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HUNGER GAMES: FOOD, ITALY AND THE APPETITE OF SOVEREIGN INVESTORS

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This note is meant to provide an initial overview of what seems to be a rethinking of Italy's concept of "sensitive assets". In the author's view, the national concept of sensitive assets is *de facto* not limited to traditional areas such as defence, technology or energy but takes into account Italy's economic strengths, too. In this respect, the food sector is a crucial element of Italy's export capacity, and a top contributor to Italy's GDP. While foreign acquisitions in this space have increased significantly, there might be more at stake. In fact, the Fondo Strategico Italiano ("**FSI**") – largely considered as Italy's domestic sovereign wealth fund - has specifically included the food industry into the scope of investment of its corporate joint ventures with foreign sovereign investors such as the *"IQ Made in Italy Venture"*, with Qatar Holdings LLc, and the jv with the Russian Direct Investment Fund.

On one hand, food is a top contributor to Italy's GDP and export. As pointed out by deputy Minister of Economic Development and Foreign Trade Carlo Calenda on a September 2013 parliamentary hearing, Italy's food exports total approximately 26 bn€, equal to 6,7% of aggregate exports. The food industry is the country's second largest manufacturing sector, and it purchases as much as 72% percent of the domestic agriculture production. On the other hand, foreign acquisitions in the Italian food industry are hardly a novelty, and some times foreign buyers are State-backed, as for instance Spanish giant Ebro Foods where the Spanish state has a 11% stake. As the following table shows, foreign buyers have acquired several well-known Italian players, without prompting strong economic xenophobia.

Year	Target	Buyer
2014	PASTA GAROFALO	Ebro Foods (Spain)
2013	CHIANTI CLASSICO	Private entrepreneur (China)
2013	RISO SCOTTI (25% stake)	Ebro Foods (Spain)
2012	PELATI AR - ANTONINO RUSSO	Princes (Mitsubishi Group, Japan)
2012	STAR (75% stake)	Gallina Blanca (Spain)
2012	ESKIGEL	(United Kingdom)
2011	PARMALAT	Lactalis (France)
2011	GANCIA (70% stake)	Rustam Tariko (Russia)
2011	FIORUCCI	Campofrio (Spain)
2011	ERIDANIA (49% stake)	Cristalalco (France)
2010	BOSCHETTI (95% stake)	Financière Lubersac (France)
2010	FERRARI CASEARIA (27%)	Bongrain Europe (France)
2009	DELVERDE	Molinos Delplata (Argentina)
2008	BERTOLLI	Unilever (Netherlans)
2008	RIGAMONTI	Hitaholb (Brazil)
2008	ORZO BIMBO	Novartis (Switzerland)
2008	ITALPIZZA	Bakkavor (United Kingdom)
2006	GALBANI	Lactalis (France)
2006	CARAPELLI	SOS (Spain)
2006	SASSO	SOS (Spain)
2006	FATTORIE SCALDASOLE	Heinz (United States)
2003	PERONI	SAB MILLER (South Africa)
2003	INVERNIZZI	Lactalis (France)

Historically, the Italian peninsula has always had a special relation with food. In fact, the Belpaese’s geography made it possible to be the final destination of the immense Silk road spanning Asia from the mouth of the Red River near modern Hanoi, through the Malacca Straits to Southeast Asia, Sri Lanka and India, and then on to the Persian Gulf and the Red Sea kingdom of Axum. From ports on the Red Sea goods were transported overland to the Nile and then to Alexandria from where they were shipped to Rome, Constantinople and other Mediterranean ports. Geography, thus, contributed to make **Italy a food transformation and refining country**, even though local producers represent a powerful lobby that routinely emphasizes that the “Made in Italy” label can only be used if food is locally produced, and masterminded the ban on GMOs.

Geography makes Italy acutely aware of the importance of **food security**, i.e. of the need to have regular food supplies. Food insecurity has the potential to undermine political stability and to strain relations between states[1]. Throughout history, civil unrest has broken out in the wake of widespread hunger and food inflation. During the protests that sparked the French Revolution, for example, rioters cried for both bread and blood, and in Russia famine and poverty played a clear role in fuelling peasant violence in the revolutions of 1905 and 1917. More recently, as global prices spiked in 2007-2008, there were food-related riots in countries such as Bahrain, Yemen, Jordan, Egypt and Morocco. All of these countries witnessed political upheaval in 2011 and long-standing regimes fell in Tunisia, Libya and Egypt. The increasingly unaffordable cost of basic staples was seen by many as an aggravating factor in precipitating the unrest, and significantly contributed to plunge Italy’s close neighborhood into a state of flux. In fact, the effects of a food crisis can transcend national borders very quickly with potential domino effects. For instance, wheat prices jumped after Russia's military appeared to tighten its control of Ukraine's Black Sea region of Crimea. The tensions led traders to speculate that buyers of wheat and corn will shift purchases from Ukraine—one of the world's biggest grain exporters—to shippers such as the U.S.

[1] Arezki, Rabah, Markus Bruckner, *Food prices and political instability*, International Monetary Fund, 2011.

Together with Russia, Ukraine forms the northern coast of the Black Sea, a major shipping route for energy, agricultural products and metals. The current unrest in the Crimean peninsula, which juts into the Black Sea and is home to Russia's Black Sea Fleet, the most important naval power in the region, threatens those shipping lanes. About 10% of Ukraine's grain shipments are from ports in Crimea, while the bulk of exports are sent from Odessa and Nikolaev. Ukraine also sells much of its grain to Egypt, the world's largest importer of wheat, and to other Middle Eastern countries and Africa. In their efforts to blunt shocks to domestic food supply and to curb rising prices at home, governments often resort to policies that may hurt political stability and food prices in other countries. In this respect, one can for instance recall the **recent shift of China's sovereign wealth fund CIC** (China Investment Corporation) to food. In an opinion piece on June 18 in the Financial Times, Ding Xuedong, chairman of CIC, said CIC wanted to invest more in agriculture around the world and "across the entire value chain". This is in line with the priorities of the new Chinese administration, and State-backed Chinese companies have reportedly made several investments in food production in Ukraine before the political crisis erupted.

Based on the above, Italy's institutions, have more than just a "taste" for the geopolitical importance of food, although gone are the days in which the Italian State controlled very large food players through the giant state-owned holding company SME – whose assets were eventually sold to the likes of Unilever, Nestlé and Benetton Group. Moreover, Italy hosts important United Nations' organizations such as the FAO and the WFP in Rome.

Italian chief negotiators are actively engaged in the ongoing EU-US negotiations for a Transatlantic Trade and Investment Partnership (the "**TTIP**", also known as Transatlantic Free Trade Area, or "**TAFTA"**), a transatlantic free trade agreement that is supposed to be concluded by the end of this year. Moreover, as a further reminder of Italy's link to food, in Spring 2015 Milan will host a world exhibit, **Expo2015**, entirely dedicated to food and sustainability, and will be a global forum for policy debates in the food space at an unprecedented scale.

Meanwhile, these days, a **billion-heavy Qatari investment in Sardinia** is being negotiated directly by the Qataris with the Italian government and local authorities[2]. The investment includes food and ports, and could represent a move by Qatar to further develop its food security strategy. Qatar represents an interesting case of sovereign investor with a strong focus on food, and has its own (sovereign) food investment arm, Al Hassad. More broadly, in the aftermath of the food price crisis, Gulf Cooperation Council (GCC) governments rushed to enact policies that would deter any further price shocks and create long-term sustainable sources of food. However, there have been regional experiments in the past to deal with food security. An issue that has always been of concern was brought to the fore by the price shocks. For instance, Saudi Arabia in the 1970s and 1980s invested heavily in developing a food self-sufficiency programme – as much as 50 percent of their revenue from oil at the time[3]. By the early 1980s, Saudi Arabia was the sixth largest global producer of wheat. As for Qatar, The Qatar National Food Security Programme (QNFSP) was set up in 2008 and formally instituted by Emiri Decree No. 45 in 2011. The QNFSP today has two mandates. One is to develop a strategic master plan for addressing food security both in the short-term by fixing critical problems, and in the long-term to enact a plan that is resilient to the various challenges. The second key part is to aid the overall sustainable growth of Qatar through the implementation of that master plan. Depending on the year, almost 90 percent of Qatar's food needs come from imports. Therefore, the price shocks like those experienced in 2007 and 2008 are especially painful for countries such as Qatar. In addition to price volatility, Qatar's geographical location further exacerbates the issue. Indeed, 90 percent of imports come through just two points, either via sea through the Strait of Hormuz or the one major land route across Saudi. Therefore, any shifts in food prices around the world have an amplified effect in Qatar, and securing a "food hub" in Sardinia may be a pre-emptive move by Doha.

The food industry so far is not included in Italy's new sensitive assets regulatory framework, foreseeing preliminary scrutiny and veto powers in the hands of the State in sensitive assets acquisitions. Moreover, Italy has no domestic equivalent of an intergovernmental body with extensive powers such as the US CFIUS, and even a parliamentary enquiry such as the one on the **Smithfield sale to**

[2] Francesca Astorri, *Alberghi, ospedali, porti: l'emiro vuole ridisegnare la Sardegna*, Pagina99, April 19, 2014

[3] Eckart Woertz, *Oil for Food: The Global Food Crisis and the Middle East,* Oxford University Press, 2013

a Chinese buyer would be simply unthinkable in Rome. The only case in which food was explicitly declared "strategic" was in 2011, when the Italian government bought some time and tried – but ultimately failed - to find a domestic investor for Parmalat in an attempt to fend off the bid by French investor Lactalis. Interestingly, back in 2011, there were also suggestions to use Cassa Depositi e Prestiti ("**CDP**") as a domestic "white knight" to counter foreign acquisitions, but they were stopped do to the failure to find a private domestic player willing to take over Parmalat, as Ferrero almost immediately decided not to make a bid.

Since 2011, things have changed considerably for two reasons. **First, a new player, FSI, exists**. In May 2011, FSI (an investment vehicle 80% owned by CDP) was incorporated with the deliberate aim to invest in businesses active in strategic sectors listed under Ministerial Decree May 8th 2011 (defense, security, transports, communications, energy, insurance, finance, research, high tech, public services, infrastructure) or, in any case, in businesses deemed relevant due to their sales or number of employees. Second, **food is explicitly included in the scope of investment of two corporate joint ventures among FSI, and foreign sovereign investors** such as *"IQ Made in Italy Venture"*, with Qatar Holdings LLc, and the jv with the Russian Direct Investment Fund. Interestingly, recently Spanish olive oil company Deoleo has received a bid among others from Fondo Strategico Italiano <u>via its IQ joint venture</u>. The Spanish government followed the deal very closely, and it ultimately resulted into an acquisition by private equity player CVC. More precisely, the government of Prime Minister Mariano Rajoy has already warned any buyer against splitting up Deoleo's assets or reducing its focus on Spanish olive oil farming. Spain is the world's largest producer of olive oil. Deoleo distributes about a fifth of the olive oil sold worldwide, through brands that include Carbonell and Koipe in Spain, as well as Bertolli and Carapelli in Italy. The takeover battle was started by four Spanish banks that together own 31 percent of Deoleo's equity. The largest of Deoleo's banking shareholders is Bankia, which owns 18 percent of its equity. Almost two years ago, Bankia plunged Spain into a financial crisis because of its losses on mortgage loans, which forced the government to nationalize Bankia and then negotiate a European bailout of the sector worth as much as 100 billion euros, or $135 billion at current exchange rates. In the end, Spain used ¤41 billion of that bailout money, half of it to salvage Bankia.

Both FSI's jvs are recent (IQ dates back to November 2012, whereas the Italian-Russian jv was signed one year later, in November 2013, on the back of the Italian-Russian bilateral talks in Trieste. Since they are so recent, an assessment of food as a non-traditional "strategic" leverage in Italy's relations with sovereign investors is still premature. Nevertheless, it will be important to understand if:

- ✓ There will actually be a specific track record of co-investments between FSI and foreign SWFs in the food sector;
- ✓ The Italian food industry, combined with the existence of a domestic co-investor such as FSI, has the potential to attract investments from SWFs;
- ✓ In case of investments, there is any geographic correlation (e.g. North African SWFs);
- ✓ Co-investments in the food sector by FSI result into a new concept of "strategic asset" that goes beyond the formal definitions laid out under the current regulatory framework on sensitive assets.