THE BUSINESS OF SUBSIDIES

The European Union has funding available for the promotion of agricultural products. Michèle Shah looks at how the funds are used in Italy.

In the past few years, Italy's wine industry has soared to new levels of export success. Improved quality has been a key factor, along with focused promotion helped by European Union (EU) funding. Tapping funds is a complex, but advantageous, process, especially for anyone looking to promote and develop business in non-EU markets.

The aim of EU funding is to improve the competitiveness of agriculture within member countries, focusing on greater competitive equality, and an increase in the level of consumer knowledge regarding its agricultural products and their methods of production.

Funding for Italy's wine industry falls under the Common Organisation of Agricultural Markets (COM) allowing the EU to fund a specific agricultural product – in this case, wine.

The funding

The first announcement of Italy's COM wine promotion was published in 2008, with a total funding scheme of €4.5m ($4.7m). The most recent funding scheme issued for 2016/2017 is for €102m, of which €30.6m is destined for national promotion and the rest for regional promotion. Over the past few years, Italy's level of funds for promotion have grown consistently, allowing for continuity within non-EU markets.

The funding regulations published by Italy's ministry of Agriculture are accessible to Italy's entire wine industry, to large and small companies alike, so long as they qualify. The minimum COM funding allocation per individual project/country is €100,000.00, of which 50% is covered by EU funding and the other 50% from the party requesting the funding, be it an individual winery, consorzio (individual growers consortium) or region.

This may not be a significant sum for a large winery or region, but for a small- or medium-sized winery it can be a considerable amount to invest in a single country, hence the possibility for a small winery to access a quota of COM funding though its local consorzio.

Silvana Ballotta, managing director, Business Strategies

For example, the Consorzio of Soave in the Veneto applied this year for €1.45m funding for two promotional projects, the first of which was to promote DOC Soave, and included a "Soave by the Glass" project in Japan; the second covered funding for promotions in the US, Canada, China, Japan and southeast Asia. The funding was equal to 50% of the projects' actual value. "Each consorzio or region has its own internal regulations," explains Anna Dal Fiume, who is responsible for the consorzio's promotion and projects for the Veneto. "The minimum quota for each winery applying for funding is €10,000.00 a year, which can be spread over a number of different projects, equating to a total value of expenditure of €20,000.00." She adds that all expenditures need to be fully documented and accounted for. "We often gather as many as over 300 invoices when a number of wineries decide to join one specific project."

Other producers have joined together to create a consortium, in order to apply for funding. One such is Brunello in China, which represents a small group of Brunello di Montalcino producers, including Casanova di Neri, Siro Pacenti, Valdicava and San Filippo. These estates joined forces to create a consortium to promote their wines in China through private and trade events in Hong Kong, Shanghai, Beijing and Chengdu. Their initial investment of €840,000.00 in 2011 advanced their sales and brand recognition throughout China as well as assisting the promotion of the brand Brunello di Montalcino.

"The COM funding was essential in our promotion increasing significantly our sales in China," comments Giacomo Neri. "However, in countries such as USA, Canada and Russia, we chose to invest mainly in PR events, where the main focus was on consumer awareness."

Another consortium that has been able to draw on COM funding is 'The Families of Wine', which includes a number of well-known family-owned estates based throughout Italy: Adami, Aia Vecchia, Badia a Coltibuono, Braida, Casanova di Neri, Paolo Saracco, Poliziano, Col Vetoraz, Fattoria La Valentina, Fattoria Selvapiana, Inama, Marco Felluga, Tenute Cisa Asinari dei Marchesi di Grésy, Tenuta Sant'Antonio, Tenute Silvio Nardi, Li Veli, and Pala.

Roberto Felluga, winemaker and owner of the 500,000-bottle Tenute Marco Felluga in Collio, in the Friuli region, has been president since 2009. He has been able to secure COM funding for the members of the consortium to promote and distribute their wines in non-EU markets.

According to Felluga, access to finance and funding has given both his winery and the consorzio a strong boost in production and sales, increasing its visibility in both key target markets, and in new international markets. "Since 2011, we created projects equating to €6.6m, for which we obtained €2.9m in EU COM funding," he says, adding that the funding was used in the markets of China, Japan, Korea, Switzerland and Russia.

The consortium's aim has been to focus on new import channels and the funding covers a number of promotional expenses, such as paying for specialist export managers with the necessary market expertise, organising tastings in the countries of interest, and consolidating existing markets through continuous promotional activities.

Lots of red tape

In general, access to EU funding is not without hitches and glitches, not least of which are the rigorous bureaucratic procedures, tight deadlines, difficulties in communication with institutional divisions, and a lengthy and constrained control system.

Small wineries are often faced with the difficulty of deciding on which country to invest in and how to plan the investment, as new markets can evolve rapidly. Accessing COM funding can be a particular challenge for such wineries, as they not only don't have the internal know-how to deal with the necessary regulations, but they also struggle to reach the requirements in production and investment, such as the minimum €100,000.00 investment per country project; although this can be halved to a minimum of €50,000.00 per country when applying for multiple country projects, it still remains an inconceivable amount for most small companies, and a reason why many estates have grouped together, forming their own consortiums in order to access funding.

According to Felluga, difficulties crop up from the application process through to the management of projects. "The project management rules require a scrupulous collection of documents and verifications that justify the results of the investment, which is of course acceptable, but this requires a certain expertise and it is very time consuming," he says. The complexity of the process had him turning to Business Strategies, which specialises in this field.

Based in Florence, Business Strategies has helped more than 500 wineries apply for EU/COM funding. The company provides strategic and operational support, and acts as a supervisor of the funding allocations, and an adviser for marketing and promotional activities. Above all, they monitor the legal and regulatory framework of the EU and national institutions. "This means providing the necessary support required in the reporting process by providing financial monitoring mechanisms designed to ensure proof of activities and expenditures with approved projects," says managing director Silvana Ballotta. "The handling of the funding allows the winery to focus on carrying out its promotional activities without having to worry about the complexity of the paperwork."

Featherbedding

The existence of COM and public funding is controversial in some quarters. "The EU's agriculture has always been sustained by public funding," says Angelo Gaja of Gaja Winery in Piedmont. "This is because it is a strategic, but also a fragile sector, often incapable of standing on its own two legs."

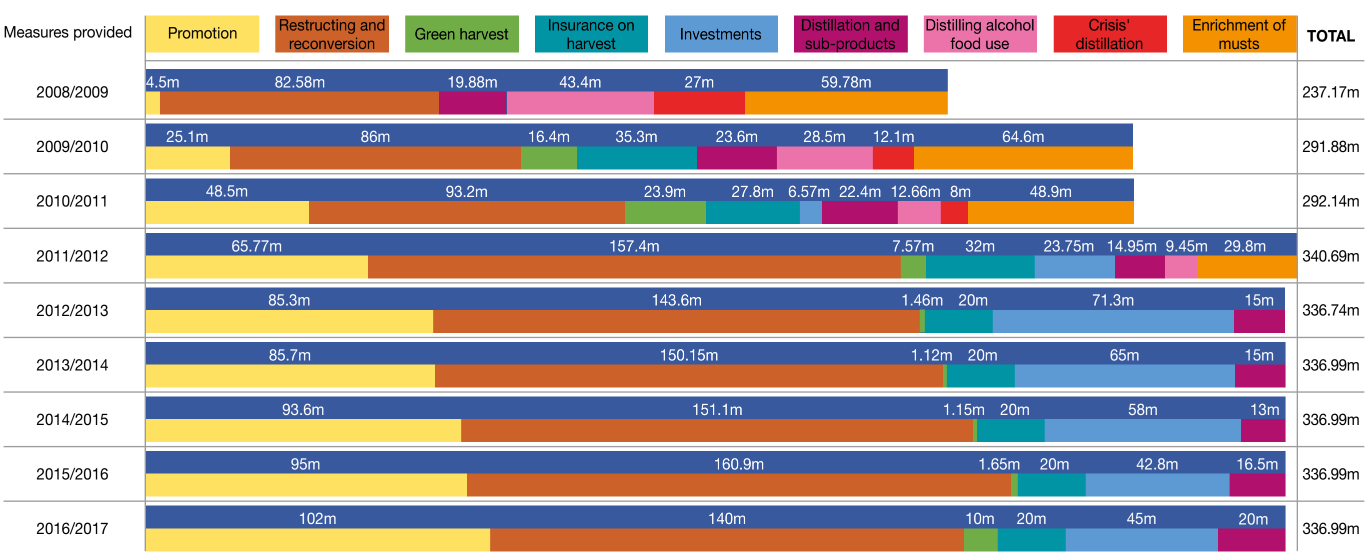
Gaja says he doesn't deny the usefulness of public money on occasion, particularly if it encourages new and younger farmers to start businesses. "The welfare state, however, has become the blight of European agriculture, especially when it supports incapable entrepreneurs who do not qualify for public financing." He says this allows them to remain in the market and distort it, "to the detriment of entrepreneurs who are capable of assuming the responsibility and risk of business. Prolonged welfare over time hinders free and fair competition within the sector."

Gaja also levels criticism at the bureaucratic and political aspects attached to EU funding. "The handing out of contributions for agriculture has also generated a massive public bureaucracy with the task of identifying who to allocate public funds to and to what extent, as well as to verify that public money is well spent," says Gaja. "As long as the EU continues to generously pour public money in agriculture it will be difficult to find a remedy."

Nevertheless, COM funding has also contributed to promoting the quality concept of Italy's DOP and IGP in non-EU countries, highlighting product quality, as well as protecting their labelling and promoting the region's provenance.

The current plan for COM funding is active up until 2020. While regulations are revised continually, access to funds is to become more complex, giving precedence to companies that have not yet applied for funding. And after eight years, it also will be necessary to assess the effects of the funding. That question will determine whether funding continues past that date.

Financial funding for the EU's COM in the wine sector — In euros (€)



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