGANIZATIONS INCAPABLE OF GIVING PRODUCERS BARGAINING IN RELATIONS WITH THE INDUSTRY**

development, the Italians who took technology and knowhow to China played a central role in guaranteeing supplies of semi-worked raw material at lower prices, in particular the triple concentrate, to be reused in processed products mainly destined for re-export. In Xinjiang, concentrate production is mostly managed by two mega companies - Cofco-Tuhne, linked to the central Peking government, and Chalkis, belonging to Bingtuan. For years Italian industries

have imported the triple concentrate and after processing have re-exported it under the form of double concentrate or ready-made sauces. During this process, these businesses have benefitted from the so-called “inward processing arrangements”, under which those raw materials that are imported and then re-exported after “industrial processing” are exempt from customs duties on the understanding that the product has to be exported outside the European Union.

Some have used this procedure in a rather casual manner, such as the noted entrepreneur, Antonino Russo, who re-exported the product using the made in Italy label and who ended up on trial in Nocera Inferiore for fraud<sup>20</sup>.

Chinese tomatoes continue to arrive in Italy, but the alarms coming from farmers and taken up by the media seem excessive. The Chinese product cannot be used for purees sold in Italy, because by law these have to be obtained from the fresh product. Even less can they be used for peeled plum tomatoes. So they mainly end up in tomato concentrate or in ready-made sauces for export.

Compared to the general figures for the industrial tomato supply chain, the Chinese numbers seem relatively limited. In 2015, China imported from Italy over 64 thousand tons of concentrated tomato against a production of 5.4 million tons of fresh tomatoes. Even considering that to make the triple concentrate the raw material ratio is around 1:8 (you need 8 kilos of fresh tomatoes to make a kilo of triple concentrate), it's as if we had imported some 500 thousand tons of tomatoes from China. The exports of by-products in which the concentrate is added are about four times greater, confirming that this ingredient has a marginal weight in domestic consumption<sup>21</sup>. However, even after these figures and having restored the phenomenon to its real dimension, the issue of the Chinese tomato is not completely secondary. Foreign buyers of Italian tomato by-products sometimes find themselves buying products that they consider Italian but which instead come from China.

From information given by Chalkis, the main Italian industrial groups import

<sup>20</sup> Convicted at first instance, Russo appealed but the process was interrupted because the defendant had died in the meantime.

<sup>21</sup> ANICAV data.



varying tons of Chinese concentrate for their processed products<sup>22</sup>. Although this has almost no repercussions on the Italian domestic market, it does affect production destined for export. This damages the Italian production chain and the made in Italy label in general. It would be appropriate, at least at European level, to make it compulsory to indicate the origin of the product on the label and to extend the obligation – only in force in Italy – by stating that the puree can only be produced from fresh tomatoes.

<sup>22</sup> La Doria, CEC, NFI, Petti, Giaguaro, CMDO, Attanise. Interviews with Chalkis marketing managers. Urumqi (China) and Roma, 2015.

## **CONCLUSIONS AND RECOMMENDATIONS**

The results of this report show how the supply-chain distortions have put a great strain on a sector, such as the tomato one, strategic for the made in Italy label, and rendered it difficult to balance competitiveness with quality, territorial specificity, respect of workers' rights and protection of the environment.

Paradoxically, as manual harvesting decreases – and with it illegal gangmastering - the need for an ever greater yield increases, using harvesting machines, plant protection products, hybrid seeds and the consequent depletion of the soil. Then again, increasing the yield, that is the quantity harvested per hectare, is the only lever available to farmers to boost their profit margins in a market in which the LOD imposes – through the on-line auction system – rock-bottom prices and the POs do nothing to oppose it. Hence the idea that the solution for survival is the standardization of the product, making it equal to the others.

### **TOWARDS A SUSTAINABLE AGRICULTURAL MODEL**

If southern Italy has a strength it lies precisely in quality, guaranteed by the particular climatic conditions that make its products unique worldwide.

Because if it's true that consumption is moving ever more towards ready-made sauces, it's also true that the Mezzogiorno has not managed to make the most of its own specificities, such as the peeled plum tomato which risks disappearing in a few years from the supermarket shelves. The essential difference is that the peeled plum tomato can only be produced in southern Italy, whereas ready-made sauce is obtained from any kind of tomato, even those grown in China.

Many farmers in Puglia complain that conditions are no longer sustainable, that “this is the end” and that tomatoes are no longer profitable. The principle that it's better to squeeze a production chain as much as possible rather than make it grow in a sustainable way seems to prevail. Faced with a system that risks collapse, it's necessary to rethink the Italian agro-industrial model, to build an agricultural model that focuses on quality, that can invest in the young and sus-

tain the agricultural heritage. That is, a model that can promote the made in Italy label also in those southern regions where exploitation is more widespread.

It is not through the standardization of the product that this blight will be cured, but rather with quality and innovative investments.

**This is why we think that an agricultural plan for the Mezzogiorno has to be directed at the young, offering them land and resources.**

## **FROM REPRESSION TO PREVENTION**

The exploitation in the fields and the illegal gangmastering are just the last links in a supply chain that is not longer sustainable, about which we know little or nothing, that lacks transparency and that protects itself by hiding behind ethical codes and certificates to offload distant responsibilities on the minor players.

Hence, as said before, although welcoming the law against illegal gangmastering, it is only by acting on the subsequent links, by putting pressure on the large-scale organized distribution to make the production chain transparent, that we can revitalize a struggling agriculture.

To eradicate the illegal gangmastering phenomenon, a law, however advanced it might be, is not enough. What is needed is a real political and cultural action able to relaunch the entire sector.

We are asking government and parliament to intervene with preventive measures that modify the agro-food supply chain and render it transparent, reducing exploitation phenomena to the minimum. In particular, laws are needed to ensure transparent labelling, providing indications not only on the product origin but also on the individual suppliers (what suppliers and sub-suppliers pass along the chain, price breakdown). This information would guide the consumer towards an aware choice, potentially reducing to the minimum the possibility that the single product has been picked by exploited labour. The clarity of the supply chain should also be enhanced with interventions that throw light on the



single passages, increasing the responsibility of firms and suppliers, both among themselves and towards consumers. The aim must be to make exploitation uneconomic, because more easily traced by the relevant authorities and by citizens. Because it is precisely thanks to the citizens, to the consumer, that a “social control” can be carried out along the supply chain.

We are therefore asking government and parliament for:

A law on transparency that provides for:

- The introduction of a **narrative label** on agro-food products and in particular on those (first of all citrus cultivations) where the gangmastering phenomenon persists.
- The introduction of a public register of suppliers so they can be traced along the chain, i.e. a list of all the suppliers consultable on the firms’ websites.

Equally, we are asking the LOD:

- To develop a **narrative label that contains, inter alia, information on the price composition** (transparent price).

## **STOP THE ON-LINE AUCTIONS**

The on-line auction system, albeit complying with the law, has the effect of choking the supply chain because it forces the industry to lower its prices to the detriment of the farmer.

We consider this an unsustainable and serious practice, so we are asking:

- LOD for a public renunciation of the on-line descending price auction
- Government and ministers for an urgent intervention that prohibits the use of this practice, protecting the entire production chain.

## **REFORM OF THE PRODUCER ORGANIZATIONS (POs)**

Strengthening the food-supply organization and concentration tools by developing the POs is one of the strategic actions that the European Commission is pro-

moting to correct the asymmetric bargaining power inside the food-supply chain and to stimulate competitiveness. Nonetheless, whereas for some sectors in northern Italy this tool has been effective, the picture changes in the southern regions where there are small POs with a small operating capacity who find it difficult to become key partners on the market. In many cases these are POs established to take advantage of Community policies, so their main function is public funds collector and manager of Community measures, unlike that of the economic actor who operates on the market and who is able to set up competitive strategies.

Legislative interventions are needed to control the business activities of these POs, involving in particular the following aspects:

- Establishing a **compulsory risk-sharing mechanism**, putting an end to the “in the name and on behalf of” system.
- **Raising the turnover threshold** to reduce fragmentation, as the Melinda apple consortium in Trentino Alto Adige has achieved. Only by requesting a minimum turnover of 5-6 million euros for establishing a PO can the divisions and inefficiencies of the system in the South District be remedied and a virtuous consortium system be developed like that operating in the North District.
- Ensuring that the PO headquarters is **situated in the region where the harvest is performed**.

## **CONTRACT**

We are asking the industrialists, POs and farmers, especially those in the South District, to respect contracts between the parties, stopping that unregulated liberalization of prices that transforms the campaign into an “authentic Far West”.

## **REFORM OF THE AGRICULTURAL WORKER STATEMENT**

The mechanism of the a posteriori agricultural labour declarations has brought about the “fake workers” phenomenon. A fraud against the state amounting to 400 million euros and a further obstacle to the development of a quality agriculture.

In particular:

- We consider it necessary to review the control systems, introducing in agriculture what already exists in industry - the so-called DM 10, the form with which the employer reports monthly and not quarterly the days worked by its employees. The monthly DM 10 statement, albeit it can be used like the DMAG, would make scams more complicated. It would also be useful and necessary to provide information and raise awareness of foreign casual workers about their rights in terms of contributions and social benefits.









## **APPENDIX**

### **WHAT A NARRATIVE LABEL CONTAINS**

*The following are some useful items for creating a narrative label recounting the life of the product from the field to the shelf.*

#### **ORIGIN (REGION, PROVINCE)**

The identification of the raw material origin has particular importance for crossing this data with the suppliers and finding the area where the products are picked. It is also useful for improving the relationship between local production and consumers interested in supporting it for ethical, economic and/or environmental (zero Km) reasons.

#### **SUPPLIERS REGISTER**

The list of suppliers, otherwise called wholesalers/traders - represented by the parties entering into a contract with the distributor to deliver the goods ready for sale (or to be packaged) - should be indicated on the label, or when this is impossible for reasons of space and logistics, in a special space on the distributors (LOD/label) website or on a specially created third-party site. Every name on the list must have a link to the website page on which the trader also indicates its suppliers and so on. For transparency reasons, the suppliers register is the main tool with which the consumer can reconstruct the supply chain behind the large-scale distribution brand, often bearing a code difficult for citizens to decipher.

#### **HARVEST AND PACKAGING DATES (MONTH)**

The harvest and packaging dates help to identify the processing period. Crossed with the harvest area and the name of the supplier, this information can help identify any provisioning from land on which exploitation has been reported, as well as potential producers present in the area. This would enable awareness campaigns to be initiated or more specific transparency requests. At the moment, on peeled plum tomato cans, for example, it is possible to read a three-figure code that identifies the industrial processing day. For example, number 026 corresponds to the 26th day of the year, that is 26 January. But this is evidently incomprehensible for the consumer.

### **HAULAGE COMPANY**

Food, mainly fruit and vegetables, transport is the sector most subject to infiltrations from organized crime. Making this branch of the supply chain transparent would encourage distributors and traders not to look the other way when dealing with firms suspected of mafia connections (as often happens), but demand to use “clean” enterprises, also with the help of controls. This information could be inserted on webpage of the party using the transport.

### **NUMBER OF WORKERS IN THE FIELD**

This information comes from the producers and, crossed with the number of hectares cultivated, helps to estimate the actual numbers of hours worked (indice di congruità) for anyone who wants to undertake it, or more simply gives an idea of the ratio between number of workers employed and number gathered, signalling any incongruity which could conceal undeclared work. This information would be inserted on the webpage dedicated to the producer’s narrative label.

### **HECTARES CULTIVATED**

What has been said for the number of workers in the field applies.

### **TRANSPARENT PRICE**

Breakdown of price percentages that go to the distributor, the trader, the processor, the logistics and the production. It serves to make consumers aware of the price dynamics and give them the possibility of choosing the distributor/label that pays the producers most.

## ASSOCIATIONS INVOLVED IN THE CAMPAIGN



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