Conceptual issues raised by GI protection for Mediterranean products: the “domestic” side

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the issues from a conceptual viewpoint

a protection for DOs (GIs), why? when? how?

...and an empirical one

are (all) EU PDOs needed? are they effective? (do they all work?)
most food products can be classified as *credence goods* (consumers do not know everything about what they buy, not even after eating it)

**product:** origin
safety
health/nutritional characteristics
GMO/GMO-free

**process:** organic
environmental impact
child labor not having been used
fair trade
animal welfare standards
why a protection for DOs?

In order for a market for products with credence quality characteristics to exist, reputation, a voluntary third party certification or a regulation are needed, providing consumers with a substitute for the trust they cannot develop if the product possesses a valuable credence quality characteristic. A (perfect) regulation is justified, as it corrects the market failure due to asymmetric information.
Q.: is **origin** a credence quality characteristic (i.e. is it a quality characteristic which justifies protection)?

A.: Yes, because some consumers show willingness to pay for certain products with a certain origin, *per se* (some of these consumers are able to identify the difference between a Prosciutto di Parma and a “Parma ham”, some are not, but this is irrelevant as long as they are all willing to pay more for a Prosciutto made in Parma, although for different reasons)
why a protection for DOs?

…if protection is unjustified and not needed, because consumers are able to identify the difference between different products bearing the same name, why producers far away from Parma want to name their different product “Parma ham”? (or California Central Valley, or Calabria, producers want to name a wine “Napa Ridge”)

…why there is no apparent challenge for DOs for wines? What does make the issue for food products different from wines and other alcoholic beverages different?
why a protection for DOs?

made in Mexico!

("stolen" from a presentation by Sylvander)
why a protection for DOs?

Asiago cheeses?
why a protection for DOs?

“The World's Largest Selection of Wisconsin Cheese”

Asiago  Parmesan  Romano  Gorgonzola  Feta
why a protection for DOs?

globalization opens new opportunities for *differentiated* products which can be marketed globally

market reorientation in high production costs countries increases the need for marketing strategies based on product differentiation (as a way to keep a competitive wedge)

more and more consumers demand products which can be linked to a place (although for different reasons, from health risk to local development concerns)

DOs as a tool to induce local development and strengthen local “institutions” and “social capital”
why a protection for DOs?

DOs as a marketing tool: consumers value DOs per se, as they see DOs as a quality signal (better, safer,...); the certification has a value in terms of both market share and price

DO certifications as a NTB to protect the local/domestic market against imports and the use of imported products by the processing industry

obtaining protection for a DO is a cheap and relatively easy way to please a local political market
why a protection for Dos? a EU-only issue?

“COOL” (2002 FSRIA)

www.origin-gi.com
when is a protection for a DO needed?

for the protection to be needed **two** conditions need to be **jointly** satisfied:

- the existence of a “product” to be protected, i.e. a product (a) with a strong, evident link to a place, (b) available in adequate quantities, (c) with homogeneous characteristics, (d) which is perceived by (at least some) consumers as different and better with respect to similar products
when is a protection for a DO needed?

for the protection to be needed two conditions need to be *jointly* satisfied:

- the existence of unfair competition, or a credible potential threat of unfair competition, i.e. the need to protect the product from attempts by others to sell using that name, or a similar one, a different product (i.e. a product having different characteristics or a different origin)
when is a protection for a DO needed?

if consumers already perceive the product as different and better, protection makes it impossible for unfair competition to develop and makes the demand for the product expand, as consumers can now be sure that what they are buying is what they want to buy and are willing to pay for.

if consumers do not perceive yet the product as different and better, protection defends the returns from marketing strategies (to follow…) aimed at inducing that perception.

…”DO protection makes product differentiation/market segmentation possible (it is a necessary, not a sufficient, condition!)"
the conflicts involved in the definition and the enforcement of a PDO

the introduction and the enforcement of a PDO involve a conflict among different domestic and foreign interests

domestic and foreign consumers + domestic producers of “high” quality products

domestic and foreign producers of “low” quality products

…but consumer interests usually play a marginal role in the resolution of the conflict
the conflicts involved in the definition and the enforcement of a PDO

the existence of a conflict may block the introduction of a regulation

the existence of a conflict may induce a weak definition of the product specification (origin and quality standards) in the regulation

conflicts may reduce the effort exerted in the implementation of the regulation (enforcement of product specification, including origin and quality standards)
the conflicts involved in the definition and the enforcement of a PDO

domestic conflicts (implementation)

- Biraghi and Bellon vs. Ravil *(Grana Padano)*
- Consorzio Prosciutto di Parma vs. Asda and Hygrade
- Denmark, France and Germany vs. EU Commission *(Feta)*
- Italian producers of olive oil vs. bottlers
- Italy vs. Hungary *(Tocaj/Tocai wine)*
- NVVA vs. Bronco Wine Co. *(Napa wine)*
international conflicts

Bud vs. Bud

Anheuser-Busch (USA)

vs.

Budejovicky Budvar (Chech Republic)

the conflicts involved in the definition and the enforcement of a PDO
how to protect a DO? here are my 10 rules…

1. a careful *a priori* assessment (a) of the current and potential capacity of the product, as well as its production chain/system, to effectively face the market (volumes, distinctive quality characteristics, homogeneity, pricing, distribution ...), (b) of the existence of a market demand for those quality characteristics, and (c) of the existence of (or the potential for) unfair competition, is needed

2. DOs are a chain issue (agriculture, processing, marketing..), non a agriculture-only one, and need (some) horizontal and vertical integration or coordination
how to protect a DO? 10 golden rules…

3. consumers (in addition to producers, wholesalers, processors…) must be effectively involved in the design of the regulation

4. DOs cannot be (truly) generic denominations and cannot infringe on the rights of producers who have been (genuinely) using that denomination before the introduction of the protection

5. controls should be the responsibility of a (truly) independent third party

6. supply control actions and hidden barriers to entry should be avoided and effectively sanctioned
how to protect a DO? 10 golden rules…

7. rules should be enforced effectively and non-compliance penalties set high (…make penalties for cheating extremely costly and the probability of being caught high)

8. avoid over-regulating

9. avoid under-regulating

10. facilitate quality improvements, quantity expansion and brand development
is there an alternative to protection?

Trademarks (“closed access”)  
(very effective, a very costly option)  
Vidalia Onions, California Almonds, Mozzarella di Bufala Campana

Certification marks (“open access”)  
(effective, a costly option)  
Jamaica Blue Mountain and Kona coffees, Alaska Quality Seafood

“educating” consumers  
(difficult, potentially very effective, very costly)
Champagne Not From Champagne?

No way!

Oh, sure, some sparkling wines may look the part, but if it’s not from Champagne, it’s simply not true Champagne. That’s because Champagne is not merely a type of wine. It’s a specific region 90 miles east of Paris, with a long history of winemaking expertise.

Combine this unique northern location with a one-of-a-kind climate and chalky soil. Then add centuries of experience. The result? The only grapes that yield the Champagne of legend—a heavenly wine that can be imitated but never duplicated. If the grapes are not from this unique region where winemaking is a special art, then the wine is not authentic Champagne.

It does matter where wine comes from. A Napa wine is from Napa, a Willamette wine is from Willamette and a Red Mountain wine is from Red Mountain, Washington.

And, if it’s not from Champagne, it’s simply not true Champagne.

www.champagne.us
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PDOs in practice:
**EU Regulation EC 510/2006 (replaces Reg 2081/92):**

Protected Denomination of Origin (PDO)

“the name of a region, a specific place or, in exceptional cases, a country, used to describe an agricultural product or a foodstuff (**other than a wine**):

- originating in that region, specific place or country;
- the quality or characteristics of which are **essentially or exclusively** due to a particular geographical environment with its inherent natural and human factors, and
- **the production, processing and preparation of which take place in the defined geographical area**”
Protected Geographical Indication (PGI)
“the name of a region, a specific place or, in exceptional cases, a country, used to describe an agricultural product or a foodstuff” (…other than a wine):
- originating in that region, specific place or country, and
- which possesses a specific quality, reputation or other characteristics attributable to that geographical origin, and
- the production and/or processing and/or the preparation of which takes place in the defined geographical area”
for both, DOPs and PGIs the product specification shall include, among other things: a description of the agricultural product or foodstuff, including the raw materials, if appropriate, and principal physical, chemical, microbiological or organoleptic characteristics, the definition of the geographical area; a description of the method of obtaining the agricultural product or foodstuff and, if appropriate, the authentic and unvarying local methods; details bearing out the link between the quality or characteristics (a specific quality, the reputation or other characteristics) of the agricultural product or foodstuff and the “geographical environment”
... a regulation providing consumers with more information?
PDOs in practice: Reg EC 510/2006

710 registered PDOs and IGPs (at the end of May 2006) and 280 more in the pipeline

(at least) two types of denominations:
Asiago, Parmigiano Reggiano, Pecorino Romano, Grana Padano, Prosciutto di Parma, Prosciutto San Daniele, Culatello di Zibello, Capperro di Pantelleria, Limone di Sorrento, Olio Toscano, Olio Chianti Classico Murazzano, Caciocavallo Silano, Bitto, La Bella della Daunia, Asparago bianco di Cimadolmo, Asparago verde di Altedo, Olio Lamezia, Kiwi di Latina
PDOs in practice: the Italian case

In 2000 of the 111 Italian products which had obtained at that time a DO or GI protection only 62 were marketed using the certification.

In 2003 the top 10 Italian PDO and PGI products represented 90% of total market value of these products.

The top 4 – Prosciutto di Parma, Grana Padano, Parmigiano Reggiano and Prosciutto San Daniele – alone covered 70% of the Italian market for PDO and PGI products.
### PDOs in practice: sales of the top 10 Italian PDOs and PGIs in 2003

<table>
<thead>
<tr>
<th>Product</th>
<th>Value (mill €)</th>
<th>%</th>
<th>Cumul. %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Prosciutto di Parma</td>
<td>2,089</td>
<td>24.6</td>
<td>24.6</td>
</tr>
<tr>
<td>Grana Padano</td>
<td>1,569</td>
<td>18.5</td>
<td>43.1</td>
</tr>
<tr>
<td>Parmigiano Reggiano</td>
<td>1,453</td>
<td>17.1</td>
<td>60.2</td>
</tr>
<tr>
<td>Prosciutto San Daniele</td>
<td>814</td>
<td>9.6</td>
<td>69.8</td>
</tr>
<tr>
<td>Gorgonzola</td>
<td>406</td>
<td>4.8</td>
<td>74.6</td>
</tr>
<tr>
<td>Mortadella di Bologna</td>
<td>314</td>
<td>3.7</td>
<td>78.3</td>
</tr>
<tr>
<td>Mozzarella Bufala Camp.</td>
<td>282</td>
<td>3.3</td>
<td>81.6</td>
</tr>
<tr>
<td>Pecorino Romano</td>
<td>281</td>
<td>3.3</td>
<td>84.9</td>
</tr>
<tr>
<td>Bresaola della Valtellina</td>
<td>220</td>
<td>2.6</td>
<td>87.5</td>
</tr>
<tr>
<td>Speck dell’Alto Adige</td>
<td>181</td>
<td>2.1</td>
<td>89.6</td>
</tr>
<tr>
<td><strong>Total top 10</strong></td>
<td><strong>7,609</strong></td>
<td><strong>89.6</strong></td>
<td></td>
</tr>
<tr>
<td><strong>Remaining 114 products</strong></td>
<td><strong>882</strong></td>
<td><strong>10.4</strong></td>
<td></td>
</tr>
<tr>
<td><strong>Total DOP e IGP</strong></td>
<td><strong>8,491</strong></td>
<td><strong>100.0</strong></td>
<td></td>
</tr>
</tbody>
</table>

Source: ISMEA.
PDOs in practice: a taxonomy of EU PDOs and PGI

- Strong regulation
  - Strong reputation/
    - High value of protection
    - (effective marketing)
  - Weak reputation/
    - Low value of protection
    - (effective marketing)
- Weak regulation
  - (empty?)

[Gianni Anania, Montpellier, 26 June 2006]
PDOs in practice: a taxonomy of EU PDOs and PGIs

Fresh fruit and vegetables

- Strong reputation/high value of protection
  - Strong regulation
  - (Effective marketing)
  - Weak regulation

- Weak reputation/low value of protection
  - Strong regulation
  - (Effective marketing)
  - Weak regulation
PDOs in practice: a taxonomy of EU PDOs and PGIIs

- Strong regulation
- Weak regulation
- Strong reputation/high value of protection
- Weak reputation/low value of protection

Wines

(effective marketing)

[Effective marketing]
PDOs in practice: a taxonomy of EU PDOs and PGI s

Olive oils

strong regulation

weak regulation

strong reputation/
high value of protection

weak reputation/
low value of protection

(effective marketing)

(effective marketing)

[Giovanni Anania, Montpellier, 26 June 2006]
References

EU & DOs: http://ec.europa.eu/agriculture/foodqual/quali1_en.htm


