

QUANTITATIVE AND QUALITATIVE EFFECTS OF PROTECTING TRADITIONAL AGRO-FOOD PRODUCTS BY GEOGRAPHICAL INDICATIONS

Slavica SAMARDZIC^{1*}, Sinisa BERJAN², Hamid EL BILALI³, Sabahudin BAJRAMOVIC⁴

^{1*}Ministry of Agriculture, Forestry and Water Management of Republic of Srpska, Bosnia and Herzegovina

²Faculty of Agriculture, University of East Sarajevo, Republic of Srpska, Bosnia and Herzegovina

³Department of Sustainable Agriculture, Food and Rural Development; Mediterranean Agronomic Institute of Bari (CIHEAM - MAI-B), Italy

⁴Faculty of Agriculture and Food Sciences, University of Sarajevo, Bosnia and Herzegovina

*(Corresponding author: slavica92000@yahoo.com)

Abstract

Geographical Indications are protected names of products deriving from a limited geographic area, produced throughout history in a traditional unique way, by using local specific resources. They are much more than simple trademarks and today are considered as a model of rural areas development. The aim of this review paper is to emphasise the effects of agricultural products protection by Geographical Indications, in qualitative (*e.g.* improvement of rural population living quality) as in quantitative terms (*e.g.* added value that these products gain in agricultural market). Geographical Indications (GI) overcome the dimension of pure economic benefit for producers and expand the range of effects to consumers, rural areas, and to entire regions and countries. It is estimated that on global level more than 10,000 products are protected with GI. The sales value of GI products registered in EU-27 was estimated at €4.3 billion in 2010 at wholesale stage in the region of production. The whole value premium rate in EU-27 for GI products was estimated at 2.23, which means that GI products were sold 2.23 times as high as non-GI products. A growing body of evidence shows that typical and traditional products protection by the means of geographical indications has brought about multifaceted benefits to rural communities living in the areas of origin and contributed to improving their livelihoods and quality of life.

Keywords: Geographical Indications, sales value, premium rate

Introduction

The WTO 1994 Trade-Related Aspects of Intellectual Property Rights (TRIPS) Agreement states: “*Geographical indications ... identify a good as originating in the territory of a Member, or a region or locality in that territory, where a given quality, reputation or other characteristic of the good is essentially attributable to its geographical origin*” (art. 22.1) (Belletti *et al.*, 2011). According to the World Intellectual Property Organisation (WIPO, 2010), a geographical indication (GI) is a sign used on goods that have a specific geographical origin and possess qualities, reputation or characteristics that are essentially attributable to that origin. GIs are protected in accordance with international treaties and national laws under a wide range of concepts. When GIs are legally registered, they take such forms as Appellation of Origin (AO), Protected Designation of Origin (PDO) and Protected Geographical Indications (PGI), depending on the categories defined in the various countries and, as such, they become enforceable (Belletti *et al.*, 2011).

Products deriving from a limited geographical area and whose production contributes to the preservation of local knowledge and local specific resources, undoubtedly contribute to increasing the quality of life, of both producers and consumers, and in the broader sense of

entire communities. In this sense, introduction of an institutional system of protection of Geographical Indications (GI) and valorization of systems in which they exist contribute to faster and sustainable development of rural areas. GIs represent a significant potential for many regions, not only in terms of increased revenue, but also in cultural and environmental terms (Bramley, 2011).

It is estimated that on global level more than 10,000 products are protected with GI. About 90% of these products are from the Organization for Economic Cooperation and Development (OECD) countries, while the remaining more than 160 countries have a few protected products (European Commission, 2008a). A much greater number of products are eligible to bear GI but they have no legal protection. However, not all GI products are equally successful in the world market. In many cases, indications of geographical origin are protected in one country but not in another or the purpose and form of protection often differ from country to country. For example, Feta and Champagne are protected in the EU but not in U.S. where the words “feta” and “champagne” have generic meanings.

This paper brings out some quantitative and qualitative data regarding the effects of protecting products originating from limited geographic areas with the use of specific local resources and traditional production methods.

Material and methods

Analysing geographical indications for their economic, social and ecological impacts implies facing with two kinds of challenges. Firstly, it is difficult to obtain suitable data; and secondly, clear methodological parameters are necessary for the analysis of the data collected (Belletti *et al.*, 2011).

Sources of data used in this study were, in addition to the academic literature, the European Commission evaluation studies on GI. The first Evaluation of the Common Agricultural Policy (CAP) policy on Protected Designations of Origin (PDO) and the Protected Geographical Indications (PGI) was carried out in 2008 and the second one on the value of production of agricultural products and foodstuffs, wines, aromatized wines and spirits protected by geographical indications was carried out in 2012.

Results are presented in quantitative and qualitative forms. With quantitative indicators are presented: (1) the total sales value of products under GI, (2) the share of sales value of products under GI in total sales value of foodstuff and drinks sector, and (3) the ratio of market prices of GI products compared to products from the same category without GI. Qualitative indicators refer to the social and geographic parameters on whose development the protection of GI has effects. Quantitative indicators have a more operational character and their use value is higher for administrative purposes, while the qualitative indicators are of more theoretical nature and their use value is higher for academic purposes.

In this review paper there is no distinction between the effects of the GI system (supply chain and network), the protection schemes (legal framework) or cooperation projects or programmes aiming at implementing GI regulations and they are considered altogether (cf. Belletti *et al.*, 2011).

Results and discussion

3.1. Effects of geographical indication protection

Numerous studies conducted in developed and in developing countries, clearly indicate a positive correlation between the protection of local products by GI and local community development. Among positive effects of the protection with GI is certainly necessary to enumerate the following (O'Connor and Company, 2005):

- Increased production, creation of new jobs and prevention of further displacement of population in rural areas;
- Achieving higher sales prices for products due to production methods and known origin;
- Increased recognition of areas of production;
- Achieving other indirect positive effects *e.g.* through the development of rural tourism;
- Contribution to the preservation of biodiversity, local knowledge and natural resources;
- Avoiding standardization of food production;
- Enabling offers of completely different and unique products.

GI products, besides the above mentioned effects on rural community development, also have positive effects on social features of communities from which they derive by contributing to social cohesion by making producers relying on each other, playing a positive role in lifting up local and national identity, and making producers and consumers proud of their unique traditional products (reference?). GIs production often has the potential to obtain positive environmental and social side effects (Belletti *et al.*, 2011).

Radman (2006), states that the geographical origin is a vehicle to increase the quality of food products for the following reasons:

- Use of GI contributes to a better organization of rural areas and population that perform a given production. Production and processing of agricultural food products according to the strict rules of traditional production contributes to retaining skilled people in rural areas;
- GI are themselves holders of greater value, because the ownership is of all inhabitants of the territory, and cannot be privatized;
- GI provide a more equitable distribution of added value along the supply chain, from production, over distribution to consumption;
- GI stimulate production of quality products, which results in greater competition in the market.
- GI contribute to the preservation of identity and cultural heritage of the production region. Being present on global market such products contribute to a positive image of the area of origin, and they encourage and enable producers to be more present on the international scene.

3.2. Economic effects of geographical indications

The sales value of GI products registered in EU-27 was estimated at €4.3 billion in 2010 at wholesale stage in the region of production, of which 56% is related to wine, 29% to agricultural and food products, 15% to alcohol and 0.1% to flavored wine. The sales value increased by 12% in the period 2005-2010. The greatest increase in sales during this period was recorded in the agro-food sector (+19%), mainly as a result of the registration of new GI. In the wine sector, the value of sales rose by 9% mainly as a result of increased selling prices (+8%), while sales volume increased slightly (+1%). France is the leading country with a total sales value of €20.9 billion, which makes 29% of total sales value of EU-27 (Chever *et al.*, 2012).

The total sales value of food and drink sector in the EU-27 in 2010 was estimated at € 956 billion. The share of GI was 5.7% in 2010. In the period 2005 - 2010 growth rate of the total sales value was +13.9%, while the growth rate of GI was slightly less (+12.1%). The largest share of GI sector was recorded in France (14.5% of the total food and drink sector), the three Mediterranean countries (Italy, Greece and Portugal), with approximately 10%, and Slovenia (6%) (Chever *et al.*, 2012). In southern Europe, the culture of protecting GIs is historically embedded. For instance, France has a century of history in promoting official origin-based quality signs (Sylvander *et al.*, 2007).

Economic data from developing countries is very difficult to find, however, there are some estimates. According to Giovannucci *et al.* (2009), for example, the total value of exports of Basmati rice from India in 2007 amounted to \$1.5 billion, while data from Pakistan from 2001 talk about the value of exports of \$250 million. Export value of Tequila from Mexico in 2007 was estimated at \$725 million. Total exports of Mountain green coffee from Jamaica brought \$24 million in revenue in 2008. By improving market access, GIs can lead to higher incomes through increasing the volume of goods sold. But GIs have a further potential income effect through the collective process of value creation (Barjolle and Sylvander, 2000) that could lead to the capturing of a premium. This GI embedded value is a mixture of economic, cultural and social values which derive from locality; the so-called “*immaterial dimension of food consumption*” (Reviron *et al.*, 2009).

Many studies provide evidence of price premiums for GIs from developed countries. These studies include willingness to pay surveys which have found that 43% of consumers in the EU are willing to pay a 10% premium for a product with GI labelling, while 8% of EU consumers have indicated a willingness to pay a 20% premium (Berenguer, 2004).

The whole value premium rate in EU-27 for GI products was estimated at 2.23, which means that GI products were sold 2.23 times as high as the same non-GI products. A comparison of the average value premium rates between schemes shows that GI wines are sold at a price greater than 2.75 with respect to wines without GI, GI spirits at a price 2.57 times higher compared to drinks without GI, and the lowest price premium rate, 1.55 times or less, is that recorded in the case of agricultural food products with GI.

The total value premium of EU-27 GIs was estimated at €9.8 billion. Wines contributed 65% (€9.3 billion), agricultural products and foodstuffs 19% (€5.6 billion) and spirits 16% (€4.9 billion).

Ex Yugoslavian countries are in a very different steps regarding its approach to the protection of local products by a GIs. Slovenia, who is full EU member since 2004, has 16 products bearing GI signs (European Commission, 2013). Croatia has entered EU with 13 products protected by GI on national level and none of them is protected on EU level (MPRH, 2013). Bosnia and Herzegovina still has no resolved conflict of jurisdiction which institution is responsible for registration of GI.

The economic benefits of geographical indications come mainly from differentiation: a special quality linked to the territory is acknowledged by consumers in the country and outside (Belletti *et al.*, 2011). In fact, the demand for GIs is based on the economics of product differentiation (Moschini *et al.*, 2008) so it affords producers a valuable opportunity for the creation of territorially-differentiated niche markets.

3.3. General effects of geographical indications

GI overcome the dimension of pure economic benefit for producers and expands the range of effects on consumers, rural areas, and to entire regions and countries. Bramley (2011) in a literature review on the socio-economic impacts of GIs dealt with the following issues: quality signalling in support of consumer and producer welfare; improved market access through differentiation and value creation; rural development dynamics; the preservation of traditional knowledge; and the preservation of biodiversity.

It is widely articulated that protected GIs may contribute to rural development (cf. Van de Kop *et al.*, 2006). GIs potentially impact rural development in two ways. Firstly, through the remuneration of specific assets directly involved in the production process. Secondly, the GI qualification process itself, by defining product standards and signalling territorial values embedded in the GI product increases the ability of capturing price premiums. Also, by preventing the diversion of income from misappropriation, GIs enable producers to

potentially enjoy larger income flows from their origin based production processes (Zografos, 2008).

GIs have for many years been the main pillar of the European Union's agricultural product quality policy and are seen as a strong development tool for lagging rural economies. The EU's perspective on GIs has been described as "*a legal and commercial basis for development of rural areas, the preservation of cultural heritage and the promotion of small and medium firms in the rural economies context*" (Sylvander and Allaire, 2008 in Hughes, 2009).

From the perspective of consumers, GI indicate the important characteristics of products that are not often checkable by a simple inspection control. For example, consumers cannot easily determine wine quality, nor its production process, or whether a cheese is made using traditional production methods. Geographical origin is indicated not only by the link between a product and the region of production, but automatically includes the application of a particular method of production, well-known characteristics and quality of a given production region.

A consumer's survey in the USA in 2005 has shown that 72% of respondents think that the geographical features of the place of production, such as land, affect the quality and taste of food (De Carlo *et al.*, 2005). Research carried out in 1999 in the EU, which was conducted on a sample of 20.000 consumers, showed that the main motive for buying a product of known geographical origin for 37% of respondents is the guarantee of origin of the product, 35% expected a better quality, 31% for specific place and method of production, and 16% for tradition (Berenguer, 2004). It further showed that 50% of respondents are willing to pay between 10% and 20% higher prices for products with protected geographical indications.

For rural regions GI can be a platform for affirmation and validation of unique socio-cultural and agro-ecological characteristics. They also have a positive impact on building the reputation of the territory, increasing sales of other products and strengthening rural tourism. In recent years, rural development policy strategies are increasingly based on strengthening local produce and other local values of the territory.

Certain regions and countries have a very positive experience in increasing income of farmers, processors and distributors thanks to products protected with geographical indications. Among such products that enjoy a reputation on the global level can be cited: French Cognac, Italian cheese Parmigiano - Reggiano, Jamaican blue mountain coffee, Scotch whiskey, citrus from Florida; all of which are protected with GI. It is well known that regions from which these products originate have achieved significant levels of economic development, which can be explained by adequate use of natural and cultural resources. Currently, 167 countries, mostly economically developed countries, have developed legal basis for the protection of geographical indications. According to the EC, the strategy for protection of GI has made the expected economic effects. Developing systems of protection of geographical indications is still a new area but certainly promising especially for countries whose agriculture is based on small family farms with extensive and traditional production systems. In fact, more and more cooperation programmes regarding GI framework and the registration of products are being launched in transition and developing countries (Barjolle and Salvadori, 2010).

Nevertheless, GI laws cannot by themselves guarantee benefits for rural development (Hughes, 2009; Belletti *et al.*, 2011). GI registration does not guarantee a fair distribution of value to producers nor positive environmental and social effects. These effects depend strongly on the quality of the supply chain governance and on the elements of the code of practices (Hughes, 2009).

Conclusions

Traditional and typical products are the result of complex production systems strictly interrelated with many dimensions of territorial development going beyond economic issues to involve social and environmental dimensions as well. Geographical indications in their simplest form are signs that recognise the link between a product reputation, quality or some other characteristic and its geographical origin. It is undisputed that there are significant benefits attached to GIs. Geographical indications have positive effects on producers and the wider regions of origin. One can even speak about their positive impacts at the national level in some countries. The legal protection of GI products is often conceived as a lever for activating local development dynamics and defending territorial production systems with a high degree of site specificity against pressures coming from globalisation. However, achieving these dynamics is not a simple process and requires concerted efforts.

While the share of the value of sales of GI products in the total value of sales in certain countries reached 14%, there is nowadays in Bosnia and Herzegovina a general confusion in terms of laws and regulations, and the institutions responsible for the management issues related to geographical indications. Although Bosnia and Herzegovina under the Stabilisation and Association Agreement (European Commission 2008b) engaged to align this subject area with the current European legislation no significant progress has been recorded so far.

There are particular challenges to harnessing the potential socio-economic benefits of geographical indications. In addition to suitable legal protection, the GI process needs the support of appropriate institutions and policies. GIs are multi-dimensional instruments so informed policy decisions around GIs should therefore beyond economic considerations take into account the potential social and environmental benefits.

References

- Barjolle D. and Sylvander B. (2000). PDO and PGI products: market, supply chains and institutions. Final Report, FAIR 1-CT95-0306, June. European Commission, Brussels.
- Barjolle D. and Salvadori M. (2010). Geographical Indications and International Cooperation in Developing Countries: an exploratory analysis of projects and institutions. Expert meeting on technical cooperation programs related to originlinked products and geographical indications, Pergny-Geneva, AGRIDEA, FAO, Rome.
- Belletti G., Marescotti A., Paus M., Reviron S., Deppeler A., Stamm H., Thévenod-Mottet E. (2011). The effects of protecting Geographical Indications: ways and means of their evaluation. Publication No 7 (07.11); second, revised edition; Swiss Federal Institute of Intellectual Property, Bern.
- Berenguer A. (2004). Geographical indications in the world. Proceedings of the Workshop “Promoting agricultural competitiveness through local know-how”; 7–10 June; French Agricultural Research Centre for International Development (CIRAD), Montpellier.
- Bramley C. (2011). A review of the socio-economic impact of geographical indications: considerations for the developing world. Paper prepared for presentation at the WIPO Worldwide Symposium on Geographical, Indications, June 22 – 24, 2011, Lima.
- De Carlo T., Franc V., Pirog R. (2005). Consumer perceptions of place-based foods, food chain profit distribution, and family farms. Leopold Center for Sustainable Agriculture; Ames (Iowa).
- European Commission (2013), Available at: <http://ec.europa.eu/agriculture/quality/door/list.html> Accessed on 22/07/2013

- European Commission (2008a). Evaluation of the CAP policy on protected designations of origin (PDO) and protected geographical indications (PGI). Final report. London Economics in association with ADAS and Ecologic, London.
- European Commission (2008b). Stabilisation and Association Agreement signed between the European Communities and their Member States and Bosnia and Herzegovina. European Commission (EC), Brussels.
- Chever T., Renault C., Renault S., Violaine R. (2012). Value of production of agricultural products and foodstuffs, wines, aromatized wines and spirits protected by a geographical indication (GI). Final report, October 2012; European Commission, Brussels.
- Giovannucci D., Josling T., Kerr W., O'Connor B., Yeung May T. (2009). Guide to Geographical Indications: Linking products and their origins. International Trade Centre (ITC), Geneva.
- Hughes J. (2009). Coffee and chocolate: can we help developing country farmers through geographical indications? Report prepared for the International Intellectual Property Institute, Washington DC.
- Moschini G., Menepace L. and Pick D. (2008). Geographical indications and the provision of quality in agricultural markets. *American Journal of Agricultural Economics*, 90(3), August.
- MPRH (2013), Ministry of agriculture of Republic of Croatia, Available at: <http://www.mps.hr/default.aspx?id=6078>, Accessed on 22/07/2013.
- O'Connor D. and Company (2005). Geographical Indications and the challenges for ACP countries. CTA (Technical Centre for Agricultural Cooperation ACP-EU). Available at: <http://agritrade.cta.int/en/content/download/2026/54966/file/9ff273fdcd02bad5354991647de82f9c.pdf>
- Radman, M. (2006). Strategies and tools for valorization of typical products. Lectures, Master course - MISS (Sustainable Development of Agricultural and Rural Areas of the Adriatic-Ionian Basin), Agriculture Faculty, University of Bologna.
- Reviron S., Thevenod-Mottet E. and EL Benni N. (2009). Geographical indications: creation and distribution of economic value in developing countries. Swiss National Centre of Competence in Research (NCCR) Working Paper no 14, Bern.
- Sylvander B., Lagrange L. and Monticelli C. (2007). Les signes officiels de qualité et d'origine européens. Quelle insertion dans une économie globalisée? *Economie Rurale*, 299: 7-23.
- Van de Kop P., Sautier D. and Gerz A. (2006). Origin based products: lessons for pro-poor market development. Royal Tropical Institute (KIT) and CIRAD, Amsterdam.
- WIPO (2010). Geographical Indications - An Introduction. World Intellectual Property Organisation (WIPO), Geneva. Available at: http://www.wipo.int/export/sites/www/freepublications/en/geographical/952/wipo_pub_952.pdf
- Zografos D (2008). Geographical indications and socio-economic development. IQSensato Working paper no 3, Gene