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# **Interprofession and typical products: the case of Parmigiano Reggiano cheese**

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# Interprofession and typical products: the case of Parmigiano Reggiano cheese

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**Abstract-** In the modern agri-food sector the need of manage quality and to improve market efficiency has generated new form of governance along the food chain. Even for typical products inter-profession organization is considered one of the most interesting institutions able to link the production phase to the commercialization phase, according to the more general objective to generate a more efficient contract-based relationship between the companies operating in the various phases of the same supply chain. In this framework, this work would like to analyse the specific case of the Parmigiano Reggiano cheese supply chain in relation to the role that an interprofessional body could play and the possibility that it could be established in order to support and increase the action of the protection consortium, or to take over some of its functions. The analysis on the Statute and on the real organization of the Consortium show that this organization is not an interprofessional body as it does not represent all the parties in the supply chain and lacks the other requirements laid down in the other experience. In the case of Parmigiano Reggiano Consortium, it appears necessary to overcome the individualism of the single operators to unite them in associative forms which are able to mediate and represent the collective interests which, in the case of a PDO products, are the substance itself of the history and nature of the product and the relations which link the various operators together. At this condition the Consortium can become the “third party body” protecting the overall interests of the supply chain which is internally expressed democratically and, if possible, unanimously, as is seen in the French experience.

**Key word:** interprofession, hybrid form, typical products

## 1. INTRODUCTION

It is well known that in the modern agri-food market, the demand for quality, standardisation of supplies and purchasing consistency has led to the development of quasi-integrated contract-based relationships between the companies operating in the various phases of the same supply chain. The specific nature of these contracts derives from the fact that the conditions are usually pre-defined, laid down by the integrating party (the processing or distribution company) for the integrated party

(the farm) based on the evaluation of the profitability of the activity by the latter and the market prospects for the former. Moreover, these contracts do not only govern the conditions of exchange (quantity, quality, place of delivery and price) but also lay down the procedures to be adopted by the integrated party in the procurement of its raw materials and the execution of the production process<sup>1</sup>.

The spread of such relations in a market economy transforms it into a so-called “contract economy”, in which the progressive reduction of commercial opportunities available to the agricultural producer in different physical markets prior to the spread of contract integration strengthens the market power of the integrating party, which in most cases already operates in an oligopsonic market (Valceschini, 2005).

From the early 1960s onwards, it was precisely the danger of weakening the position of agribusinesses in contractual relations which drove the French government to approve standard contracts to be respected by both integrating and integrated party, under penalty of the cancellation of the contract<sup>2</sup>.

To return from contract economics to the market economy, or rather to prevent the integrated party in contract economics from being the losing party, the relationship must not develop merely on an individual level between the producer-integrated party and the integrating company, but the business dimension of the former must also increase (concentration of supply through forms of producer associations) and the negotiation of the conditions of exchange must be done collectively through the participation of all the parties in the supply chain in order to extend such conditions also to those who wish to maintain their own speculative independence. The instrument which achieves this objective is the interprofessional organisation, which governs

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<sup>1</sup> A far-reaching analysis and bibliographic study on contract integration in agriculture was carried out by Rehber (1998).

<sup>2</sup> Concerning the development of contract integration and the evolution of French agricultural policy, from contractualisation to interprofession, see Valceschini (1995); Lederman (2002). See also Eaton, Shepherd (2002) on the development of contract economics.

supply chain relations through interprofessional agreements (Rio and Nefussi, 2001).

Parmigiano Reggiano cheese, the most important Italian PDO product, may be considered a classic example of a supply chain created for reasons strictly linked to the production process, as the burden of the length of the financial cycle due to the maturing period has led to a clear division of tasks between the milk producers, dairies and wholesaler-agers. At the same time, strong integration has developed within the chain, both formally among farmers and the dairies and informally between dairies and wholesaler-agers<sup>3</sup>, as demonstrated in a research work by de Roest (2004)<sup>4</sup>, who ascertained that, after one year of maturation, almost 50% of cheese, once branded, is sold to the same wholesaler-ager.

One specific feature of the Parmigiano Reggiano supply chain is the "Protection Consortium", responsible for quality control and product promotion, which could loosely be considered an interprofessional body, as the articles of association set out the participation of the milk producers, dairies and agers in the operations up to branding (12 months). The fact remains that the Consorzio del Formaggio Parmigiano Reggiano (hereinafter CFPR or the Consortium) is not an interprofessional body as it does not represent all the parties in the supply chain (for example, it does not contemplate the wholesalers-agers beyond 12 months' maturation) and lacks the other requirements laid down in the French

experience, which is certainly the most consolidated in this field<sup>5</sup>.

The purpose of this work is to analyse the specific case of the Parmigiano Reggiano cheese supply chain in relation to the role that an interprofessional body could play and the possibility that it could be established in order to support and increase the action of the protection consortium, or to take over some of its functions. Having carried out a theoretical analysis, in relation principally to the French experience and the conditions which may justify the establishment of an interprofessional body to organise the typical product supply chain, the work presents the case of the Parmigiano Reggiano cheese supply chain, highlighting its weaknesses and potential in organisational and market terms, concluding with an evaluation of the positive and negative aspects of the possible implementation of an interprofessional body in the organisation of this supply chain.

## 2. INTERPROFESSION AND TYPICAL PRODUCTS

According to Rio and Nefussi (2001) the necessary elements of interprofession are: the presence of operators who professionally carry out activities that are linked to each other within a supply chain, who deal with the same product (or family of homogeneous products) in a given territory (region or country), who develop common strategies based on a democratically expressed will and who, for this reason, enjoy a wide base of power granted by the public authorities. The authors underline that individual membership to interprofessional bodies is not possible, as it refers to the organisation of the whole supply chain which combines several associative forms among operators which vertically represent the different phases.

Coronel and Liagre (2006) in turn define interprofession as a private body, recognised by the state, which groups together operators from upstream and downstream in the same supply chain, in order to draw up contractual policies which guarantee fair relations between the different members, help to develop performance and protect the interests of the supply chain.

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<sup>3</sup> The relations between farmer and dairy are governed by articles of association and specific regulations, in the case of milk being delivered to a cooperative, or alternatively by sales contracts often running for years with the same small-scale or industrial dairy. Underlying the delivery agreement or sales contract, the farmer is bound by the rules of the PDO production specification, which also lays down the requirements concerning animal nutrition. Informal integration can on the other hand be used to describe the relations between the dairies and the wholesalers-agers, due to the very frequent habit of selling the cheese on to the wholesaler himself, repeated over time, which increases the wholesaler's authority in setting the price and the way in which relations are carried out with the integrated dairy.

<sup>4</sup> The research work by de Roest (2004) is part of a wider technical and economic research project carried out by C.R.P.A. s.p.a. (the Research Centre on Animal Production) in Reggio Emilia which, on behalf of the Consorzio del Formaggio Parmigiano Reggiano, runs an observatory (the Parmigiano Reggiano supply chain information system) on the operation and problems of the Parmigiano Reggiano supply chain and market. See the website: [www.crupa.it](http://www.crupa.it).

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<sup>5</sup> The French experience of interprofession is internationally considered the most consolidated and has been the subject of in-depth authoritative studies, as shown in the bibliography given in this article.

There are many commonalities in the two definitions, but it can be seen how Coronel and Liagre's definition specifies that it is a private body, although recognised by the state (and from here derives the wide base of power granted by the public authorities contained in Rio and Nefussi's definition), specifying the purpose of the establishment of an interprofessional body as that of increasing supply chain performance (acting within and between the different phases) and to protect its interest before the public institutions and competitors, using the contractual policy tool, which is expressed in the interprofessional agreements.

In Rio and Nefussi's definition the most interesting element, which is missing from that of Coronel and Liagre, is the reference to the territory as an essential factor for the establishment of an interprofessional organisation, which certainly derives from the size and ties of the supply chain which unite the various represented parties, but which is a necessary reference also to offer substance to the powers granted by the public authorities which allow the contractual policy rules laid down within the organisation to be extended also to non-member operators active in the same territory. From this it follows that, although recognised by the state, the interprofessional body is an institution under private law, which thanks to the extension granted to the provisions laid down in the interprofessional agreements, exercises a regulatory power which holds the value of public law.

Through interprofessional agreements a common strategy is built, agreed by the various partners in the supply chain, which has the nature of the collective bargaining contracts which have the purpose of governing the behaviour of the members in their respective businesses and in the market in order to achieve the objectives laid down by the interprofession. The interprofessional agreement represents the steering wheel of supply chain relationships, establishing a hierarchical organisation which itself is subordinate to the collective contract of which the agreement is an expression (Coronel, Liagre, 2006).

In this sense, interprofessional contract economics (Valceschini, 1993) cannot be reduced merely to a contract aiming to reduce uncertainty in the behaviour of its parties, but rather becomes a convention destined to "create value" through the cooperative behaviour of the stakeholders in the different phases who can therefore share the

benefits of the "quasi-profit" created by their own behaviour<sup>6</sup>.

If, as Perrier-Cornet and Sylvander (2000) claim, PDO supply chains<sup>7</sup> can be analysed as processes of economic cooperation within a territory developed between organised operators who develop common rules in order to obtain a collective competitive advantage<sup>8</sup>, of which each one also benefits individually, we can understand why the authors highlight the fact that the Institut National des appellations d'origine (INAO) encourages the management of products of designated origin through interprofessional bodies<sup>9</sup>. Product designations (PDO, PGI, etc.) are the recognition of the right of collective ownership by its trustees within the supply chain based on origin (territory) and tradition developed through time of the production practices used to create such product, and such ownership can only be managed collectively, therefore interprofession seems the best response in terms of organisational structure<sup>10</sup>.

In this case, protecting the interests of all operators in the supply chain, one of the tasks of the interprofession, is also translated into the construction of "entry barriers" to protect the collective ownership of the food product<sup>11</sup> which has obtained designation, from which the quasi-

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<sup>6</sup> In this regard, French literature refers to contract theory and convention theory. Among the many authors, refer to Bessy and Faverau (2003) and Brousseau and Glachant (2000).

<sup>7</sup> The same can be said of all typical products.

<sup>8</sup> Torre (2000) remarks that, in the case of a PDO, the producers working to comply with the standards laid down in the production specification contribute to the development of a localised system, based on cooperative-style relations and common strategies for the promotion and development of the product. Concerning the relationship between "système localisé de production et d'innovation" and quality food production, refer also to the works of Allaire and Sylvander (1997).

<sup>9</sup> It should be noted that article L632-1, point II, of the Rural Code provides for the recognition of interprofessional organisations for a DOC product or group of products as an exception to the general rule laid down in the first paragraph of the same article which requires that interprofessional organisations must have a national dimension and be nationally recognised.

<sup>10</sup> In this regard refer also to the works of Letablier and Defosse (1993)

<sup>11</sup> It is the reputation of the actual common asset of the PDO product which belongs to the community to which it is entrusted.

monopoly profit<sup>12</sup>, in Marshallian terms, which the operators in the supply chain intend to maintain and share through common agreements, which obligatorily have the nature of interprofessional agreements.

Rio and Nefussi (2001) note how the current quality policy of food products based on origin, on which consumer demand and the competitive strategy of the production and processing companies are based, leads to the adoption of quality certification systems, the introduction of supply chain traceability and the collective vertical management of the various phases. According to the two authors, it follows that this scenario constitutes a privileged framework for interprofession in the areas that are the home to products with an official quality mark.

Analysing the supply chains of designated products (PDO, PGI, etc.) in terms of organisational structure, the works of Williamson (1991), Perrier-Cornet and Sylvander (2000) place it in the hybrid organisational forms<sup>13</sup>, as it is based on the cooperation among operators in the supply chain, defined by long-term contractual relations which do not however affect their autonomy or respective rights of ownership. In hybrid forms, the relationships between the parts are regulated, or rather “governed” according to Williamson, by the principle of authority, transferring part of the decision-making powers to a third party institution<sup>14</sup>. In the case of designated products, the third party institution which is granted powers of governance, as Perrier-Cornet and Sylvander state, may be trade unions or interprofessional organisations. This statement is also confirmed in the case of Parmigiano Reggiano and many other Italian PDO and PGI products which establish protection consortia which are allocated supply chain governance functions, and which exercise authority over the members of the consortium.

The third party institution responsible for supply chain governance, whether an interprofessional organisation or, in the Italian case, a protection consortium, not only acts as a mediator among the operators in different phases with regard to the designated product, but also steers product quality through compliance with the production specification and/or by introducing payment systems into the interprofessional agreements which are based on the quality of raw materials.

The strong territorial nature of a designated product which requires the collective management of production and market choices through that which the classification offered by Barjolles, Chappuis and Sylvander (1998) defines as “strong territorial governance”<sup>15</sup>, therefore identifies the interprofessional organisation as the third party institution which is able to organise the supply chain and establish fair relations between its members, increasing their ability to protect their interests before the public administration and their competitors.

### 3. THE ORGANISATION OF THE PARMIGIANO REGGIANO SUPPLY CHAIN

The starting point for describing the Parmigiano Reggiano supply chain is the awareness that the cheese originates, even before the dairy, with the producers of the milk used to make it. By strictly applying the production specification laid down by the CFPR, the farmers obtain highly processable milk suited to the small-scale transformation system still in place today, which produces a cheese destined for more than two years’ maturation prior to sale.

#### 3.1. *The supply chain stakeholders*

The structure and organisation of the Parmigiano Reggiano supply chain and the relative production and/or sales strategies can be considered the result

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<sup>12</sup> In the case of PDO products, we can also talk of profits in territorial quality (Mollard, 2000) as an additional profit tied to the territorial “anchoring” of their production (Perrier-Cornet, Sylvander, 2000)

<sup>13</sup> Hybrid forms lay between the market and the organisation (Williamson, 1991) and are composed of “governance structures” which manage transactions, being characterised by the availability of goods held by autonomous units, without leading to the unification of an integrated company (Menard, 1997).

<sup>14</sup> In this regard refer to the article by Menard (1997) and with regard to governance in “hybrid organisations” of designated product supply chains, the article by Raynaud and Suavée (2000).

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<sup>15</sup> Studying different PDO production chains, Barjolles, Chappuis and Sylvander (1998) propose four types of governance systems: pure sectoral governance, PDO sectoral governance, weak territorial governance and strong territorial governance. The first has poor relations with the demands for protection of a typical product, the second is based on informal agreements between the supply chain stakeholders and may also involve the alternative use of the raw materials; the two territorial governances on the other hand are based on the collective management of quality, production, promotion and research and development, in particular strong territorial governance which makes use of greater means of coordination.

of a process in which stakeholders often with different interests have found a functional balance which has allowed the member businesses to develop, responding in the best way to the stimulations of technological innovation, the market and agricultural policy.

The supply chain of this famous PDO cheese is composed of farmers, dairies, wholesaler-agers, and is governed by a third party institution, the Consorzio del Formaggio Parmigiano Reggiano (CFPR), which, as we will see further on, has the task of setting common rules for all members of the supply chain, and exercising control over and promotion of the product on the market<sup>16</sup>.

The contractual agreements which govern the passage of the products (milk and cheese) between members of the supply chain must be analysed according to their respective features, on which the business strategies are based. More precisely:

a) Farmers. This category comprises three different types: farmers who deliver milk to cooperative dairies they are members of; farmers who sell their milk to non-cooperative (small-scale or industrial) dairies; farmers who process the produced milk in their own dairies.

The first category of farmers has chosen vertical integration by taking their milk to a cooperative dairy, counting on the high value of milk processing. The price of the milk however remains uncertain, as it is defined only at the end of the financial year and depends on the results of cheese sales linked to the quality of the forms, market trends and the sales skills of the dairy chairmen. This category currently (2009) counts 3,006 companies, which mostly represent smaller family-run farms which are able to cope with long financial cycles based on the work of all the family and the prevailing reuse of farm products. These farmers also see their participation in the cooperative as a means of social as well as economic promotion (De Roest, 2000) and are therefore willing to play an administrative role in the life of the dairy and even the protection consortium.

The second category of farmers (counting for 530 in 2010), aims to shorten the financial cycle – the non-cooperative (small-scale or industrial) dairies pay for the milk on a monthly basis with advances based on specific agreements – counting on a pre-set price of the milk, even though this is often less than the price paid by cooperative dairies. These

are generally large farms which have hired labour and greater recourse to external inputs, and are therefore forced to shorten the financial cycle in order to survive.

The third category of farmers (counting for 76 in 2009) consists almost exclusively of large business which aim to achieve added value during the first two phases of the supply chain by processing the milk themselves, working directly on the market in order to choose the most favourable moment to sell and the most advantageous sales channel.

The Parmigiano Reggiano production structure is therefore based on a close network of farms which directly process the milk produced (few) or which deliver it to cooperative and/or non cooperative dairies across the rather vast territory covered by the Parmigiano Reggiano production specification (within the Regions of Emilia Romagna and Lombardy<sup>17</sup>). This is a very important feature, as the production decisions of the farms condition the supply trends of the milk, and therefore of the cheese.

b) Dairies. Also in this case there are three different types of dairy: farm-owned, cooperative and non-cooperative (small-scale or industrial). A common feature of all the Parmigiano Reggiano dairies is that they are single-product businesses, as the milk is destined exclusively for the production of this kind of cheese<sup>18</sup>. Over time the total number of dairies has drastically reduced (-43% from 1993 to 2008), but the total quantity of processed milk has increased, leading to an increase in the average size of the dairies<sup>19</sup>.

Today the cooperative dairies represent the backbone of the Parmigiano Reggiano supply chain, as they count for approx. 68% of all the dairies and receive 73% of the milk produced in the district (De Roest and Montanari, 2009).

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<sup>17</sup> The typical area laid down in the production specification includes the following Provinces: Parma, Reggio Emilia, Modena, Bologna to the left of the River Reno and Mantua, to the right of the River Po.

<sup>18</sup> This is another of the peculiar features of the Parmigiano Reggiano supply chain. In the supply chain of Grana Padano, its main competitor, the dairies are almost never single-product, offering greater managerial flexibility and fewer market risks.

<sup>19</sup> According to CRPA data, the average size of the dairies more than doubled between 1993 and 2008 (from 1,833 tonnes of milk to 3,919 tonnes), noting that during the same period the size of small-scale dairies more than tripled.

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<sup>16</sup> This confirms the “hybrid organisational form” of the designated product supply chain offered by Perrier-Cornet and Sylvander (2000).

We need to consider that the cooperative dairies are the main, if not the exclusive, source of income for the member farms<sup>20</sup>, and indeed the cooperative life cycle often coincides with that of the farm and the member farming families. For this reason the strategy of most cooperatives aims principally to protect the demands of the member families for liquidity. Many of the cooperative dairies in fact keep the cheeses in the maturing warehouses for as short a time as possible, selling their production to wholesaler-agers as soon as the product and market features allow. In this way, not only do they reduce technical and market risks, but they also reduce some management costs (including storage and maturation) and the dairies are in a position to pay their members for the delivered milk sooner. Most cooperatives therefore prefer to sell the product as soon as it has been branded (12 months) in batches<sup>21</sup> to wholesalers, with whom consolidated and trustworthy relations have been developed, becoming veritable stable sales counterparts (De Roest, 2004). The wholesalers age the cheese for the second year, then sell it on to other wholesalers or directly into the distribution channels.

The category of non-cooperative (small-scale and industrial) dairies make up a minority share (today counting for 14% of the dairies with 18.4% of production), and represents the type of businesses which are most active in the supply chain in technological and sales strategy terms, often aiming to promote company brands. Their action aims on one hand to source milk in the typical area, competing against the cooperative dairies and, on the other hand, to develop appropriate strategies to place the cheese in the most profitable sales channel (wholesaler-agers, traditional retail and/or large-scale distribution).

While in the past non cooperative dairies also preferred to sell the cheese after the first year of maturation (as with the cooperatives), today the prevailing choice is to extend the maturation to the second year, often purchasing other forms from cooperative dairies.

c) Wholesaler-agers. Their function is decisive within the Parmigiano Reggiano supply chain, as they mature the cheese for the second year and define and develop sales strategies to place

Parmigiano Reggiano within the distribution system. In other words, they set the cheese price with the distribution companies, develop strategies to handle competitors in the sector, and more than any other operator take advantage of the promotional brand campaigns run by the consortium.

Over time, the number of wholesaler-agers and their strategies have progressively changed<sup>22</sup>. More precisely, the revolution of the distribution system, and the consolidation of large-scale distribution, has pushed out smaller wholesalers, leaving room for larger businesses which almost always operate in the wholesale market for different types of cheese. Not only this, but some wholesaler-agers have also become producers, absorbing or establishing dairies in the production district and carrying out integration operations, in the proper sense of the term. These members of the supply chain are generally large companies which sell both Parmigiano Reggiano, Grana Padano and other cheeses (Arfini et al., 2006)<sup>23</sup> and have demonstrated great skill in conditioning the market price of Parmigiano Reggiano.

In this scenario, the greatest problem is the lack of a real connection between production policies and sales policies, as the strategy of the wholesaler-agers, involved in the sales of more than one cheese, often Parmigiano Reggiano and Grana Padano at the same time, respond to logics of arbitration between the two cheeses which do not always ensure the transmission of timely and correct information on the market prospects to the dairies and milk producers.

### *3.2. Structure and organisation of the Consorzio del Formaggio Parmigiano Reggiano*

Compared to the stakeholders in the three phases of production, processing and wholesales, the supply chain governance, at least as far as the issues laid down in the production specification are concerned, is assured by the Consorzio di tutela del Formaggio Parmigiano Reggiano (CFPR). The consortium has a very long history, and was founded at the initiative of its producers in 1934 as a voluntary protection consortium, while its action as the protection consortium of

<sup>20</sup> Generally speaking, these are farms in which milk farming for the production of Parmigiano Reggiano is the main if not the exclusive activity.

<sup>21</sup> Parmigiano Reggiano is usually sold in uniform four-month batches, including the cheese produced in the periods January - April, May - August and September - December.

<sup>22</sup> According to a survey carried out in 2008 by the CRPA, 31 wholesaler-agers sell 75% of production, practically everything which passes through this channel; of these, approximately half is sold outside the production district.

<sup>23</sup> According to the findings of Nielsen, the top 10 sales companies represent 50% of the Parmigiano Reggiano market and 55% of the Grana Padano market (Arfini et al., 2006)



Parmigiano Reggiano DOC was recognised in 1955 under the Decree of the President of the Republic (D.P.R. no. 1269 of 30<sup>th</sup> October, 1955), which certified the “Designation of Origin” (DO) of Parmigiano Reggiano, defined the “area of origin” and the product standards. The same prerogatives were confirmed when Parmigiano Reggiano obtained recognition as a PDO product (Reg. (EC) no. 1107 of 12.06.96) following the approval of EEC Reg. no. 2081/92. and following national law no. 526 of 21<sup>st</sup> December 1999 (art. 14 paragraph 15). The most important difference in the implementation of article 10 of the same Regulation is the allocation of the role of national authority for the coordination of control activities to the Ministry of Agricultural Policy and Forestry (art.14, para. 1, Law no. 526 of 21<sup>st</sup> December 1999), carried out by public authorities and private bodies appointed by the Ministry. In the case of the CFPR therefore, the consortium is no longer in charge of controlling the compliance with the production specification in order to recognise the PDO and relative branding, but rather a third party called the “quality control department”<sup>24</sup>.

The Parmigiano Reggiano protection consortium differs from other consortia established following the application of Reg. (EEC) 2081/92, as its long history and experience allow it to assure the effective governance of the supply chain. More precisely, the articles of association allocate it the following tasks (art. 4): *the protection of the designation of origin of “Parmigiano-Reggiano” cheese; monitoring of the production and sale of “Parmigiano-Reggiano” cheese; the valorisation of “Parmigiano-Reggiano” cheese production; the promotion, dissemination and knowledge of the Protected Designation of Origin and its relative reserved marks, aiming to generally protect the interests of such designation; the*

<sup>24</sup> It should be underlined that it is not required to be a member of the protection consortium to receive PDO recognition for a cheese produced in compliance with the production specification, as the third party “quality control department” is responsible for this. It is true that all Parmigiano Reggiano producers are also members of the protection consortium, but this depends on the history of the consortium and the size of the companies, which drives them to become members. The case of Grana Padano is significant, where, with companies which are on average larger, at the start of the application of Reg. (EC) 2081/92 some companies preferred to break their ties with the protection consortium, although many backtracked later due to the overall benefits offered by membership.

*promotion of the consumption of “Parmigiano-Reggiano” cheese in Italy and abroad, as well as the development and support of any initiative of a commercial or other nature aiming to valorise “Parmigiano-Reggiano” cheese and increase its image and renown, including the participation in and establishment of consortial companies or organisations.*

Article 14, paragraph 5, of Italian Law no. 526/99 states that PDO and PGI and certification of specific character protection consortia are private subjects, as they are established under the terms of article 2602 of the Italian Civil Code, however the same paragraph adds that the functions of protection, promotion, valorisation, consumer information and general protection of consumer interests are carried out by recognised protection consortia, as opposed to the control functions granted by the Ministry to certified third parties, at the appointment of the national authority provided for under the terms of the applicable laws.

In following Decrees, the Ministry (12/4/2000) laid down the criteria for collaboration between the PDO and PGI protection consortia and the central anti-fraud inspectorate (the competent department within the Ministry) in the monitoring, protection and safeguarding activities, and even, in two following decrees dated 12<sup>th</sup> April 2000, laid down the criteria for representation in the institutional bodies of the protection consortia, decision which usually consortia, being private subjects established under the terms of article 2602 of the Italian Civil Code, should take autonomously. It has by now been ascertained that the PDO and PGI protection consortia, and certainly the CFPR (Civil cassation Section 1, no. 355 of 10.01.2008), are classifiable as “private subjects exercising public functions”.

To confirm this, article 5 of the Articles of Association of the CFPR<sup>25</sup> which govern its

<sup>25</sup>The main functions of the Consortium are, in short, the following:

- definition of a production policy defined through the preparation of a production specification and relative regulations; as owner of the PDO “Parmigiano-Reggiano” brand, the management and legal protection of the brand and all of its marks throughout the supply chain;
- branding of forms using the distinctive PDO “Parmigiano-Reggiano” logo;
- control activities concerning the quantity of protected cheese subjected to the control of the authorised body and that issued onto the market;

functions, states that some are carried out in collaboration with or to implement tasks which have been assigned to it by public bodies, including the control and monitoring of the supply chain in collaboration with the Ministry of Agriculture and the implementation of offices and tasks allocated to the consortium by national and European public bodies. The CFPR is therefore a body which is able to act along the whole supply chain by defining rules which all the operators in the chain must obey, whether or not they are a member of the Consortium, as the CFPR is also responsible for branding the forms, after the inspection and approval of the third party certification body (quality control department) and above all the protection of the consortial brand and seals, of which it is trustee. In any case, the Consortium remains a private subject and as such acts to protect Parmigiano Reggiano cheese against unfair competition in the courts, in Italy and abroad<sup>26</sup>

A rather controversial function, among those listed in article 5, even if in rather vague terms – *it promotes resolutions concerning agreements in the agrifood system (under the terms of art. 11 of Italian Legislative Decree no. 173 of 30.04.1998)* – concerns the possibility of the CFPR to approve production programmes which set production ceilings.

Aside from the opposition to forms of supply control which risk damaging the principles of equality in competition, a cornerstone of the EU treaty (art. 81 and 82), in 1996 the Italian Antitrust Authority impugned the exercising of supply control functions by some protection consortia – including that of the CFPR (Decision no. 4352 of 1996) – as it recognised the grounds for restrictive agreements, prohibited by the Italian antitrust law (Law no. 287, 1990, art. 2). In this resolution, the Antitrust Authority in fact censured the production plans drawn up by the CFPR<sup>27</sup>, which set limits to the quantity each

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- execution of activities allocated by national and international public bodies (Regions, State and the European Community); promotion of resolutions concerning agreements within the agri-food system (under the terms of art. 11 of Italian Legislative Decree no. 173 of 30/04/1998)

<sup>26</sup> For example, we refer to the consortium's victory against the improper use of the name "parmesan" (Court of Justice, 26<sup>th</sup> February 2008, C, 132-05)

<sup>27</sup> In similar resolutions, the Italian Antitrust Authority also censured the production plans drawn up by the Consortia of Grana Padano, Prosciutto di Parma and Prosciutto di S. Daniele.

dairy could produce within a maximum ceiling set for the whole production district.

It was not until Italian Law no. 231 of 11<sup>th</sup> November 2005 that the protection consortia were permitted to present production plans, in the event of alterations to the standard market conditions, including a price reduction of at least 10% compared to the previous three year period, to restore balance. The CFPR obtained ministerial approval for the plan for the period 2006-2010 on 26<sup>th</sup> July 2006 and as yet it has served no purpose, as the amounts set as production limits have never been exceeded, despite the prices being constantly below the plan's alarm level (Giacomini, 2010).

Apart from the fact that a plan drawn up as a reaction to a market crisis is in any case an incoherent tool, as plans should rather be made to anticipate or prevent crises, it must be seen that in the preparation of the Production Plan in force as a result of Italian Law no. 231 of 11<sup>th</sup> November 2005, the CFPR acted with a regulatory power deriving from the authorisation and approval of the plan by the Ministry of Agriculture, rather than as the result of an interprofessional agreement resulting from the agreement of all representatives of the various phases (production, processing and maturation).

The clearest sign of the potential of the CFPR to develop policies which affect the parties in the supply chain are the adoption of three internal regulations – the first defines cow nutrition methods, the second the production standards and the third the cheese branding regulations – and the possibility to adopt commercial initiatives including the participation in and establishment of companies operating in the market to the direct purchase of cheese by the CFPR destined for charity, institutional or promotional activities in order to facilitate the market penetration of Parmigiano Reggiano (art. 6, para. j). Again according to the articles of association of the CFPR (art. 4, paragraphs d and c) it can carry out promotional and communication activities to promote consumption and valorise Parmigiano Reggiano cheese in national and foreign markets.

In carrying out these functions, the CFPR can influence the strategies of companies throughout the supply chain, directly or indirectly affecting the quality of the milk<sup>28</sup>, the cheese<sup>29</sup> and the

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<sup>28</sup> In this regard, the regulation concerning cow feed sets rules for the farmers dictated by the protection of the dairy characteristics of the milk in respect of the environmental peculiarities of the production district. One example is the full exclusion of silage, and the preferred use of alfalfa in the cows' diet. Moreover, the regulation also monitors the characteristics of the feed,

markets it decides to intervene in with promotional activities or direct purchases. It should be underlined that the latter function, exercised for the first time in 2009 and 2010 (purchasing 260,000 forms directly from the dairies)<sup>30</sup>, makes the CFPR a market operator, and therefore a subject in the supply chain, and thus risks losing its nature as a “hybrid organisational form” as identified by Perrier-Cornet and Silvander (2000) as a party responsible for governance in a designated product supply chain.

As previously mentioned, the responsibility for monitoring for conformity and application of the production specifications throughout the supply chain and in all phases of production, processing and maturation (up to 12 months), including the production of grated Parmigiano-Reggiano, lies with the “quality control department”, which in conformity with article 14, para. 1 of Italian Law no. 526/1999, is the authorised control body<sup>31</sup> for the certification of PDO Parmigiano-Reggiano. Despite being two independent bodies, the Protection Consortium and the Quality Control Department (hereinafter the Department) are connected by strong functional ties. The Department carries out the required controls on the subjects in the supply chain in order to assure the conformity of the milk and cheese, under penalty of withholding branding, but it is the consortium which carries out the appraisal<sup>32</sup> of

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forcing feed companies to be registered in a specific register and subjected to controls by an external control body (Quality Department).

<sup>29</sup> In this regard, the regulation is not limited to setting the characteristics of the cheese (colour, flavour, weight of the forms), but also the characteristics of the milk, how it is obtained (milking) and stored. These aspects on one hand affect the dairy characteristics and on the other demand close ties with the production territory.

<sup>30</sup> In 2009 3 million forms of Parmigiano Reggiano were produced; it should be considered that over the year, the monthly stocks fluctuated between 450 and 550 thousand forms.

<sup>31</sup> The “Quality control department” has been operating as a private certification body since 1998 - (Ministerial Decree of 13th October 1998) and controls exclusively the Parmigiano Reggiano supply chain, appointed to manage a public service, following the principles of autonomy and impartiality, in conformity with the European Standard EN 45011 with the coordination and supervision of the Ministry.

<sup>32</sup> This operation involves the direct examination of the forms by expert “beaters” in order to check for any defects and to classify the cheese. Only those forms

cheeses reaching 12 months of age. The appraised cheese is in turn sample-tested by the Department which, in this way, validates the work of the CFPR. The choice of having the cheese appraised by the CFPR and not by the Department is an exception within the European PDO and PGI panorama, granted by virtue of the history and skill demonstrated by the CFPR in guaranteeing the quality of the cheese, successfully accrediting the brand among consumers even prior to the PDO recognition (Arfini, 2000). This choice also ratifies the position of the CFPR not only as the “guardian” of the production specification but also an active member of the supply chain, which focuses on quality as a key element of the strategy to promote the product within the market.

An important feature of the CFPR, which affects its decision-making, is the composition of its membership base. As per the Articles of Association (art. 12), the following parties have the right to become members of the CFPR: farms producing milk destined to produce Parmigiano Reggiano, whether individuals or in associated forms; dairies and agers up to 12 months and/or “portioners”<sup>33</sup>. All plants and warehouses must lie within the area of production, and must possess a conformity certificate issued by the “Quality Control Department” and demonstrate that they are subject to audits by the same body.

The CFPR governing bodies are (art. 20):

- a) the Section Meetings and Boards;The General Consortium Assembly;
- c) the Board of Directors;the Executive Committee;
- e) the Chairman;
- f) the Board of Auditors.

The Articles of Association clearly define the three criteria used to guide the founding members in defining the representation and voting methods in the consortium bodies (Meetings, Boards and Executive Committee): the territorial distribution of the members into sections, the different member categories and the respective cheese production volumes. Accordingly the first institutional bodies, in that they lie at the origin of the whole consortium organisation chart, are the Section Meetings and Boards, which until the reform of the Articles of Association on 28<sup>th</sup> April

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which are deemed to conform to standard can be fire-branded.

<sup>33</sup> The term “portioner” is used to define companies which cut the forms into segments or grate the Parmigiano Reggiano, which are authorised to use the consortium brand on the packaging. Generally these are wholesaler-agers which carry out these operations in addition to their principal activity.

2010 also formed the General Consortium Assembly through members appointed by them. Following the reform of the Articles of Association, now all the members of the various Sections take part in the General Consortium Assembly, respecting the following representation criteria (art. 21):

1. Dairies have a minimum percentage of 66%; Farmers have a maximum percentage of 17%;
3. Agers and/or portioners have a maximum percentage of 17%.

From the Section Members' Book, and therefore that of the Consortium, it can be seen that the CFPR members are made up only of dairies, whether cooperative, non cooperative (small-scale or industrial) or farm-owned. The CFPR has no members who are farmers (individuals or associated) who produce milk for Parmigiano Reggiano nor wholesaler-agers and/or portioners, as this would subject them to further burdens, as they are already subject to the control of the "Quality Control Department", which monitors

the compliance with the provisions of the production specification in order to issue the PDO recognition, which is the common objective of all members of the supply chain. It could be said that the majority of the farmers are represented in the consortium bodies through the mediation of the cooperative or company-owned dairies, and that some wholesaler-agers are present in the dairy category as they are also involved in processing. It is however certain that there is no representation of producers who sell milk to small-scale or industrial dairies in the bodies of the CFPR; it is also well-known that the management criteria for a processing company, whether cooperative or non cooperative, respond to long-term objectives which do not always coincide with the short-term interests of the producer-member, in the first case, or the farmer who sells milk to the small-scale or industrial dairy in the second.

Concerning the data of the General Assembly, held in early 2010, the body of members is composed as follows:

Sections	Type of dairy									
	Small-scale		Industrial		Farm-owned		Cooperative		Total	
	No.	Votes	No.	Votes	No.	Votes	No.	Votes	No.	Votes
Bologna	1	2					9	14	10	14
Mantua	3	3			2	2	22	49	27	54
Modena	3	9			14	14	62	94	79	117
Parma	35	61			40	43	99	130	174	234
Reggio Emilia	14	23	1	2	16	18	81	135	112	178
Total	56	98	1	2	72	77	273	420	402	597

The number of votes allocated to shareholders varies from 1 to 4 according to the size of the dairy, expressed in forms produced per year, depending on whether this is lower or higher than the corresponding multiples of average dairy production (for example, 2 votes if the production is between the average and twice the average).

In terms of number and votes, from the table we can see the clear prevalence of cooperative dairies, on top of which we may add the farm-owned dairies as a direct expression of the farmers, while the non cooperative (small-scale and industrial) dairies count for approx. 14% in terms of number, expressing approx. 17% of the votes.

The tasks of the General Consortium Assembly (articles 31 and 32) are to approve the draft budget and financial statements, ratify the appointment of the directors by the Section Meetings, appoint the Board of Auditors, ratify the established contributions and penalties due from members, and during extraordinary

meetings, approve and modify the production specification, which is considered the main and most delicate task of the Assembly. As can be seen, despite the fact that the 2010 reform of the Articles of Association includes the participation of all members in the General Assembly, the Section Meetings still appoint the directors of the CFPR as it is composed of all members of the Section Boards, which in turn are appointed by the Section Meetings. Clearly the weighting of the different types of dairy by section changes significantly compared to the production district average, in the two largest Sections: Parma and Reggio Emilia, and this affects both the composition of the relative Section Boards and the Consortium Board.

Normally, in deciding the composition of the members of the Board of Directors – until now a closed list of representatives of the different types of dairy was put forward and voted – the aim has been to assure some balance of votes among the various represented parties according to

negotiations and agreements reached outside the Assemblies, between the farmers', industrial, trade and cooperative organisations. It should be remembered that, despite the lists being drawn up as a result of negotiations between the farmers', industrial, trade and cooperative organisations, the members appointed to the Board are not bound by any mandate issued by the organisations that put them forward, with the exception of their inherent political relations.

Under the terms of the Articles of Association (art. 37) the Board of Directors is composed of

between 28 and 42 representative members of the dairies, in the event of participation other member categories, in addition to 4 members with no voting rights representing the Chambers of Commerce and the Regions of Emilia Romagna and Lombardy. As the consortium members are only dairies, the elected members are only those of the Section Boards and each one has the right to one vote. In 2010 the Consortium Board of Directors is composed as follows:

Sections	Members by type of dairy				
	Small-scale	Industrial	Farm-owned	Cooperative	Total
Bologna				1	1
Mantua				3	3
Modena			1	4	5
Parma	3		1	6	10
Reggio Emilia			1	8	9
Total	3		3	22	28

While the Board of Directors lays down the management programmes of the consortium, the Executive Committee is responsible for executing them. The Committee is composed of 10 members: the Chairman of the Consortium, the two Vice Chairmen, all the Chairmen of the Section Boards and a member appointed by the Parma Section, the largest in terms of members and produced forms. All the members of the Executive Committee are representatives of cooperative dairies.

As happens in all companies, the Board of Auditors, appointed by the Board of Directors, has an exclusively administrative and accounting control function.

It is fairly odd that the farmers do not feel the need to join the CFPR, the internal regulations of which govern cow nutrition, significantly affecting the milk production costs. The lack of wholesaler-agers from the CFPR membership also makes it more difficult for the Consortium to coordinate the decisions concerning production and sales among farmers, dairies and wholesaler-agers, indeed many of the latter also work in markets which are in competition with Parmigiano Reggiano (Grana Padano and other non PDO hard cheeses).

### *3.3 – The effectiveness of the CFPR action on the market*

As we have seen in analysing the purpose and functions of the CFPR, it is responsible not only for protecting the designation of origin and

monitoring the production and sale of Parmigiano Reggiano, but also for promoting the cheese in the market. The function was further strengthened in the recent reforms introduced to the Articles of Association.

Under the hypothesis that the Parmigiano Reggiano supply chain can be considered a “hybrid organisational form” where the function of governance is delegated to a third party body, in this case the CFPR, it would be interesting to assess the effectiveness of its action in protecting the interests of the members of the supply chain towards competitors, a function which in fact should be carried out by an interprofessional organisation.

Guaranteeing the quality and reputation of Parmigiano Reggiano is already a function carried out successfully by the Consortium (Giacomini, 2000), which allows the market price of Parmigiano Reggiano to be higher than that of its competitors (the price of Grana Padano is constantly 10-15% lower). Another function which protects the interests of the members of the supply chain is the action to protect the designation from unfair competition on various international markets. In addition to this are the investments in advertising in different media to strengthen the Consortium brand image with the consumer (market research has confirmed it to be one of the most recognised brands by Italian consumers).

In a PDO supply chain where all parties are linked both due to the product's territorial area of

origin and because the behaviour of each one in production and distribution affects the granting of the designation, the action of governance by a third party body (CFPR), protecting the interests of all parties in the chain, should affect, if somewhat indirectly, the composition and trends of milk and cheese prices.

<sup>34</sup> at 12 months; the second shows the trend of average milk prices paid by the Parmigiano Reggiano dairies to the farmers, the national “spot” price of raw milk (bulk in tanks, delivered to the dairy) and the stable price paid in Lombardy for milk destined for food purposes,

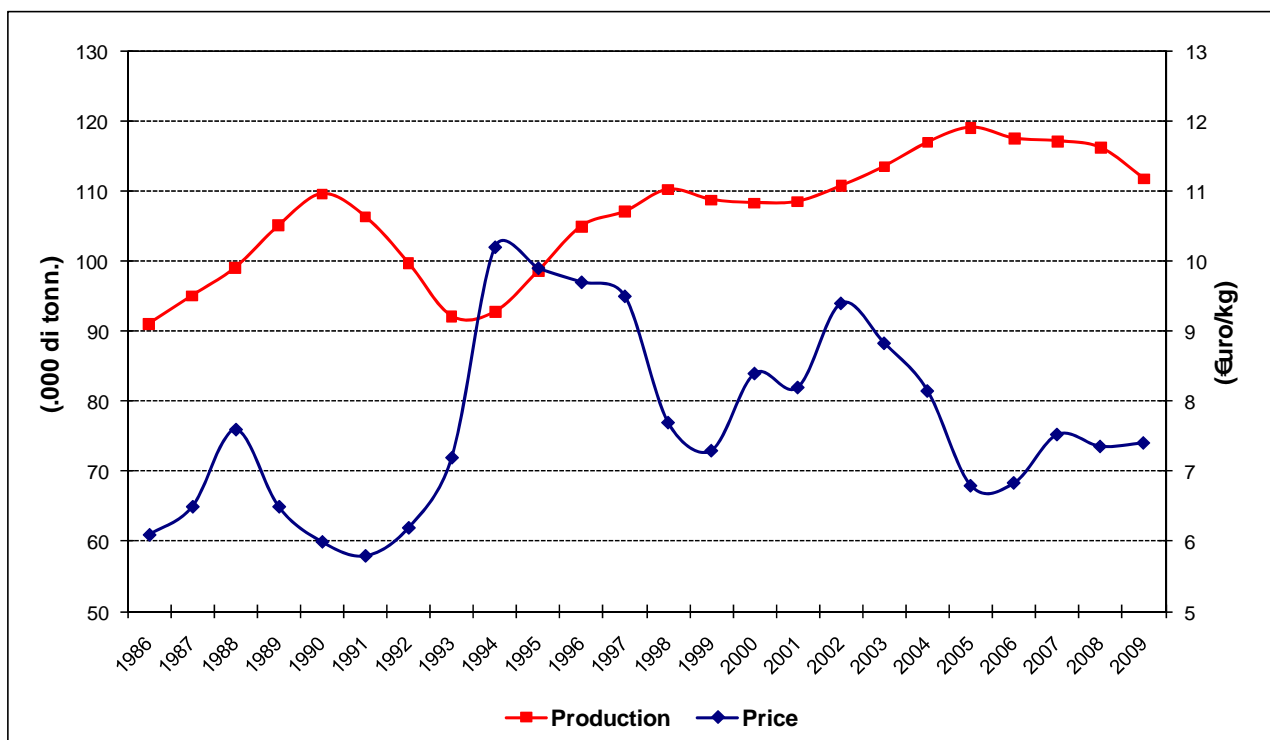
<sup>34</sup> The wholesale price of 12 month matured cheese is considered as the holding dairies are members of the Consortium, while Figure 1 does not show the price of 24 month cheese, as this is mostly sold by wholesaler-agents and because there are many variables affecting the market for this product, above all the large-scale distribution which channels a large share (almost 70%) of this cheese.

If we examine the following graphs (Figure 1 and Figure 2) we can make some interesting observations: The first shows the trend in quantity of Parmigiano Reggiano produced and the relative wholesale price

which do not deviate greatly from that paid in Emilia Romagna, for which the relative data is not however available.

Figure 1 shows an almost specular relationship between the amount produced and the prices, a typical trend of commodity markets rather than that of a niche product, which a PDO product should be, where the price should remain fairly stable, because the set number of producers, the entry barriers, brand policy and flow of information among the members of the supply chain should assure better control over the supply.

Figure 1 – Trends of price and production of 12 month Parmigiano Reggiano

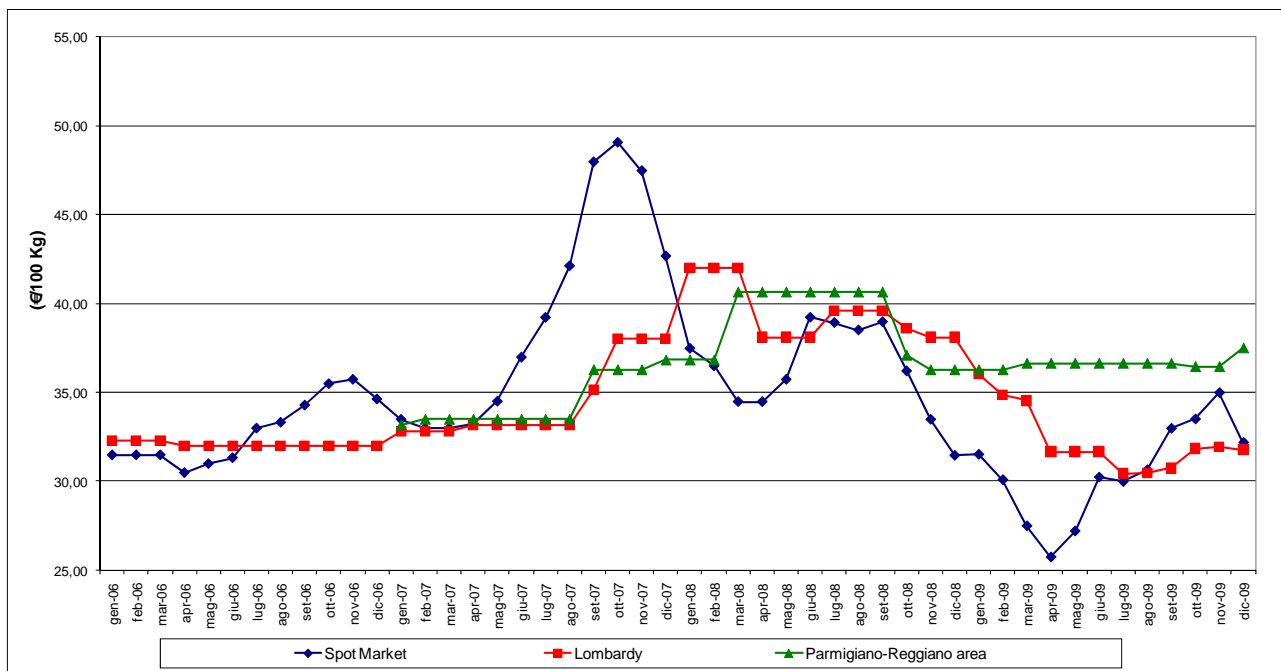


Source: Consorzio Formaggio Parmigiano Reggiano

In Figure 2 we can see that the price paid in the considered period for milk destined for the production of Parmigiano Reggiano does not significantly deviate from that of national “spot” raw milk or the stable price of milk destined for food purposes, despite the fact that the milk used in Parmigiano Reggiano is obtained through the

application of a strict production specification, which implies higher production costs. The prices of the various types of milk are practically aligned, but the milk destined for the production of Parmigiano Reggiano is in fact a different product.

Figure 2 – Comparison of milk prices in the various markets (Euros/100 Kg excl. VAT)



Source: a) Spot Market: CCIAA Lodi; b) Lombardy: CLAL; c) Parmigiano Reggiano: CCIAA Reggio Emilia

With no further – yet necessary – investigation of the features of the Parmigiano Reggiano market, the analysis of the price trends shown in the two graphs allows us to state that the Parmigiano Reggiano supply chain lacks an effective supply organisation, a role which is indeed similar to that carried out by the CFPR, which is responsible for the protection and valorisation of the product and the centre of dialogue of all members of the supply chain.

#### 4. FROM PROTECTION CONSORTIUM TO INTERPROFESSIONAL ORGANISATION IN THE PARMIGIANO REGGIANO SUPPLY CHAIN

The first response which may be given is that the CFPR, as shown in the previous paragraphs, is not an interprofessional body and cannot play such role, above all after the recent reform of the Articles of Association which allow it to purchase the product on the market, becoming an active operator within the supply chain.

Returning to the diagram (Figure 3) offered by Rio and Nefussi (2001), which presents the components, features and principles of the interprofession, we can see how the organisation and operation of the CFPR do not respond to the principle of representativeness, as the Consortium members are only dairies<sup>35</sup> and not the other

members of the supply chain, and moreover the CFPR bodies do not operate in line with the principle of equity, as the components present (cooperative and non cooperative dairies) have a different weight in the bodies, nor does the expression of votes follow the principle of unanimity, from which according to French law the democratic operation of bodies derives.

Figure 3 – The interprofession diagram

Factors		Characteristics		Principle
Chain phases		Interprofessional levels		Representative rules
+		+		+
Products	+	Private statute	+	Parity rules
+		+		+
Territory		Regulatory power		Unanimity rules
+		+		+
Food chain		Private initiative with public authorization		Democratic management

Source: Rio Y., Nefussi J., 2001. Gérer les marchés et la qualité alimentaire: double défi pour les interprofessions. Cahiers Club Dèmeter no. 10

If we also return to the definition of interprofession offered by Rio and Nefussi (2001) and by Coronel and Liagre (2006), described

is that the members of the organisation are not individuals but professional associations representing the various parties of the relative supply chains (Coronel, Liagre, 2006; Sheperd, Cadihon, Galvez, 2010).

<sup>35</sup> It should be remembered that a further requirement of the interprofessional organisation under French law

above, it would not appear, considering the market trends of milk and 12-month Parmigiano Reggiano (Figures 1 and 2) that the CFPR demonstrates that it possesses the requirements to democratically and effectively establish common strategies to “rationalise the organisation of the market and assure the promotion of the products it deals with” (Barbier, 1979, p. 194)<sup>36</sup>.

The CFPR does not even possess the requisites laid down in Italian legislation for recognition as an interprofessional organisation (Law no. 173 of 30<sup>th</sup> April 1998, art. 12; Legislative Decree no. 228 of 18<sup>th</sup> May 2001; Legislative Decree no. 102 of 27<sup>th</sup> May 2005), as not all the “organisations representing the economic activities linked to production, sale and processing” of the referred product participate (art. 25, para. 1, point b, of Legislative Decree no. 228/2001)<sup>37</sup>. In addition to this, the following ministerial implementing decree (D.M. of 8<sup>th</sup> August 2003, *Criteria and methods for the establishment and recognition of interprofessional bodies*) states in article 2 that interprofessional organisations “must not directly carry out any operations concerning production, sale or processing of agricultural products”, which indeed the CFPR has decided to do. Today the matter is governed also at European level, in article 124 of Regulation (EC) no. 1234/07, after much resistance from the Commission in recognising the establishment of interprofessional organisations beyond those provided for in specific CMOs (fruit and vegetables, oil, tobacco). Also under the provisions of this regulation, it does not appear that the CFPR can be recognised as an interprofessional body.

The repeated crises seen in the Parmigiano Reggiano market, independently of the cyclical price trends which, as with other agricultural produces, have structural features which cannot be blamed entirely on the CFPR for being unable to develop a collaborative strategy among the different members of the supply chain, as the analysis carried out on the organisation of the Parmigiano Reggiano supply chain has underlined that collaborative attitudes are accepted in

applying the production specification, given the common interest to obtain the PDO, but there are clear cracks in the management choices at different stages of the supply chain, which do not allow for the expression of a common market strategy<sup>38</sup>. It can be stated that the limits noted in the organisation and functions of the CFPR depend on the deficiencies of the supply chain over which it should have a role of governance because, whatever the historical delays in the organisation of Italian agriculture<sup>39</sup>, it is the Parmigiano Reggiano supply chain itself which presents serious organisational and systemic difficulties.

The supply chain is a system of relations which, like all systems, should have a certain level of internal rationality, indeed Labonne (1985), referring also to Malassis (1979), states that the approach “by supply chain” allows the consideration of problems of organisation and market regulation, incorporating the activities of production, processing and distribution of food products. It appears clear from the analysis made so far on the Parmigiano Reggiano supply chain that in this chain the members do not tackle the problems of organisation and market regulation with a collaborative spirit, and from this derives the lack of participation in the CFPR by operators from some phases, and the insufficient coordination demonstrated by the Consortium in involving the various parties in the supply chain; this is certainly not helped by the national antitrust law which in 1996<sup>40</sup> nipped the first attempts at production planning in the bud.

##### 5. Some concluding considerations and possible proposals

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<sup>38</sup>On the contrary, Perrier-Cornet and Sylvander (2000, p. 81) state that “*Les filières AOC peuvent être analysées comme des processus de coopération économique sur un territoire donné entre des agents qui s’organisent et élaborent des règles partagées en vue d’obtenir un avantage concurrentiel collectif, dont chacun bénéficiera aussi individuellement*”.

<sup>39</sup>As Italian legislation on interprofessional contracts dates back to the 1980s (L. 88/1980) and the first law on interprofessional organisations dates back to 1998 (Legislative Decree no. 173/1980), the delay in tackling the problem of organisation of agriculture into supply chains is understandable. In addition to this, almost all of the experiences implemented in this field have been aborted, as the organisation by supply chain does not match the historical structure of Italian agricultural organisation based on professional farming associations with a general vocation and cooperative-type economic organisations (Giacomini, 2000).

<sup>40</sup>Refer to note 22.

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<sup>36</sup>Valceschini (1993) also states that strategic market decision-making and production are the heart of interprofessional contract economics.

<sup>37</sup>Point 2-bis of art. 25 of Legislative Decree no. 228/2001 states “The recognition may be granted to only one interprofessional organisation per product, which may be divided into regional or interregional sections”. Concerning the concept of “product”, it may be interpreted that, according to Italian law, as in French law, only one interprofessional organisation can be established for a “designated product”.



The analysis carried out on the Parmigiano Reggiano supply chain and the role played by the CFPR has led to the conclusion that the gaps found in the CFPR's ability to carry out effective and efficient governance lie not only in weaknesses in the institutional structure of the Consortium and the limits found in management choices<sup>41</sup>, but by the presence of a supply chain which could be defined as "destructured", as the stakeholders in the various phases do not work in a coordinated and collaborative manner to assure that the supply chain as a system can optimise its performance in the market. In this situation, it is understandable for example why the Consortium has, over the past few years, marked by one of the most serious market crises ever seen for Parmigiano Reggiano and its milk source, decided not to remain a "third party" in a "hybrid organisational form" as Perriere-Cornet and Sylvander (2000) define the designated product chains (PDO, PGI, etc.), but rather to become a market operator, and therefore an active stakeholder in the supply chain. In this position, the Consortium can in fact attempt to compensate for the gaps in the market strategy that are unavoidable for the members of the supply chain, through direct purchases.

In the light of the results of this analysis and the many theoretical positions stated in the field, the hypothesis of the creation and intervention of an interprofessional organisation appears highly valid. There are however several problems to be dealt with in order to achieve this objective, as first of all intervention is required in the organisation of the supply chain, considering also the relationship which would have to be established between the interprofessional organisation and the CFPR, envisaging even the possible absorption of one into the other. Clearly this must all be done in compliance with the regulatory framework laid down in Italian law.

To face the first problem, we should consider that the farmers, dairies and wholesaler-agers are already members of professional representative organisations. According to Italian tradition, these organisations have a general vocation (Giacomini, 2000), meaning that they are of a horizontal nature, and can therefore include specific professional product representative groups, but the culture inspiring the relations with the organisations they dialogue with is dominated by a general vision of the overall interests and

balances that must be protected. These organisations are those which at individual section level within the Consortium have, at least until now, agreed upon and put forward closed lists of the appointed candidates from the Section Meetings and which, maybe, not even the recent reform of the Articles of Association of the Consortium, which includes a General Assembly of all members, can avoid, as the latter is called upon only to approve the appointments made by the Section Meetings.

To organise the supply chain, it appears necessary to overcome the individualism of the single operators to unite them in associative forms which are able to mediate and represent the collective interests which, in the case of a PDO products, are the substance itself of the history and nature of the product and the relations which link the various operators together.

In the agricultural field, the hypothesis could be the establishment of a producers' organisation, under art. 2 and following of Italian Legislative Decree no. 102/2005, with the membership of the more than 3,700 farms which produce milk for Parmigiano Reggiano. It is well known that also according to EC law, the main purpose of producer organisations is the sale of the members' production, production planning, supply concentration and so on; these tasks fall within the objectives which should be pursued by the producers to contribute to improving the performance of the supply chain. The objection could be that more than 70% of the farmers are already members of the cooperative dairies, but with more than 350 cooperative and farm-owned dairies active in 2008, which receive more than 80% of the milk destined for the production of Parmigiano Reggiano, maybe the choices of both the farmers and their dairies should be for coordination and maybe they can find a direct voice in the bodies of the Consortium, through the participation of the farmers' organisation as a member of the CFPR, as foreseen in the Articles of Association.

In 2008 there were only 60 non cooperative dairies, which processed approx. 20% of the milk. Also for Parmigiano Reggiano dairies, whether cooperative or non cooperative, the establishment of an association which represents them can be hypothesised, possibly divided into sections to guarantee the internal dialogue of the sector and at the same time consider the various weights.

As far as the wholesaler-agers are concerned, a reform is required in the Articles of Association to allow membership to the CFPR also for agers beyond 12 months, allowing also in this case

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<sup>41</sup> Once more we refer to the constraints facing the Consortium in drawing up production planning policies.

membership through the establishment of an associative form which groups and represents them.

The participation of the three components of the supply chain (farmers, processors and wholesalers) in the Consortium in an associative form would guarantee that negotiations between opposing parties, for example between the producers' organisations and the non cooperative dairies, or even the cooperative dairies if required, is done outside the CFPR, allowing the Consortium to really become the "third party body" protecting the overall interests of the supply chain which is internally expressed democratically and, if possible, unanimously, as is seen in the French experience.

The conclusive proposal is that the CFPR really becomes an interprofessional organisation, waiving its right to directly purchase the product on the market, also given that this vocation is recognised by Italian Legislative Decree no. 61 of 8<sup>th</sup> April 2010, implementing the wine CMO, which in para. 4, point (a) of art. 17 states that protection consortia can "following consultation of the trade representatives of the involved designation, decides on the implementation of the supply management policies, in order to protect and safeguard the quality of the PDO and PGI product and contribute to the improved issue on the market of the protected designation, and defines product quality improvement plans". This function is extended to article 31, para. 5, of the same Legislative Decree to all protection consortia responsible for the functions provided for in article 14, para. 15 of Italian Law no. 526/1999, therefore also to the CFPR.

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