Geographical Indications: creation and distribution of economic value in developing countries

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ABSTRACT: This report answers to basic questions about Geographical Indications, mainly economic issues. What are the conditions for a product to qualify? How do Geographical Indications create value? What may be the benefits of a collective organisation? What kind of protection tools are currently used by GI alliances? May a GI system be a tool for getting positive social and environmental side effects in developing countries?

KEY WORDS
Geographical Indications, typicality, product differentiation, creation of value, distribution of value, collective organisation, social and environmental side effects, protection tools.

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Introduction

According to Article 22 TRIPS definition, Geographical Indications (GI) are: “indications which identify a good as originating in the territory [of a member] where a given quality, reputation or other characteristics of the good are essentially attributable to its geographical origin”. Geographical Indications are often analysed as a tool to protect artisan products with a strong link to a territory against industrial copies and usurpations. Besides this legal aspect, recent research conducted in European countries has highlighted the ability of GI products to create economic value and to distribute a certain share of the price premium to the producers of the raw material in the concerned rural area.

This study focuses on the following questions: are positive economic effects observed in developing countries? Do GI products have the ability to create economic value and to distribute a part of it to farmers? Can this economic tool based on a profitable business generate also positive social and environmental side-effects?

Section 1 presents an overview on the present economic impact of GIs in developing countries. Section 2 highlights the idea that GI products, according to the economic theory, belong to the family of differentiated products, which explains the premium paid by consumers at the national and the export level. Section 3 is focused on the distribution of premiums to farmers, which is not guaranteed by the registration process alone and depends on the set-up and the management of the collective organisation. Section 4 deals with the question of collateral positive social and environmental effects that may be generated by overall economic performance. Section 5 discusses the choice of protection tools at the international level and its effects on competition.

1. The economic impact of GIs in developing countries

It is difficult to measure the global turnover of GIs in the world, because of a very large number of different food and non-food products, a lack of inventory of potential GI products in many countries, a high diversity in size, a variety of legal definitions, and a lack of data in developing countries on volumes and prices at different levels of the supply chains. In this section, we have highlighted similarities regarding the economic impact of GIs in developing countries, and have illustrated our presentation with case-studies.

Section 1.1 insists on the fact that GI products belong to an intermediary regime in the agri-food sector, between a dominant regime and niche markets, because of the strict conditions to qualify. Section1.2, using case-studies, shows that the turnovers generated by different GI products have a crucial economic impact on the concerned territories, and on rural families’ living conditions.

1.1. GIs will never become a dominant regime because of conditions to qualify

All food and non-food products that come from a region cannot become GIs as they do not qualify. The TRIPS agreement definition requires “a given quality or reputation linked to a territory”. This condition limits clearly the number of eligible products and an inventory has to be made in countries in order to identify them. However, this condition also leads to commercial value on the market. Some countries may benefit
more than others from this heritage, as their culture and their political history has maintained food and handicraft traditions alive.

To be a GI, a product has to fulfil two conditions:

- **Condition 1 is specificity linked to a territory** (“terroir”), which makes the product clearly distinguishable from its competitors from other regions. Specificity comes from geographical characteristics (climate, soil…) and/or traditional processing know-how.

The question of the non standardisation of artisan products opens the issue of the identification of the authentic products from the fake ones. Typicity / specific quality of food products are verified through blind tasting by experts. This competence is developed in developing countries, where producers and buyers have skills and experience to decide which batch is acceptable and which is not. Typicity is acknowledged by tradition and experience. But laboratory analysis may be necessary for identifying a specific profile and proving authenticity or adulteration, especially for non-food products.

Cup tasting is very common for classifying roasted coffee. For 75% of exporters of Costa Rica coffee, sensory attributes (such as flavour, aroma, acidity and balance) are the strongest attributes of quality (survey realized by ICAFE, CIRAD and PROMECAFE, Avelino & al., 2005).

In Morocco, Argan oil was traditionally produced, processed and used by women for food and cosmetics. It has become a fashion product in European countries. Its very high price at the consumer level (more than 20 Euros per litre) has led to the arrival on the market of fake products. Laboratory analysis appears to be a reliable tool for proving authenticity, by identifying a specific profile and chemical tracers (Guillaume & al., 2007; Hilali & al., 2007). In Mongolia, laboratory analysis on UV’s sea buckthorn oil has highlighted a very high level in fatty palmitic and palmitoleic acids, which are much appreciated in the cosmetics industry (Tseelei, 2008).

The European Union interprets very strictly this condition: typicity has to be proved, in relationship with tradition and historicity. This historical dimension is not explicitly required in the TRIPS agreement. In European countries, the product must be inherited from previous generations and is the result of transmission (Bérard, Marchenay and Casabianca, 2005). Many developing countries have followed this approach and introduced in their national law the European template, considering that GI is a tool for valorising traditional know-how.

In some countries, typicity is threatened by general hygienic national or international norms that may ban some traditional products, mainly cheeses and other raw milk products, or dried or smoked meat products. The traditional methods for preservation may not strictly comply with new requirements based on modern hygienic standards (pasteurization, use of preservatives…). The identification of these products during GI inventories and registration process may help to obtain technical assistance or flexibility and eventually exemptions for maintaining the traditional know-how and culinary patrimony.

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1 The problem has been already met in European countries (for example Pistoia mountain cheese in Italy).

2 These issues have been addressed in the background paper on “traditional regional agricultural and food products” of the FAO 26th Regional Conference for Europe (June 2008), paragraphs 20-23, pp. 7-8
Identifying geographical limits of the “territory” is a crucial question. In some cases it is easy (when the product is strongly linked to a specific eco-system and/or when the processing know-how is observed only in a clearly delimited area in relation to cultural /ethnic traditions) but may be difficult when production know-how has spread within the country or even has been exported abroad. However, there are solutions and it is possible to select disconnected areas. The consequences are of crucial importance for sellers who will be authorized to use the protected name only if the producers are located within the geographical limits. This question is a major issue during the registration process. Another issue is the question of the location of (different stages) of processing, storing and distributing.

- **Condition 2 is consumers’ acknowledgement.** The product has a name and is trustworthy; its reputation is acknowledged by consumers (and other clients such as restaurants or second processors), who link a name with a specific quality that comes from its origin. Reputation has to pre-exist before registration. GI registration recognizes and protects products that are already famous and not novelties that would try to falsely label their product, looking for the commercial value of an internationally sanctioned appellation. Of course, the GI registration may boost a product sales but from a pre-existing good position on the market.

Reputation of the name and link made by the consumers between a product and a region are measured by surveys. The objective is to verify if consumers associate a “special” quality for the GI product and if they may be misled in their expectations.

The product name may be a geographical location (Tequila, Habanos) or a generic word combined with the name of the region (Blue Mountain coffee). There are presently legal battles about GIs that bear a variety name or a common name (Basmati, Roobois). Large companies – and sometimes the courts – consider it as a principle that this kind of name is generic and cannot be reserved to delimited geographical areas or to traditional varieties.

The Indian government during the legal battle against a US company about Basmati rice has argued, using surveys, that consumers in UK associate the name to the whole Indian sub continent.

Some GI products are named by the name of the country (Café de Colombia) because of its reputation in the US and European countries. However production is limited to specific areas (see condition 1), whose names are famous in the country but unknown outside.

In Colombia, coffee is grown on 6.4% of the national territory (7,3 mio ha) but the **GI “Café de Colombia”** is produced on less than 900,000 ha, in 590 municipalities.

Products that fulfil these two conditions – typicity linked to a territory and reputation - are de facto GIs, even if the operators are not aware of it, or if there is no legal framework in the country that offers registration, or both. We will call them potential GIs to differentiate them from the registered GIs.

These conditions limit the number of products that are eligible. According to Roep & al. typology (figure 1), GI products may be considered as an intermediary regime, a third way between conventional or normalised products that are processed and sold by the industry (the dominant landscape) and very small size local products (niches).

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3 This concerns some food processed products and is also very often the case for handicraft products.
According to this representation, a novelty hopes to scale up and one day become a dominant landscape (path 3). GIs usually do not follow this path and it is not their ambition. To avoid quality lapses and because of the limited resources of the territory, growth and scaling up are controlled and often limited (path 2).

**Figure 1: neither a niche market nor a dominant landscape**

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Despite this intermediary position, compared with commodities and normalised products that have a dominant position on the international market, the turnover generated by product suppliers offers real economic perspectives that are very welcome in the concerned territories.

1.2. **A profitable business for concerned regions in developing countries**

Case study analysis shows the importance of the business for the concerned regions, which are often very poor rural areas with low alternative economic perspectives.

We have selected case studies of products that are genuine GIs (they respect the two conditions to be eligible according to the TRIPS Agreement), and that are marketed on the national and the international markets. These case-studies are presented in report 2. Table 1 indicates an estimated turnover at different levels of the supply chain.
Table 1: turnover of different GI products (estimates, using volumes in liters or tons and prices)

<table>
<thead>
<tr>
<th>Product</th>
<th>Argan oil</th>
<th>Cashmere wool</th>
<th>Coffee of Costa-Rica</th>
<th>Habanos cigars</th>
<th>Rooibos tea</th>
<th>Tequila</th>
</tr>
</thead>
<tbody>
<tr>
<td>Country</td>
<td>Morocco</td>
<td>Mongolia</td>
<td>Costa Rica</td>
<td>Cuba</td>
<td>South Africa</td>
<td>Mexico</td>
</tr>
<tr>
<td>Main regions</td>
<td>Souss</td>
<td>Tarrazù, Orosi+ 5 other areas</td>
<td>Cedarberg mountains</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Turnover producers ($)</td>
<td>2 mio</td>
<td>80 mio</td>
<td>160 mio</td>
<td>unknown</td>
<td>22 mio</td>
<td>Vertical integration</td>
</tr>
<tr>
<td>Turnover wholesale ($)</td>
<td>unknown</td>
<td>180 mio</td>
<td>240 mio</td>
<td>200 mio</td>
<td>150 mio</td>
<td>6 mia</td>
</tr>
<tr>
<td>% export</td>
<td>70% + tourism</td>
<td>90%</td>
<td>80%</td>
<td>90%</td>
<td>60%</td>
<td>80%</td>
</tr>
</tbody>
</table>

This table highlights value that is added between the farmer level and the wholesale level. In most cases, added value is generated by processing downstream in the supply chain. GIs are not only a producer affair but may generate added value and employment in the national processing industry. The supply chain distribution power is also a major issue in developing countries.

In Mongolia, the raw cashmere wool is paid to the herders 24 to 30 $/kg, according to the quality. Knitted wool is sold 80 to 150 $/kg. In 2005, out of total 3000 tons of cashmere produced, 1600 tons were sold to Chinese traders and exported with the least value added possible, as raw/greasy cashmere. According to the Textile Institute of Mongolia, if all the cashmere that entered the processing value chain had been fully processed into high quality knitted garments and exported, net exports would have doubled. Employment would have increased from at present 2500 to 7000 people.

Green coffee is often considered on the international market as a commodity that gains its commercial value and specific quality when roasted. From 1997 to 2002, there was a coffee paradox (Daviron & Ponte, 2005): prices were increasing at the consumer level and decreasing at the producer level.

Rooibos tea is harvested by producers, bound into bundles and taken to the processing units. The leaves are then bruised between rollers to activate a fermentation process. In a final process, the tea is sterilized with steam, dried and blended (the product is sorted and graded according to colour, flavour and aroma). Rooibos Ltd, which processes 75% of the production considers this last step as having an important influence on the final quality and taste of the product (Gerz & Bienabe, 2008).
Some GI product turnover may seem small to urge for international protection. However, in a country or a rural region, the economic impact may be crucial, for the gross domestic product (GDP) and average income in the country. Even for very small GIs that are sold on the national market, the impact of the economic activity may be crucial for the region or even a group of villages.

The growth of the argan oil sales on the national and the international market has affected very positively the economy of the Souss Massa Drâa region in Morocco (product sales and tourism activities).

The raspberries of Arijle (a village of Serbia) represent 30% of the frozen raspberries world market for industry and provide prosperity to all inhabitants of the village.

In some cases, the global turnover of a basket of GIs has a significant impact on a region or a country. A basket of GI products in a country may be impressive when the products’ turnovers and volumes are compiled. Very often, the successful launch of a first GI leads to a more complete and systematic inventory in order to develop new products.

To summarise, a GI is defined by four characteristics:

- a name (the GI itself) with a good reputation among clients
- a recognised typicity /uniqueness compared with competitors, linked to the territory.
- a delimited geographical area for production of raw material and / or processing.
- specific production process usages (written in a code of practice or not).

This definition opens the following question that will be presented in section 2: Why, and how, do these characteristics lead to value creation?

## 2. GI create economic value because of differentiation

GI labelled products are a specific form of business, which must be commercially successful in order to survive on the marketplace. This section explains that GIs have the ability to create value because they are differentiated and offer a profitable response to targeted consumers’ specific needs. Section 2.1 is dedicated to the theoretical affiliation of GI products, which is crucial for understanding the GI competitive position on the market pitch. Section 2.2 presents the practical consequences of differentiation on the marketing strategy of a GI product. Section 2.3 highlights the price premiums paid by consumers in developed countries. Section 2.4 deals with the issue of certification. Section 2.5 discusses the question of price premiums paid to producers.

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4 In EU, GI turnover is 19 mia $ in France, 8 mia $ in Italy. The basket of the 10 Swiss PDO cheeses represents more than 40% of the milk collected in Switzerland and it is the first agri-food product group regarding export.
2.1. GIs belong to the micro-economic theory of monopolistic competition

In a recent scientific paper, the American economists Moschini, Menapace and Pick (2008) recall that the demand side of GIs is rooted in the economics of product differentiation, which provides an attractive formulation on how consumer preferences value quality.

The Economics of product differentiation, named “Monopolistic Competition” was established by the American economist Chamberlin (1933), which has relaxed the hypothesis of good homogeneity of the pure competition model. The product is not “generic”, which means that batches cannot be mixed or replaced without damage or loss for the buyer. Differentiation has strong theoretical consequences:

- When a product is differentiated, the market appears to be a network of connected small sub-markets, each with one seller. The concept of global supply does not work anymore and it is not possible to build a global demand curve.

- When the hypothesis of differentiation is verified, each seller’s individual demand curve depends of the characteristics and the price of its close substitutes. Price is higher than in a context of pure competition but is variable; it depends on the pressure of substitutes.

- Differentiation leads generally to an increase of production and sales costs. Chamberlin includes advertising costs, because differentiation cannot create a preference if information is not provided to the buyer.

- Production and sales costs are crucial because they move the individual demand curve up and/or right. This means that the seller may expect to sell more products at the same price (than for a generic product) or at a higher price.

When a product is differentiated, some consumers (but not all) express a preference and a willingness to pay a higher price. The market is segmented and price premiums are obtained on the market segment, if a good marketing strategy is implemented.

Concerning GI products, despite some differences in the recipe between producers that confer the artisan character to the product, the quality is globally differentiated and distinguished by consumers from the generic competitor (most often an industrial product). The intra diversity is much lower than the inter diversity. We will see in section 2.4 how the code of practices and certification deals with this issue.

Moschini, Menapace and Pick (2008, opcit) conclude an increase in consumer welfare. Before the introduction of a GI, only the low quality good is supplied or qualities are mixed. After the introduction of a GI, consumers who do buy the high-quality goods are better off because of increased utility, whereas consumers who continue to buy the low-quality goods are unaffected.

The most well-known differentiated products are trademarks. GIs belong to the same family of differentiated products that follow the laws of “monopolistic competition”. These theoretical results have been applied with great success in marketing management, which has developed tools for practitioners.
2.2. Classic marketing tools apply to GIs

Marketing management has developed tools for developing sales, based on the construction of an efficient Unique Selling Proposition (USP). The Unique selling proposition has been defined by R. Reeves (Chairman of the Board at Ted Bates & Company) as:

- A proposition made to the customer: "buy this product, and you will get these specific benefits."
- The proposition itself must be unique - something that competitors do not, or will not, offer.
- The proposition must be strong enough to pull customers to the product.

Each product fulfils specific consumer needs. It is usual to make reference to Maslow’s pyramid (1954) which considers that consumption is based on two elements: a functional use and immaterial components. Consumption is also a social act. Maslow considers the first level of needs as physiological (physiological need): to eat, drink, dress, to keep warm oneself. Ones these physiological needs are covered, individuals look to answer the need for safety (safety need). Once this is assured, belonging need (belonging - love need), satisfied by the family, friends and social groups, will become a priority. Maslow proposes that it is only once one is anchored in a community, that one can develop self-esteem (self-esteem need), that reassures one’s value as an individual. Once this is obtained, the need of acting appears (self-actualisation need). To the left of the pyramid, we have added two other needs (hedonism need and beauty need), that are important for the origin-labelled foods (figure 2).

![Figure 2: GI products positioning in the Maslow pyramid](image)

Products with a promise of origin increase the immaterial dimension of food consumption and make consumers “climb up” the Maslow pyramid, as they answer their hedonistic (taste), food safety (quality control), belonging (link with a territory and a social identity), beauty (aesthetic landscapes). In addition, and unlike some trademarks, GIs may mobilise among some consumers self-actualisation needs (defence of a slow food production process, criticism of the industrial model that is suspected to develop non-tasty food). This consumer response explains willingness to pay and price premiums at the consumer level.
Large companies use sophisticated and expensive tools for analysing their market and their clients. GIs marketing is much more intuitive, even in European countries, but nevertheless, the general principles of marketing apply, in order to propose to consumers an attractive Unique Selling Proposition and get premiums on the market. The general marketing approach applies to GI producers but has often to be adapted to a small budget. In European countries, wholesalers and retailers are using it heavily for marketing GI products from developing countries in order to promote consumers’ preference and willingness to pay.

2.3. **Premiums paid by the consumers**

Shopping in the European supermarkets shows that GI products from developing countries are sold at a very high price.

Coffee and cocoa are sold and considered as commodities on the international markets, even if some origins obtain price premiums from importers over the futures market price. Until recently, origins were mixed, and coffee companies were investing mostly in their trademarks. For a few years, origin has become an important image attribute. Coffees are sold by origin to a public of “connoisseurs” at a very high price compared with conventional coffees (picture 1). Some companies use regional names, even if the product blend is not guaranteed. The case of Starbucks using Ethiopian regions’ names of “Harar” and “Sidamo” is well documented because of the law suit from Ethiopia.

The development of black chocolates (with a content of cocoa superior to 70%), due to a dietary recommendation in European countries, has led to a classification of products by origin. In European supermarkets, black chocolate is sold by origin to European consumers at a higher price compared with generic black chocolate (pictures below).

Rooibos tea is now very attractive to consumers, due to a dietary recommendation. Products are sold with names and pictures from South Africa but the real origin of the product is not mentioned (picture below).

Argan oil is sold by a Swiss retailer as a premium product at a very high price (picture below).

Tequila is sold at a very good price is the US and export has doubled since 2001.

Habanos are the most expensive cigars in the world.

These examples show that GIs products from developing countries have the ability to obtain price premiums at the consumer level in European countries and in the US, because of their perceived uniqueness and convincing selling proposition. They may also convince consumers in their own country, especially in a context of urbanisation. This commercial value explains why their name and designs are so often copied by competitors (as it is for trademark names subject to usurpations and counterfeiting). However, in most cases, premiums are maintained at the consumer level maintain over time or even increase, because the GI label increases consumer information, awareness and trust.
Packaging and prices at the consumer level in Switzerland - 2008

- Bonga Coffee - Ethiopia
  6.90 Fr. / 220 g

- Rooibos Capetown – South Africa
  2.80 Fr. / 28 g

- Argan oil (Morocco)
  12 Fr. / 100 ml

- Origin labelled black chocolate
  2.95 Fr. / 100g
2.4. Certification as a quality signal and guarantee for consumers

Commercial competition may lead to a quality lapse when some producers are tempted to lower the quality knowing they will not be easily identified. Writing a code of practices is the first step for defining what is accepted and what is not, and to formalise the current pre-existing non-written usages. It is not a technical norm but a clear description of what has to be respected in the production process in order to use the protected name. It says what is acceptable and what is forbidden. However, it is a basic description that does not reveal the know-how and processing secrets that would allow competitors to replicate the product. It leaves technical leeway to respect the artisan character of the product. The template for the code of practices developed in European countries has been adopted in many developing countries:

- Part 1: name and geographical area
- Part 2: description of the product
  - raw material
  - chemical characteristics
  - organoleptic characteristics
- Part 3: description of the production method
  - raw material production
  - processing
- Part 4: Final product test
- Part 5: labelling, traceability, controlling

Defining the code of practices is a crucial decision because it may exclude some producers or processors within the geographical limits. It says which products are in and which are out, which producers are in, which are out.

Certification is a second step to guarantee quality to consumers and protect honest producers. A minimum size is required because of certification costs.

In developing countries, certification is already at work for export of products. The organisation is often under the authority of the public authorities or the Chamber of commerce (coffees, cocoas, tequila, rooibos...). It is not so common for products sold on the national market, because of direct, long term, trustful relationships between producers and consumers on green markets. However rapid urbanization and developing diasporas may incite producers to better guarantee quality to consumers.

2.5. Premiums paid to the producers are not guaranteed by registration

GI products have the ability to create value and to distribute it in the supply chain. It is common to observe price premiums paid to the producers.

Antigua coffee (Guatemala) (2002): Average world price of coffee grains: 0.50 $/lb, average world price of Antigua coffee grains: 1.5 $/lb

Argan oil: Between 1996 and 2006 the price for one liter argan oil at the Tidzi cooperative's gate increased from 35 DH (3.5 Euro) to 200 DH (20 Euro). 50% of the price of oil exports is transferred to the women, the rest used for the transportation, the functioning of the association and the commercialization (Charrouf, 2007).

However this fair distribution of value is not guaranteed by the registration process. GIs by themselves do not guarantee producers’ benefits (Moschini & al., 2008 opcit).
European experience has shown that not all GI initiatives distribute price premiums to their producers. The objectives and management of the collective organisation, and the cohesion between operators are crucial (Barjolle & al., 2008).

3. Collective organisation may lead to a fair distribution of value to producers

Collective organisation is not a TRIPS condition and in some countries the national law authorises even a single company to apply for the registration of a GI. Collective organisation used to be in the EU an implicit condition reinforced recently by the European PDO-PGI regulation (and the Swiss law) that consider GIs to be collective property. In order to register, actors have to set up a representative organisation and to adopt a common code of practices.

Besides legal aspects, from an economic point of view, collective organisation has also shown to be a powerful tool for creating and distributing value.

3.1. A credible alternative to classic forms of organisation

Collective organisations are a credible alternative to the entrepreneurship form of capitalism. In both cases, business is made to create wealth, by producing and marketing a differentiated product to consumers. But the entrepreneurship form is characterized by a “principal/agent” relationship, where the firm faces a risk of suppliers’ “hidden action” (Hendrikse, 2003, p. 95-96). In collective organisations, it is replaced by a contract based on controlled trust between partners. This type of collective organisation is well suited for small-size producers and artisan enterprises, allowing them economies of scale without losing their decisional power. In developed countries, it has the proven ability to create lasting value which improves with reputation, and prevents partners from harsh delocalisation.

Interesting similarities were identified in the organisational pattern of European PDO-PGI products, using case-study comparison methods (Reviron & Chappuis, to be published).

Firstly, most of these collective organizations are driven with the help of a hired facilitator, with various tasks: coordination of meetings, marketing research, technical assistance, social cohesion of the group.

A limited number of models were observed: the most common was an inter-professional association; the second one a professional association with a single level in the supply chain (often first processors):

- An **inter-professional association** gathers members from various levels in the supply chain, for example milk producers, cheese processors, ripeners and even retailers. It has no commercial activity: it does not sell or buy goods. Its mission is to co-ordinate the members’ action in order to ensure that the common objectives are reached. One of its main missions is the issue of quality, generally in collaboration with an independent certification body. The association is piloted by an assembly of delegates and a board which hires a facilitator, whose task is to help operators work together. Decisions are made collectively. Acceptance of new members located in the geographical area is theoretically allowed once the product is PDO or PGI-registered but a waiting list is common in order to adjust supply to demand. This model is the most common in European countries.
- A professional association is composed of operators from one level of the supply chain, very often processors of a PGI product. It is piloted by an assembly of delegates and a board. Parma Ham in Italy is a one-level association. This model is very common when the link between producers and processors is weak or inexistent (spot market transactions or vertical integration). One or two companies may have a market share superior to 70% but may find interest in cooperating with the other small-size enterprises on selected issues such as quality control and negotiations with public authorities (Reviron & Tseelei, 2008). In some cases, a professional association becomes an inter-professional association in order to integrate suppliers and/or buyers in the alliance (when there is a multi-level code of practices). Such was the case with the Parmiggiano Reggiano cheese consortium in Italy, which began as a cheese first-processor association and later decided to associate cheese ripeners.

Even in the case of coordination limited to quality issues, an inter-professional or a professional association is built to interact with the certification body and the public authorities concerned by the GI (registration office, consumer protection office).

In developing countries, these two models are in use, but we have observed specific models with vertical integration of producers mixed with contracts between the processor and some selected suppliers (Paus, 2008). These specific arrangements seem to be related to high uncertainty on quantities and qualities, and a lack of references about production of the raw material, during the transition phase from domestic production to enterprise production.

It is essential to understand why producers and processors decide to leave their previous individual commercial arrangements and to join the collective organisations.

### 3.2. Benefits of collective action for producers and processors

Some farmers realise that they are in a very weak position on mainstream markets where, in order to survive, be efficient and succeed, it is necessary to provide standardised quality at lower cost. These farmers typically produce small volumes of a very "special" quality at high production costs. Undergoing a slow, extensive production process, often in marginal regions of low agronomic potential, their food products may not be competitive despite their value promise to consumers: taste, typicity and a production process respectful of both people and environment. These producers may have to disconnect from the mainstream markets and secure production through a better anchorage in the consumer markets.

Producers are also concerned with the issue of survival. Long-term viability is necessary to continue to invest. Domination through costs is never achieved; it is jeopardized daily by competitors. Domination through differentiation allows steady improvement of the position, increasing reputation and trust and authorizing long term strategies.

For processors that often play a crucial role in GI alliance, cooperating with competitors is a crucial strategic decision for a company. It is obvious that it will join only if it is for its own benefit. We cannot think of altruistic reasons in a business context, therefore we present the reasons, benefits and risks to join that have been identified by researchers (for a complete review, see Reviron & Tseelei, 2008).

Koza and Lewin (1999) suggest that deciding to join an alliance or a network allows operators to follow two strategies: “adaptation-exploitation” and “exploration”. “Exploitation” refers to the elaboration and deepening of existing capabilities
(economies of scale). “Exploration” refers to experimenting with, or establishing, new assets and capabilities. The strategic intent of exploration is the discovery of new opportunities, which may have dramatic effects on performance (economies of scope). In the case of GIs, the collective organisation offers to small producers and enterprises access to services they could not afford by themselves (exploitation) and access to new markets (exploration).

The new organisation of the Argan oil supply chain (22 cooperatives organised in 6 economic development groups) has linked women within cooperatives, improved quality control and opened new markets through the GIE commercial activity (Charrouf, 2007). Porter and Fuller (1996) argue that partnerships and coalitions are also a more rapid means of repositioning than internal development and are less costly, less irreversible and more successful than mergers. Networks provide a context for learning by doing. As information passes through a network, it is both freer and richer, new connections and new meanings are generated, debated, and evaluated.

Ménard (2004) has highlighted the specific risks of coordinated systems. Organisations develop because of the advantages partners find in linking some of their investments. In doing so, they accept mutual dependence. The more specific the mutual investments, the higher the risks of opportunistic behaviour and therefore tighter forms of control must be applied. Mechanisms chosen for monitoring the agreement, mechanisms that serve the stability of the arrangement, and the design of an adequate device for solving disputes, all contribute to shaping hybrid arrangements.

### 3.3. Benefits of collective action: distributing value

We have highlighted that collective organisation does not guarantee a fair distribution of value to producers. It is essential to choose carefully the type of organisation, in order to avoid value jeopardising by some powerful operators, often processing companies. A “channel captain” (a leading company that pilots the chain and makes major strategic decisions) may be successful in marketing a GI as regards commercial performance. In this case, however, producers are mere suppliers of the company and have no decisional power on strategic choices and added-value distribution.

Tequila is driven by a group of processing companies controlled by investors external to the region. The links with the producers are weakening rapidly. In order to ensure supply in quantity and avoid too high a variation in the price of agave, processors develop vertical integration. Bowen & Gerritsen (2007) identified negative impacts of tequila sales development on small producers’ conditions (access to the market, negotiation power).

According to Thorelli (1986), power is the central concept in network analysis. It is defined as the ability to influence the decisions or actions of others. Powell (1990) highlights three critical factors: know how, demand for speed and trust. Trust may occur more often in certain social contexts that encourage cooperation and solidarity, or a sense of generalised reciprocity. Networks would be most common in settings in which participants have some kind of common background, be it ethnic, geographical, ideological, or professional. Such a common background is a way for lowering transaction costs though specific elements of familiarity and trust.

Building up collective organisations is difficult. Even if conditions are quite different, the European experience may be useful to build up a new organisation.
3.4. **Building up a new collective organisation**

In developing countries, most of the GI alliances are initiated by public authorities and NGOs. It is not so in European countries, where most of the PDO-PGI collective organisations have been initiated by professionals who were personally involved in commercial transactions. Public authorities in most cases have supported the project but were not initiators.

This question is crucial. In many developing countries, operators do not associate easily and the help of an external facilitator is necessary. Linking people, building up a structured collective marketing strategy and monitoring a collective organisation are costly. However, a top-down approach is seldom a success because it may not take sufficiently into account operators’ concerns and commercial risks. Regional authorities or NGOs may initiate a commercial project but they must let private operators establish and drive it because it is the latter which will have to take the commercial and investment risks.

This is a real challenge for these external institutions, which may benefit from the European experience and financial resources, for coaching new initiatives. The European project “Sus-chain” has compared the story of 14 collective organisations that market a product with a promise of sustainability (ecological, ethical, or origin), among them 2 PDO products. Using the French sociologists Callon & Latour’s approach, it was possible to identify impressive similarities in the construction process of the collective organisation. Callon (1986) considers that innovation occurs in four steps (names proposed by the author):

- **1. “Problematisation”**: Problems result from the definition and interrelation of actors that were not previously linked to one another (Callon 1986, footnote 27). In order to define a problem, initiators select sets of entities as relevant to the problem and the links among them. Problematisation implies a project of alliance to reach a common goal.

In developing countries, building a working group is difficult. The “cluster” approach used by some NGOs to build-up a GI was a failure because some working group members were not really concerned or interested in the potential GI product and / or because some concerned operators do not feel free to express their objectives and capabilities (Galtier & al., 2008; Paus & Galtier, to be published).

- **2. “Intersettement”**: Communication processes help involved actors to position themselves with regard to the problem, to add new information and therefore to involve new entities or to discard others. The phase of intersettement brings eventually to an agreed problem definition, which could be rather far from the initial problematisation.

- **3. “Enrolment”**: This phase implies a further consolidation of the network. Once defined, the set of actors interested in the alliance, their links and their identity, they must agree on what (and when) to do, what not to do, with whom they should interact, etc. In other words, a role is assigned to each entity of the network. In order to be convinced to join the alliance, actors will negotiate their role and the costs they will have to pay to join.

- **4. “Mobilisation”**: When all roles are distributed among the involved actors, the network starts operating to implement the proposed solution.

Following Callon (1986), Brunori & al. (to appear) have proposed to represent this construction process as a “translation” cycle. Figure 3 highlights the major strategic decisions taken during the translation cycle.
In all observed case studies, the major strategic decisions were made very early in the initiatives’ story by the working group. GI collective organisations often start with a discussion group consisting of a few different people (producers, processors, regional authorities, NGOs, researchers…) although often they are driven by one or two people, whose strategic vision is often decisive. In European countries, most of the time, these charismatic leaders are professionals. This opens the question of the human resources in developing countries and the question of the role of NGOs, which have to facilitate the collective action construction process but must find the path to let the concerned professionals take charge.

During these first informal meetings, major strategic decisions will be made concerning such things as the ‘unique selling proposition’, the technical code of practices, the partners’ duties and the non-economic objectives of the project. The details of these issues may need to be worked out later in the translation cycle but the seeds of the decisions are sown very early, and form the foundations of the collective project and of the partners’ commitment to it.

As these inspired initiators begin to convince others (early adopters) to join their project, a more formal organisation is needed, with written rules regarding the decision-making process (voting rights, majority, vetoes…) and the rights and duties of the members (discipline and leeway). During this phase, the major strategic decisions are partly negotiable.

The phases of enrolment and mobilisation will follow. At the end of the enrolment phase, the initiative will be established, even if the potential market is not yet fully in place. It is now time to assess the initiative’s performance: the price premium paid by consumers and paid to the producers, its organisational performance, effects on rural

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5 There are very few case studies where regional authorities are leader. After a while, during the enrolment phase, they stepped back and let professionals drive the initiatives. They are still active as external support.
The analysis of case studies highlights the fact that usually the early adopters do not allow the late adopters to contest the major strategic decisions (commercial, organisational) unless external pressures make this necessary. In some cases, first-arrived partners do not accept very well the GI legal rule about free entry of operators that are located in the geographical area and who respect the code of practices, considering that these late-comers benefit from the work already done by the early adopters without having taken the risks. It is easier to accept when the market is developing and internal growth is not sufficient to fulfil it.

At the end of the first cycle, when the initial target volume of sales has been reached, the initiative has to decide if it wants to scale-up and thereby start a new translation cycle in order to increase volumes and turnover, which in turn will lead to the involvement of new producers.

Building a GI organisation leads to co-ordination, promotion and certification costs. It is often difficult for small-size initiatives to be self-financed and there is a real risk to see NGOs transferring resources during many years. Some may accept to do it considering positive side-effects, estimating that these initiatives are more efficient than other types of funding (such as eco-services).

In developing countries, it is often possible to rely on traditional collective groups. NGOs may play a crucial role in linking people as facilitators but the collective organisation has to become independent after some years. NGOs must also be aware not to expect the GI system will solve too many social and environmental problems.

### 4. Environmental and social side-effects

Economic value is the engine of development. Commercial performance related to consumers' acknowledgement of the superior quality and typicity is the first objective of GI construction. However most of GIs have the potential to create positive social and environmental effects to the benefit of rural development. Even if it is not their major goal, most of them take it into account for two reasons: to guarantee the promise to consumers of an artisan, extensive, traditional, ethical production; to respond to donors’ and public authorities’ concerns. Public support is a strong pillar of the GI systems institutional frame-work in European and developing countries. Most of initiatives have received financial and non-financial support, mainly justified by these expected positive side-effects.

In this context, to prove positive side-effects of GIs on rural territories is an important issue. If successful, it reinforces sympathy towards the protection of GIs and helps to explain and justify public support. It would change the political vision about the relative efficiency of competing food systems, if reliable methods could compare the global performance (economic, social, and environmental) of conventional supply chains and various alternative systems.

#### 4.1. Methods for assessing social and environmental impacts

Various research projects have been undertaken in Europe to assess the positive effects of GI initiatives, mainly PDO initiatives. The exercise is tricky because a reference point is needed to compare the GI performance with alternative marketing strategies. It is necessary to identify relevant and reliable indicators (variables and possible values) for assessing performance. Most researchers follow the classical distinction between economic, social and environmental impacts. Some criteria are measured with objective
quantitative data. Some others cannot be measured directly (such as landscape aesthetics), and some researchers have recently developed new methods to measure stakeholders’ acknowledgment of the effects of a PDO initiative on rural territories compared with their main competitors. These surveys provide subjective quantitative data.

These research studies may be classified in two parts:

- The **diachronic** methods, which are designed to assess the effects of a PDO product registration (according to a before / after historical approach).
- The **synchronic** methods, which compare two supply chains in the same region at the same time, one with a PDO, the other without (according to a with / without approach) or which compare various PDO initiatives in the same sector (according to a benchmarking approach).

Despite these methodological difficulties, various studies in Europe conclude that in most cases the existence of positive effects can be proved (for a review see Reviron & Paus, 2006). They identify key factors in the initiative organisation and operation that may reinforce this ability to provide economic, social and environmental positive externalities.

### 4.2. NGO’s interest for positive impacts in developing countries

NGOs are often mostly interested in potential social and environmental effects of GI systems, with worries such as loss of population in marginal areas, protection of fragile eco-systems and environmental resources. NGOs do not act only as facilitators or mediators to connect operators but follow their own goals. The general aim is then to transform the local knowledge within the typical product into a formal label to maximise at the local level the positive effects of the rent (Piacciani, 2001). It is true that in numerous cases, a virtuous cycle may be built between a valuable GI production and environment-friendly practices or specific lifestyle.

Argan trees are well known as a tool against desertification because of deep roots that are the most stabilising element in the arid ecosystem. Plantation of new trees is a requirement of the code of practices. In Mongolia, sea buckthorn trees are also an efficient tool against desertification, because of deep roots.

Lybbert & al. (to be published) highlights that it is generally expected that successful resource commercialisation raises the market price of a harvested product, increases the net present value of conserving the resource, and ultimately enhances locals’ evaluation of the source biota.

However, there may be serious problems of implementation in developing countries because of specific situations such as the “tragedy of the commons”, which does not invite operators to invest because of tenure insecurity.

The Moroccan argan forest is managed by tenurial arrangements. Ownership of an argan tree is separate from grazing rights to the land around the tree, which may be separate from ownership of the land on which the tree grows. These rights are further divorced from access to argan fruit and wood. Some locals are capturing indirect commercialisation benefits, which create incentives to protect existing, fruit-bearing trees but not to plant new trees (Lybbert & al., to be published).

Social issues are also an objective of NGOs, which would like to reserve the GI name to some small-size operators and cooperatives.
Roobois is dominated by seven big companies, among them Roobois Ltd., which sells 75% of the production. Some NGOs argue that small-size, very poor producers’ organisations should get a comparative advantage with GI labeling. Ethnic minorities issues are also discussed.

The tequila case-study shows that commercial development leads to the exclusion of small producers, because of the increase of vertical integration.

In some cases, it is possible to combine different labels (organic, fair trade, GI) in order to answer to different objectives and promise it to consumers. But, most often, it is not possible to cumulate three consumer price premiums.

GI labelling and GI collective organisations have the potential to solve various problems in poor rural areas with fragile ecosystems. But it is not their first objective. It is possible to include some specific constraints in the code of practices but it must be clear that it is an extra benefit of the GI system. Side effects are not guaranteed by the registration process and some GI with impressive economic successes such as Tequila are not so convincing when we look at the social and environmental production conditions (see report 2).

5. Protection issues

Geographical names have value because they generate consumers’ preference and willingness to pay. Protection is a consequence of the ability of GIs to create value as well as the need to protect producers that apply stringent production rules. The case studies presentation (see report 2) shows that most producers’ organisations combine a GI, registered trademark and certification marks in different countries to protect against usurpation. This section highlights the interest of a GI compared with a certification mark and explains why presently producers’ organisations combine, at high costs, certification marks, trademarks and GI registrations according to the national legal framework where they seek protection.

5.1. Differences between certification marks and GIs

Trademarks cannot include geographical names because, as a general principle, a trademark should be distinctive. In that regard, registering geographical names as trademarks (especially as individual TM) is usually problematic as per se geographical names do not acquire automatically a distinctive character. According to the above-mentioned general principle, the only exceptions to the registration of a geographical name usually meet two requirements: the geographical name is not considered as such in the country where the registration is granted, and/or the reputation established by one single firm predominates over the geographical dimension of the name (several examples of firms named after the name of the city they originate from). In some few exceptional cases, such as Roquefort or Cognac, the name is clearly associated by consumers to a specific product and quality, so there are exceptions.

Collective and certification trademarks are a specific category of trademarks. In the case of certification mark, the owner is an independent institution which elaborates the quality system but cannot produce the goods. In the US, the certification marks owners are often states but also producers’ associations, Indian tribes, etc…. Even though collective and certification marks do not present the problem of a geographical name in order to acquire a distinctive character to be protected, a few problems are posed by
these instruments in terms of breadth of protection, costs of protection and enforcement mechanisms, such as:

- The specifications of the product (level of details and of requirements) are defined by the owner of the trademark, without any involvement from the public authorities. US certification marks that are defined at state levels and that imply the participation of numerous farmers and processors makes the link between appellation and high-quality reputation shaky (Marette & al., 2008).
- They are very costly in terms of registration.
- The protection against misuse and usurpation is based on private actions.
- There is no protection against copies that are named “type”, “style”... or translated names.

Table 2 presents the differences between sui generis GIs and certification trademarks.

**Table 2 : Differences between GIs and CTMs**

<table>
<thead>
<tr>
<th>Right holder</th>
<th>Geographical indication</th>
<th>Certification trademark</th>
<th>Collective trademark</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Private right often with strong involvement of public authorities (definition, implementation, enforcement)</td>
<td>Private right</td>
<td>Private right</td>
</tr>
<tr>
<td></td>
<td>The identification/recognition is delivered by the State and the administration generally corresponds to the regulating council</td>
<td>The property and administration belong to a firm or an association which cannot directly use the TM</td>
<td>The property and administration belong to an association of manufacturers or producers</td>
</tr>
<tr>
<td>Definition</td>
<td>General definition applying to all GIs at the national level (e.g. PDOs and PGIs defined in the European Regulation 510/2006)</td>
<td>Regulation defined by the owner of the TM, with requirements which are controlled under the responsibility of the owner</td>
<td>Regulation defined by the owner, either including specific requirements or being limited to the delimitation of the circle of authorised users (e.g. membership of an association)</td>
</tr>
<tr>
<td>Design</td>
<td>Designed to protect real identification of the origin and its link with quality and reputation</td>
<td>Designed to certify quality, characteristics, geographical origin and/or a method of production, etc.</td>
<td>Designed to indicate the membership of an association or a group of firms having in common some quality, characteristics, origin, materials, etc.</td>
</tr>
<tr>
<td>Duration of the protection</td>
<td>In principle, protected as such from the date of registration until the conditions that create it cease to exist. Generally no fees have to be paid for the application of a TM and for each renewal of its registration</td>
<td>Have to be renewed after a certain period of time. Fees have to be paid for the application of a TM and for each renewal of its registration</td>
<td></td>
</tr>
<tr>
<td>Basis of the protection</td>
<td>Protection based on ex officio i.e. national authorities’ actions (if provided by the legislation) and private actions</td>
<td>Protection based on private actions</td>
<td></td>
</tr>
<tr>
<td>------------------------</td>
<td>--------------------------------------------------------------------------------------------------</td>
<td>----------------------------------</td>
<td></td>
</tr>
<tr>
<td>Scope of the protection</td>
<td>Exclusivity on use of the denomination (at least for identical/similar products) and often on associated characteristics (shape, packaging, etc.)</td>
<td>Generally a combined TM (verbal and graphic elements) Exclusivity on a geographical denomination may be granted only as an exception to the general rules (public domain, distinctiveness, descriptive nature)</td>
<td></td>
</tr>
<tr>
<td>Use</td>
<td>Close link between the GI and one specific product; in some cases, different types of the same product are allowed to be labelled with the GI</td>
<td>May cover several kinds of products or be limited to one specific product, depending on the TM regulation and its marketing strategy</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Open to any producer who can meet the requirements</td>
<td>Membership of the association may be restricted by the decision of its members</td>
<td></td>
</tr>
<tr>
<td>Marketing issues</td>
<td>The pre-existing reputation of the denomination and/or the GI registration as a quality sign per se lower the costs of promotion</td>
<td>High investments in advertising are necessary to establish the notoriety of the TM on markets</td>
<td></td>
</tr>
</tbody>
</table>

*Source: Erik Thevenod-Mottet*

A number of authors underline these imperfections and the costs and complications related to certification and collective trademarks for protecting GIs

### 5.2. Combining different tools of protection

In practice, as may be seen in the case-studies report, most of the organisations combine different tools according the consumers’ country. When there is no GI legal frame in the country where protection is required, other systems are used. It is better to have an imperfect and costly protection than no protection at all!

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6 See Marandan (2005)
Table 3: The different protection tools for the term “Habanos”

<table>
<thead>
<tr>
<th>Registrations</th>
<th>appellation of Origin</th>
<th>trademark</th>
<th>certification mark</th>
</tr>
</thead>
<tbody>
<tr>
<td>26 countries</td>
<td>25 members of Lisbon,</td>
<td>35</td>
<td></td>
</tr>
<tr>
<td>26 countries</td>
<td>Dominican Republic</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Applications</td>
<td>29 (27 EU, Uruguay,</td>
<td>27 (Members OAMI)</td>
<td>2 (USA, Canada)</td>
</tr>
<tr>
<td>Applications</td>
<td>Ecuador)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>55</td>
<td>62</td>
<td>2</td>
</tr>
</tbody>
</table>

Source: Garrido de la Grana, 2007

At the present time, the situation is rather complex, costly and requires a good lawyer. It would be very useful to write a guide for the GI managers in order to help them to choose their protection tools according to the importing countries and watch their competitors.

5.3. Protection or protectionism?

Protectionism is defined as tools for restraining trade between nations, through methods such as tariffs on imported goods, restrictive quotas, and a variety of other restrictive government regulations designed to discourage imports, and prevent foreign take-over of national companies. Protectionism is therefore primarily a question of market access and free market entry.

The most important question is to define the “relevant” market, when the product is differentiated (and not generic). It includes competitors according to the “evoked set” identified by consumers (Howard, 1967). In most cases, consumers are not obliged to buy a trademark or a GI and may find substitutes with another name and other figurative signs. This is a characteristic that distinguishes monopolistic competition from pure monopoly (see section 2). In both cases (GI or trademark), a competitor cannot use the protected registered name but may sell a copy with another name. He is not allowed to use signs that may confuse consumers. Free access to market does not mean permissive counterfeiting.

On a market protected by a GI, producer access is limited by geographical boarders as well as by compliances with fixed quality requirements. But, contrary to a trademark, a producer in the geographical area that respects the code of practices could not - in principle - be excluded from the supply chain. Entry should be open to any operator who is located within the same territorial limits and who respects the code of practices. In practice, entrance of new partners is often discussed. In order to avoid dangerous imbalance between demand and supply, knowing that GI alliances in many countries are not allowed by antitrust authorities to fix quantities, waiting lists are common. Thus, on the one hand, market access is limited by production area and quality requirements and therefore very stringent. On the other hand, no private ownership hinders a producer within the geographical boundaries to enter the market. There is free entry under conditions (Chappuis, 2002).

In the debate over GIs, beyond the diversity of GI systems, the crucial point from the WTO perspective is the equal treatment of domestic and foreign producers. Following the decisions of the 2005 WTO panel, the new EU regulation appears to address more the concerns of developing countries and has been tested by a first application (Café de Colombia). GI protection seems to move towards mutual recognition of GI registration systems rather than requiring equivalency (Marette & al., 2008).
However, protection in the frame of property rights can be interpreted in a more social way, including consumer protection against misleading information, producer protection against unfair competition as well as environmental protection. In GI alliances, collective action leads to better information for producers, processors and consumers, which improves the efficiency of the market and leads to more trust. The most fundamental rationale for protecting geographical indications in the European Union is found in the rural development potential of origin-labeled products. In this context, GIs are not only a business but part of a regional patrimonial strategy, perceived to be for the benefit of both farmers / processors and consumers.

**Conclusion**

This report has highlighted that GIs registration is a powerful tool to create and distribute value in a region / a country.

These benefits come from differentiation: a special quality linked to the territory is acknowledged by consumers in the country and outside. This Unique Selling Proposition is defined by a written code of practices and guaranteed by certification.

GI registration does not guarantee a fair distribution of value to producer, which depends strongly of the quality of the supply chain governance. In the EU, collective organisation has been identified as a crucial success factor.

GIs production has often the potential to get positive environmental and social side effects, which often justify external support from public authorities and NGOs. But the commercial idea and value creation process should not be hampered by too many external objectives.
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