

## LexisNexis™ Academic

Copyright 2003 The **New York Times** Company  
The **New York Times**

**December** 20, 2003, Saturday, Late Edition - Final

**SECTION:** Section C; Page 1; Column 3; Business/Financial Desk

**LENGTH:** 1618 words

**HEADLINE:** INTERNATIONAL BUSINESS;  
Irregularities Push **Parmalat** Closer To Insolvency

**BYLINE:** By JOHN TAGLIABUE

**DATELINE:** PARMA, Italy, Dec. 19

**BODY:**

**Parmalat**, the Italian dairy and food giant, slid to the brink of insolvency on Friday after the company disclosed that a bank account that supposedly held nearly \$5 billion of its money did not exist.

**Parmalat** said that Bank of America had told one of its auditors, Grant Thornton, on Wednesday that a document showing that a **Parmalat** finance unit in Cayman Islands had an account of 3.95 billion euros (\$4.9 billion) was a fake. A Bank of America spokeswoman in London declined to comment.

The crisis at Parmalat, which has been escalating in recent weeks, now dwarfs accounting problems that have roiled European companies like Royal Ahold of the Netherlands, Vivendi Universal of France and Elan of Ireland. Such scandals have demonstrated that European accounting standards and regulation can be susceptible to Enron-like problems. The Parmalat case, and its implication that a fraud has been committed, will be certain to provoke debate about the failure of European regulators and banks to ask questions sooner.

After a board meeting late Friday that was called by Enrico Bondi, the new chairman, Parmalat issued a short statement saying that it would provide information to judicial authorities.

It did not address plans for Parmalat or the prospect of bankruptcy. But for a company that narrowly avoided defaulting on \$183 million in debt just days ago, the prospect of missing \$4.9 billion -- more than half its revenue last year -- makes bankruptcy seemingly inevitable.

There are a number of bankruptcy options under Italian law, including liquidation. But the most likely outcome for Parmalat would be a protection from creditors under the supervision of the Industry Ministry.

This would allow the company -- best known for its long-life milk but also the owner of Archway cookies and dairies in the United States -- to remain in business while its finances are untangled.

It is a stunning downfall for a company that began as a family-owned delicatessen and grew in recent

years to become a global rival to Nestle, Danone and Kraft, selling milk and food products in 30 countries including the United States. That rapid expansion, however, came at a cost, and the Tanzi family that controls Parmalat began resorting to ever more convoluted schemes to finance growth.

By last year, Parmalat, based here in north central Italy, stood at the center of a galaxy of 120 different companies, often with obscure purposes.

The rise and fall of Parmalat illustrates the archaic nature of corporate Italy compared with business in other Western industrial powers.

Italy is a land of self-made entrepreneurs at family-run companies. Except for the state-owned sector, virtually all the Italian economic heroes -- including the Fiat auto group; the tire and cable company, Pirelli; and the Benetton apparel group -- are family run.

Indeed, Prime Minister Silvio Berlusconi, whose government stepped earlier this week to help bail out Parmalat, boasts of being more entrepreneur than politician. His media group, Mediaset, is Italy's largest television company.

Yet the model is not without its flaws. Other family-run corporate icons in Italy have collapsed in the wake of financial irregularities. Cirio, Italy's biggest canned food producer, defaulted a year ago on more than \$1 billion in bonds that had been sold six months earlier. In the case of Parmalat, "it's in the Italian cultural matrix," said Mario Deaglio, an economist at the University of Turin. "First, there was an adventuresome management, and then investors disposed to ignore reality. And that in the midst of banks that did not exercise control."

When Sept. 11 and the global economic slowdown came, Mr. Deaglio said, the cracks began to appear.

If Mr. Bondi, the chairman, ultimately fails to keep Parmalat together, it would be the end of a remarkable Italian success story. The valley around this city sees itself as being to food what Silicon Valley is to electronics: a place of excellence and commercial success.

Thousands of small companies sprouting like fine mushrooms, most of them run more by craftsmen than industrialists, have for generations produced Parma ham, Parmesan cheese and all manner of pasta from agnolini to ziti. Among the mushrooms stood a few oaks, like the Barilla brothers, whose huge factories lie just north of the city looking more like aircraft assembly plants than pasta works. Mr. Tanzi was another.

From the village of Collecchio, just up the Taro River valley from Parma, Calisto Tanzi, the son of a maker of hams and preserves, built his company, Parmalat, whose name comes from Parma and the Italian word latte, for milk, into one of the world's biggest dairy products companies.

"The strategy was beautiful, it was a global leader in food," said Guido Corbetta, an economist at the Bocconi University Business School in Milan.

Indeed, Mr. Tanzi's path differed widely from that taken by most of the entrepreneurs of Parma. While most built their success on traditional local products, like cheeses and hams, Mr. Tanzi's was based on modern innovation. He was also among the first in Parma to recognize the importance of branded foods, even for items as everyday as milk.

In 1961, Mr. Tanzi, then 22, took over his father's business, then shifted its focus from ham to milk. The company's business took off in the mid-1960's, after Mr. Tanzi learned that a Swedish packaging

company, Tetra Pak, had developed the aseptic brick-shaped cartons now familiar to most consumers for juices and other drinks.

Adopting a method into Italy developed by Tetra Pak, Mr. Tanzi perfected a type of milk that, superheated and packaged in the special aseptic bricks, could be kept without refrigeration for at least half a year.

Reinvesting heavily in advertising, Mr. Tanzi soon had Europeans drinking this long-life milk without a second thought. By the mid-1990's, the long-life milk accounted for 85 percent of French milk consumption; in Italy, 55 percent of fresh milk was long life, and in Germany, 50 percent. An avid sports fan, he recognized the value of sports for promoting Parmalat's new kind of milk, financing World Cup skiing, Formula One car racing, and later, the Parma's Serie A soccer team.

By the late 1960's, Parmalat was branching out into other innovative products, like long-life cream and milk substitutes. The drive into new products was accompanied by geographical growth, both in Europe and the Americas. By the mid-1990's, Parmalat had pushed into the United States, urging skeptical Americans to change age-old habits of drinking only fresh cold milk. Mr. Tanzi spent \$2 million to introduce the milk in New York by sponsoring the Italian tenor Luciano Pavarotti in a free concert in Central Park. A huge ad budget highlighted the convenience of long-life milk.

By last year, Parmalat was generating roughly a third its global revenue of 7.6 billion euros (\$9.4 billion) in North America, much of it thanks to the long-life milk.

But success began to sour in November, when Parmalat reported an investment of 500 million euros (\$619 million) in Epicurum, a hedge fund based in Cayman Islands. The company then sought to calm investors by saying it would recover the money, but has been unable to do so.

The company has also disclosed that a Citigroup vehicle Buconero -- or "black hole" in Italian -- had invested in a Parmalat unit, which then lent the money to other parts of the company.

Last week, Standard & Poor's cut its credit rating on Parmalat eight notches to junk. On Friday, S.&P. lowered its rating to D -- for default -- its lowest rating.

Shares of Parmalat plunged 66 percent Friday, and have fallen 87 percent since the beginning of this month. The holdings of the Tanzi family, which still owns 51 percent of the company, have shriveled up.

Until this week, Calisto Tanzi and his family reigned like patriarchs in Parma.

His brother Giovanni, his son Stefano and his niece, Paola Visconti, were all in the top management. The old family home in Collecchio was revered as the company's cradle, and Mr. Tanzi was an honored figure in nearby Parma, the regional center. Parmalat, with 35,600 employees in 26 factories around the globe, gave work to more than 2,200 local people.

This week, Mr. Tanzi was forced off the board, together with other family members, and Mr. Bondi, 69, took over, after Parmalat was unable to account for almost \$5 billion in assets declared on its books.

This week, the local newspapers were struggling to explain the tangle to confused readers, puzzling over the sudden collapse of what appeared to be an Italian national champion, peppering their Italian prose with English expressions that probably meant little to the average Parma reader, like credit default swaps, self reference notes and trigger ratings.

The papers gave Mr. Bondi, who had cleaned up failed family companies in the past, like the Ferruzzi chemical empire in the 1990's, the nickname Mr. Wolf, after the cleanup character played by Harvey Keitel in Quentin Tarantino's "Pulp Fiction." The fear was that Mr. Bondi would break up Parmalat, then sell the assets to satisfy creditors.

Antonio Mattioli, secretary of the local CGIL labor union who helped negotiate a recent plan to streamline Parmalat, said the company's operations generated enough profit to finance itself. "We're lucky the company is profitable and it's professional," he said. "That's where we should depart from."

Then, describing Mr. Bondi as a "chopper of heads," he added: "Let's not think about blowing up one of the last functioning pieces of the Italian economy."

<http://www.nytimes.com>

**GRAPHIC:** Photos: Until this week, when the financial picture of the Italian dairy giant Parmalat led to a change in leadership at the company, Calisto Tanzi, below, and his family reigned like patriarchs in Parma. Enrico Bondi, a turnaround specialist, has taken over the chairman's post from Mr. Tanzi. (Photo by Tony Cenicola/The New York Times); (Photo by Associated Press) (pg. C1); Calisto Tanzi, pictured in 1981 with workers at a factory in Parma, transformed the family's small business into a dairy and food giant. The company's introduction of long-life milk helped it spread its products across Europe and North America. (Photo by Vittoriano Rastelli/CORBIS); Enrico Bondi, Parmalat's new chairman, has helped clean up failed family businesses before. (Photo by Agence France-Presse -- Getty Images)(pg. C3)

Chart: "Parmalat At a Glance"

HEADQUARTERS: Milan

EMPLOYEES: 35,600

CHIEF EXECUTIVE: Enrico Bondi\*

PRODUCTS: Milk, cookies, tomato sauces, ice cream, cheese, yogurt, juices, iced, teas, bottled, water, pizza

Graph tracks revenue from 1999-2002 in euros.

2002

Milk processing: 57%

Dairy products: 23%

Baked goods: 12%

Canned vegetables: 8%

\*Mr. Bondi replaced Calisto Tanzi as chairman and chief executive on Monday. Mr. Tanzi built the company over four decades from a family-run business.

(Sources by Bloomberg Financial Markets; Hoovers)(pg. C3)

Graph tracks daily closing stock price for Parmalat from December 1st through December 15th.

(Source by Bloomberg Financial Markets)(pg. C1)

**LOAD-DATE:** December 20, 2003

