

## **Policy Brief:**

### ***Enhancing the competitiveness of SME in the organic sector***

#### ***Lombardy Region***

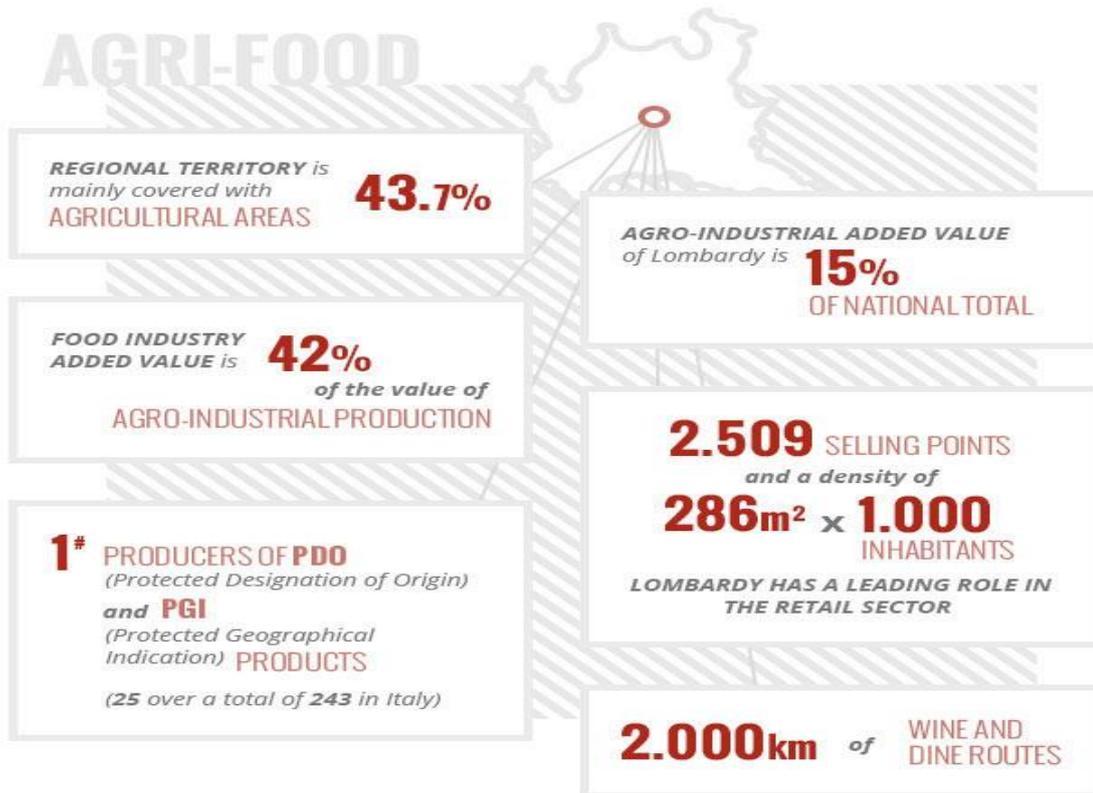
##### **1.1 Overview of the Agri-food sector in Lombardy Region**

On the strength of its 57,000 farms and 8,000 alimentary firms, Lombardy tops the Italian agricultural sector, the activities of which cover 69% of the national territory. Lombardy also holds a prestigious position on the quality agro-food production front: 31 PDOs (protected designation of origin) and PGIs (protected geographical indication) products, 22 CDOs (registered designation of origin), 5 GCDOs (denomination of controlled and guaranteed origin) and 15 TGI wines, no less than 248 traditional products, all selected on the basis of their processing, conservation and maturing procedures. The agricultural sector plays an invaluable role in the entire region, not just from an economic point of view but also with respect to the protection, upgrading and improvement of the territory, contributing to the enhancement of its local and tourist identity.

In this framework the commitment of the Lombardy Region from 2013 to today, it is estimated in 1,7 billions euros for Agri-food system of Lombardy, within the new framework of the reformed CAP, and the enhancement and promotion of the EXPO2015 issues.

Some key figures about the agricultural sector in Lombardy are listed hereby:

- Agro-industrial added value of Lombardy is 15% of the national total Food industry, added value accounts for 42% of the total agro food industrial production value
- The area of Lombardy extends over 23.863 square km and is nearly 7.9% of national area: 43,7% of the regional territory is covered by agricultural areas
- Lombardy ranks amongst the first producers of Guaranteed products such as PDO (Protected Designation of Origin) and PGI (Protected Geographical Indication) Products (25 over a total of 243 in Italy)
- In the Lombardy region 2,000 km of wine and dine routes are present : 12 Routes are united in the “Federazione delle Strade dei Vini e dei Sapori di Lombardia” (Federation of the wine and dine routes of Lombardy).
- Lombardy is one of the leaders in the Italian and European organic market. The region, with 2,509 selling points and a density of 286 m2 per 1,000 inhabitants has a leading role in the retail sector
- The main research priority themes are sustainable and competitive agri-food supply chain, individual well-being (for instance new solutions for healthy ageing through systems, food, supplements and nutraceuticals), food safety, security, availability and protection.
- In another hand, as one of the areas of the Smart Specialization Strategy of the Lombardy Region, the agri-food sector takes advance of a series of “tools” classified in two categories:
  - Tools addressed directly to enterprises to facilitate the evolution of the value chain and develop technologies, products and processes able to meet new needs of emerging market
  - Tools supporting the creation of enabling environments for enterprises so they can grow and evolve into emerging industries - specific cluster in the Agri-food area was been established.



## 1.2 The organic sector in Lombardy an overview

Lombardy organic surface has grown faster than the Italian one until 2015. In 2015 the total organic area (fully converted and under conversion) is approximately 30 thousand hectares, which represents an increase of 26,5% from the previous year (the Italian variation is 7,5%). The share of Lombardy organic surface on total national one has raised from 1,7% in 2014 to 2,0% after one year. However, 2016 preliminary data show in Lombardy a fall of about 22.850 hectares (-23,6%).

Looking at SINAB report 2016, at 31 December 2015 the share of organic surface on total agricultural land in Lombardy is 3,2% and the percentage of organic farms on total is 2,3%.

	2012	2013	2014	2015	var. 13/12	%	var. 14/13	%	var. 15/14	%
<b>Lombardy</b>	19.000	20.685	23.352	29.551	8,9%		12,9%		26,5%	
<b>Italy</b>	1.167.362	1.317.177	1.387.913	1.492.597	12,8%		5,4%		7,5%	
Share of Lombardy Italy	1,6%	1,6%	1,7%	2,0%						

Source: SINAB - SIARL

- Lombardy and Italy total organic area: fully converted and under conversion (hectares)

Organic production in Lombardy is relatively limited, though constantly growing, if compared to conventional methods. Lombardy's organic farming is really modest compared to other regions. In 2015, organic farmers in Lombardy were 3% of the national total. With respect to the producers only, their incidence dropped to 2.2%, whereas the share of processors is higher (7.6%). The overall share of organic area is modest as well, compared to the national total, equal to 1.5% (2016 SINAB figures).

The 41.4% of the national amount of packaged organic products consumption is concentrated in north-western Italy.

This is the confirmation of a known peculiarities in Lombardy: there is strong divergence between agricultural supply, which is rather limited, and the final demand, which is rather considerable.

Strong demand, potential growth factor for the regional organic farming thus does not translate into a driving factor, and most of the organic products sold for consumption in Lombardy comes from other regions and from imports.

### Organic producers in Lombardy, ration activities, including producers employed in the same task.

With respect to the distribution of companies over the provinces, Brescia (19.2) ranks first, followed by Pavia (18.9%), Milan (17.4%) and Bergamo (11.7%) With respect to the producers, only, the province of Pavia reaches 28%, followed by Brescia (23.7%) and Bergamo (10.8%). Milan ranks first in organic preparations with 25%, followed by Brescia (17.2%).

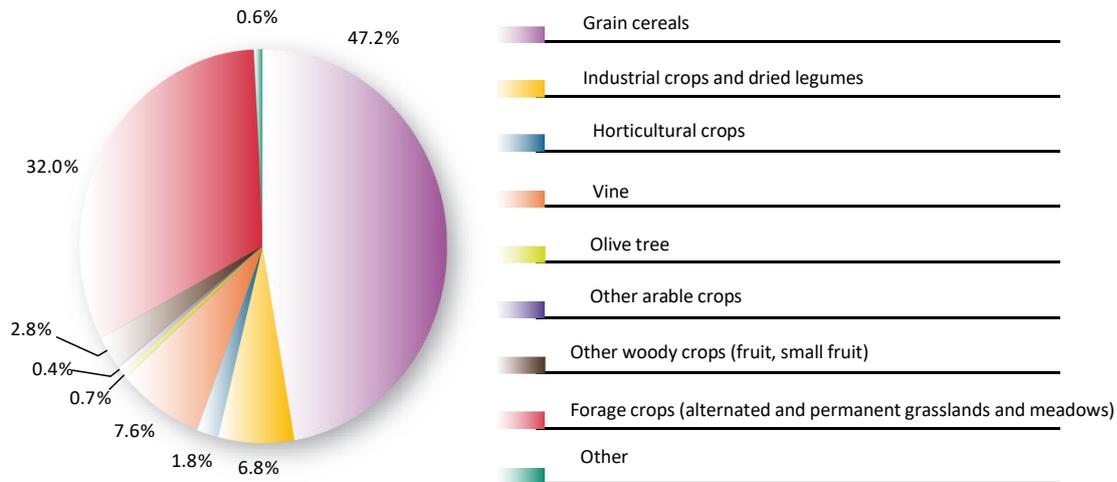
The number of processors is constantly increasing and in 2015 reached 741 units. The 50% of these units are based in Milano, Brescia and Bergamo. Milano with 24% of processors is the top province because, as a big business city of northern Italy, it hosts many processing companies, also multinational ones. Brescia, Bergamo and Pavia (17%, 12% and 10% in order) are the following provinces in terms of organic processors. At 31 October 2016 the number is 787.

The trend of farmers in Lombardy experienced a significant increase by 8%, with an increase in processors and producers by 13.8% and 7.1% respectively, compared to 2013.

The 95.5% of the organic producers, in Lombardy, has obtained the certification for vegetable crops (among them also producers of the livestock sector); the organic livestock sector involves,

instead, 16.1% of producers. Pavia is the leading province as to organic vegetable producers (28.8%), whereas the province of Brescia ranks first as to organic livestock producers (19.9%). Vegetable producers annually increase by 5.8%, whereas the annual change of livestock producers is the most significant (+14.3%).

The breakdown of the organic UAA shows that 46.5% of the organic area is under grain cereals, where rice (63.4%) and grain maize (20.3%) hold the prevailing share; they are then followed by forage crops, both alternated and permanent, with 32%, grapevine with 6.1%, industrial crops (dried legumes included) with 6.8%, and other kinds of crops, for example fruit and small fruits with 2.8% and horticulture with 1.8%. In spite of the remarkable incidence of the livestock sector in the Lombardy agriculture, the share of the organic within the sector is sharply reduced and lower than vegetable productions. The heads of cattle, based on 2012 figures, are slightly above 100,000 units, whereas pig and sheep/goat heads are 4,565 and 1,698. Poultry units exceed



**1. Policy context - Current regional support measures.**

Instrument	Responsible	Beneficiary	Financial contribution	Production	Processing	Commercialisation & marketing	Training & advice	Education	Innovation	Value chain efficiency & governance
<p>The Rural Development Programme (RDP) for Lombardia</p> <p>Measure 11.1.01 Payments in order to adopt practices and methods of organic production</p>	<p>Regional Management Authority</p>	<p>SMEs Farmer in activity</p>	<p>The financial allocation of Measure 11 shall amount to 12.000.000 €.</p> <p>The support of measure 11 consists in an annual payment per hectare on the basis of higher costs and lower revenue, differentiating by crops in order to consider the relevance of commitment:</p> <ul style="list-style-type: none"> <li>- Arable crops: 375 €/ha during conversion.</li> <li>- Vegetable crops: 600 €/ha during conversion.</li> <li>- Tree crops: 900 €/ha during conversion.</li> <li>- Permanent grassland: 125 €/ha during conversion.</li> <li>- Feed crops for livestock farm : 600 €/ha during conversion.</li> </ul>	<p>x</p>	<p>x</p>					
<p>The Rural Development Programme (RDP) for Lombardia</p> <p>Measure 11.2.01 Payments in order to maintain practices and methods of organic production</p>	<p>Regional Management Authority</p>	<p>SMEs Farmer in activity</p>	<p>The financial allocation of Measure 11 shall amount to 12.000.000 €.</p> <p>The support of measure 11.2 consists in an annual payment per hectare on the basis of higher costs and lower revenue, differentiating by crops in order to consider the relevance of commitment:</p> <ul style="list-style-type: none"> <li>- Arable crops: 345 €/ha for maintenance.</li> <li>- Vegetable crops: 540 €/ha for maintenance.</li> <li>- Tree crops: 810 €/ha for maintenance.</li> <li>- Permanent grassland: 110 €/ha for maintenance.</li> <li>- Feed crops for livestock farm : 540 €/ha for maintenance.</li> </ul>	<p>x</p>	<p>x</p>					

The following are measure, sub-measures and operations of the RDP that support organic farming through priorities, selection criteria or principles for their definition, increase in the rate of support or aid

Instrument* RPD	Responsible**	Beneficiary	Financial contribution*** For the whole measure	P r o d u c t i o n	P r o c e s s i n g	C o m m e r c i a l i s a t i o n & m a r k e t i n g	T r a i n i n g & a d v i c e	E d u c a t i o n	I n n o v a t i o n	Value chain efficiency & governance
Measure1 Transfer of knowledge and information actions 1.1.01 Training and acquisition of skills Transfer of knowledge and information actions	Regional Management Authority	SMEs Farmers and their associations Professionals Students	9,7 Million Euros			x	x	x	x	
Measure1.3 Transfer of knowledge and information actions 1.3.01 Company exchanges	Regional Management Authority	SMEs Farmers and their associations Professionals Students	9,7 Million Euros			x	x	x	x	x
Measure 2. Business consulting and assistance services	Regional Management Authority	SMEs Farmers and their associations	40,8 Million Euros			x	x	x	x	x
Measure 3. Quality standards for agricultural products and foodstuffs	Regional Management Authority	SMEs Farmers and their associations	5,7 Million Euros	x	x	x				
Measure 4.1.01 Incentives for investments for the profitability, competitiveness and sustainability of farms	Regional Management Authority	SMEs Farmers and their associations	409 Million Euros	x	x	x				x
Measure 4.1.02 Incentives for investments in the agri-food chain	Regional Management Authority	SMEs Farmers and their associations	409 Million Euros	x	x	x				x



Measure 4.2.01 Processing, marketing and development of agricultural products	Regional Management Authority	SMEs Farmers and their associations	409 Milion Euros	x	x	x	x			x
Measure 6.1.01 Incentives for the establishment of new farms by young farmers	Regional Management Authority	SMEs Farmers and their associations	68,56 Milion Euros	x	x	x	x			x
Measure 6.4.01 Support for the realization and development of agritourism activities	Regional Management Authority	SMEs Farmers and their associations	68,56 Milion Euros	x	x	x	x			x
Measure 8 Investments in the development of forest areas and improvement of forest profitability  Measure 8.1.01 Support for planting costs for forestation and afforestation	Regional Management Authority	SMEs Farmers and their associations	103,2 Milion euros							
Measure 10.1.03 Conservation of biodiversity in rice fields	Regional Management Authority	SMEs Farmers and their associations	240,3 Milion euros	x	x					
Measure 10.1.10 - Farming effluent distribution techniques	Regional Management Authority	SMEs Farmers and their associations	240,3 Milion euros	x x						
Measure 16. Cooperation  16.4.01 - Short supply chains (biological productions among the elements of the evaluation to define the quality of the project). Lombardy 16.5.01 - Cooperation for environmental sustainability for articulated projects promoted by several subjects and attributable to the measures and sub-measures for environmental purposes (productions of biological elements between the evaluation elements to define the quality of the project).  16.10.01 - Integrated supply chain projects (organic products) between the evaluation elements to define the quality of the project). environmental practices	Regional Management Authority	SMEs Farmers and their associations	17,2 Milion euros			x	x	x	x	x

## 2. Relevance of the regional policy support for the development and implementation of your action plan

The priorities identified in the Organic Action Plan are well supported in the RDP.

The Rural Development Programme (RDP) for Lombardy was formally adopted by the European Commission on 15 July 2015, outlining Lombardy's priorities for using the € 1.2 billion of public money that is available for the 7-year period 2014-2020 (€ 499 million from the EU budget and € 659 million of national co-funding).

Lombardy's RDP puts particular emphasis on improving the competitiveness of agriculture and primary producers, as well as on restoring, preserving and enhancing ecosystems.

Lombardy, in particular, has tried to diversify the RDP interventions in favour of the organic sector to respond to the strong increase in the demand.

In addressing its territorial challenges, Lombardy's RDP will fund operations under all six Rural Development priorities, with a particular emphasis on improving the competitiveness of agriculture, as well as on restoring, preserving and enhancing ecosystems. The focus of each priority is explained briefly below.

- ✓ Knowledge transfer and innovation in agriculture, forestry and rural areas
- ✓ Competitiveness of agri-sector and sustainable forestry
- ✓ Food chain organisation, including processing and marketing of agricultural products, animal welfare and risk management in agriculture
- ✓ Restoring, preserving and enhancing ecosystems related to agriculture and forestry
- ✓ Resource efficiency and climate
- ✓ Social inclusion and local development in rural areas

To satisfy the requirement of 1305/2013 Article 29 (4) on paying for the converting or maintaining organic farming to compensate beneficiaries for all or part of the additional costs and income foregone resulting from the commitments made, Lombardy Agricultural Regional Structure has issued Decree of the Executive of 22 December 2015 No 11414 Rural Development Program 2014-2020 – Approval of the call 2016 for measure 11 “Organic Agriculture” which is divided into two measures:

- Measure 11.1.01 Payments in order to adopt practices and methods of organic production
- Measure 11.2.01 Payments in order to maintain practices and methods of organic production

Support to producers is mainly implemented through RDP actions. Conditions to access to the founding are:

- Voluntary accession to the organic method in accordance with Regulation 834/2007 as amended, Regulation 889/2008 as amended and Ministerial Decree No 18354/2009 on all usable agricultural organic area;
- Binding commitments: cross-compliance obligations (Reg. (EU) No 1306/2013 Title VI, Chapter I); requirements to maintain the area in conditions suitable for grazing or cultivation and who do not carry out a certain minimum activity (Reg. (EU) No 1307/2013 point ii) and iii) of Article 4 (1); minimum requirements for fertilisers and plant protection products (Reg. (EU) No 808/2014 Annex I, Section 10 of Chapter 8).

The amount of the annual aid shall be fixed per hectare of area, on the basis of higher costs and lower revenue relating to commitments according to Annex II of Reg. (EU) No 1305/2013. Measure 11 supports the conversion from an intensive, more productive farming to an environmentally sustainable system which is less profitable, and to its maintenance. The commitments to be respected for both measures 11.1.01 and 11.1.02 shall be the following:

- duration of commitments: 6 years;

- adoption and maintaining of organic method as defined in Reg. 834/2007, Reg. 889/2008 and Ministerial Decree 18354/2009. The loss of organic certification implies the withdrawal of the application;
- the regular crop cycle must be carried out on graze requested areas, which means harvest of food or zootechnical products.

Additionally to measure 11, on the same parcel and the same crop it may be also requested to access to measure 10.1.03 "Conservation of biodiversity on rice fields" and measure 10.1.10 "Livestock manure management's techniques"<sup>1</sup>. Lombardy entitles to benefit only holding areas within the region's territory of usable agricultural area of minimum 0,5 ha, if the unit is in hills or mountains, and of usable agricultural area of minimum 1 ha if the unit is located in lowland.

The financial allocation of Measure 11 shall amount to 12.000.000 €.

"Greening" measure, as above defined, is already included in measure 11. In that way, who ask for Single Application shall receive the same amount of those who ask for measure 11.

### The Organic districts in the Lombardy Region.

**The Rural Development Program 2014-2020 Lombardy Measure. 16 "Cooperation 16.4 - Support for supply chain cooperation, for the creation and development of short supply chains and local markets 16.4.01 - Short supply chains (biological products among the valuation elements to define the quality of the project).**

The Measure 16 Cooperation, with its numerous sub-measures, responds to the need to stimulate different forms of aggregation between operators in the agricultural sector and not, for the start of new and innovative planning. The enhancement of cooperation initiatives, in fact, allows us to overcome the individualistic logic and to favour the aggregation of subjects who intervene with roles, skills and in different phases and aspects of the production process, not only for the joint management of services and activities, but also for the solution of problems and for the adoption of process, product or organizational innovations.

Sub-measures M16.1 support the establishment and functioning of the IEP operational groups on the subject of productivity and sustainability of agriculture while sub-measures M16.2 support pilot projects and the development of new ones therefore, products, practices, processes and technologies allow the implementation of the strategy at the regional level the European Union defined for innovation in agriculture. In particular, with the second sub-measure, the support projects promoted by Operative Groups of the IEPs are financed through a global grant, which activates jointly all the measures necessary for the implementation of the projects. The alternative, however, is represented by the participation of the Operative Groups of the IEP to the calls for measures functional to the realization of the project.

***The only region in Italy that has made explicit reference to agricultural districts as potential beneficiaries of aggregation initiatives is Lombardy.***

The Lombardy Region has resorted to **the sub-measure 16.4 to promote cooperation initiatives geared to organic producers with a view to strengthening some factors that can stimulate the growth of organic products.** In particular, newly established aggregations and those already existing aimed at favouring short supply chains are favoured, also based on the involvement of biological productions, carried out by agricultural and processing companies and distributed by commercial intermediaries. The strategy in favour of supply chains linked to organic farming in Lombardy is completed with operation 16.10.1 which supports Integrated Supply Chain Projects (PIF) or agreements between operators of the same sector.

The positive effects generated by the implementation of this measure have been the creation of greater cohesion between partners in the partnership, both in the production and research sectors, and the exchange of good practices among companies, mainly due to the disclosure of results obtained with cooperation projects. To try to support the continuity of the activated cooperation processes and the start-up of new ones, in the current programming period the cooperation has been given a much stronger role than in the past.

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<sup>1</sup> Measure 10 of RDP 2014-2010: Payments for agro-environmental commitments.

### ***3. Recommendations for regional policymakers to improve the current policy environment***

Considering the outcomes of the consultation that the Union of the Chambers of Commerce of the Lombardy region has undertaken during the whole lifespan of the project, interventions in favor of organic operators should be explicitly envisaged about:

- Development of tailor made training patterns for organic professionals
- Development of consultancy services specific for organic SMEs and Farmers
- Strengthening cooperation, including actions that are particularly adequate for the purpose of resizing the problems of the biological sector.
- Introducing organic agriculture more widely as a sector to be privileged with reference to communication, information, exchanges and company visits
- Fostering communication toward consumers
- Promoting associationism for the organic sector, given the greater dispersion on the territory of organic farms and, therefore, their difficulty in reaching critical masses of suitable products for marketing or processing.
- Setting up of operational groups for participating in european and international cooperation projects activities