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An economic look into geographical indications

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Résumé. Au sens le plus large, les indications géographiques permettent de distinguer les produits où le lieu de production ou de localisation géographique joue un rôle dans la caractérisation des produits. Les produits sont identifiés grâce à cette localisation ; certaines spécificités liées à l'origine leur confèrent des propriétés particulières.

Les producteurs ruraux et les entrepreneurs doivent pouvoir faire face à la forte concurrence et conserver des capacités d'innovation dans un système alimentaire changeant. Faire face à la concurrence ne se réduit pas à se concentrer sur la production et améliorer la rentabilité. Cela implique des facteurs qui ne sont pas basés sur le prix de vente, tels que la qualité, la fiabilité, la notoriété, l'image, etc. Les indications géographiques, qui garantissent la localisation, la méthode et la qualité de production ; qui transmettent une identité locale et une culture au consommateur et qui qualifient les produits grâce à des critères spécifiques et une haute disponibilité peuvent être considérés comme des instruments en augmentant la puissance commerciale et la rentabilité des producteurs. La diversification produit-marché et la valeur ajoutée qu'apporte une inscription en Indication Géographique permettent aux producteurs de réaliser un bénéfice élevé offert par un marché de niche.

Dans cette étude, la discussion porte sur la différenciation entre les produits spécifiques d'origine et les produits standards. En combinant plusieurs études nous interrogeons la manière dont s'organisent les producteurs concernés par la différenciation et les raisons économiques qui les poussent à enregistrer une IG.

Mots clés : Indication Géographique, produit local, commercialisation de produits locaux, comparaison de produits locaux, développement rural.

Abstract. *In the most general sense, geographical indications are such products which distinguish the products becoming important due to their locations, which have been identified with a location/geography and which take some or all of their properties from such location.*

Rural producers and entrepreneurs need skills based on strong competition and innovative capabilities in the rapidly changing global food system. Competition does not only mean concentration on production and increase in cost effectiveness. It also contains such factors as quality, reliability, renown, image, etc. which are not based on price. Just at this point, geographical indications which guarantee the place, method and quality of production, which transfer a local identity and culture to their consumers and which have special qualifications with a high obtainability may serve as instruments in enhancing the market strength and profitability of the producers. By producing such geographically indicated products which are instruments of product-market diversification and which create added value, producers in fact evaluate the opportunity of achieving a high premium which is offered by niche marketing.

In this study, those aspects of qualified original productions such as geographical indications different from a standard production have been discussed and for what producers and why they may be more profitable has been tried to reveal by combining several studies.

Key Words: *Geographical indication, local product, local product marketing, local product comparison, rural development.*

I – Introduction

In the “knowledge-driven market economy” which is frequently mentioned in the present day, knowledge has become a more valuable input for all the branches of industry by getting ahead of the labour and capital, notwithstanding the level of technology. In such an environment,

necessity for protecting the knowledge by an industrial property system has further increased. As a great number of economists who refer to the importance of knowledge in economy have stated, consumers must have more knowledge in order to optimise their choices. Just at this point, geographical indications which are one of the types of industrial property appear before us as one of the potential instruments which offer their consumers valuable knowledge just like trademarks and reduce research costs, which points out both quality and renown and ensure the solution of the market failures caused by asymmetric knowledge between the producer and the consumer.

What is implied by the term “geographical indication” which is dependent on a certain location and which is the only type of industrial property which defines the product-geographical origin relationship is that a product has been identified with a location/ geography, that some or all of its properties originate from such location and that it has a certain awareness and quality in the eye of consumer. The product may take the distinctive properties it possesses not only from such natural factors (soil composition, climate, water, etc. of the location) but from such human factors as customs, traditions (traditional knowledge), production techniques which they utilise in production.

In the light of such general information, we have made a reference to the tendency of turning toward traditional product which has developed against globalisation in the world and its consequences in the first part and the advantages of the production of the geographically indicated products in the second part of the study, thus revealing in a compared manner the differences of the local products which are the subject of geographical indication from the standard products.

II – Tendency of Turning from Standard Product to Traditional Product in the World

Globalisation converges the choices of consumers and enhances the tendency to standard products on one hand and unavoidably and inconsistently instigates consumers to the acquisition of some awareness about deprivations of cultural identity and the producers to local products and diversity (product diversification) on the other. Thus, the tendency of “traditionalisation” which develops along with the globalisation in the world allows for those local products usually produced basing on traditional knowledge which are not renowned in the world market to come to light. In such an environment, a movement called “slow food” against the negative effects of the “fast food” culture on the society and the life which advocates the importance of local food against the homogenised food culture has risen. All these developments increases the competition which benefits from non-price factors (quality, renown, image, etc.) especially in the developed countries and geographical indications which therefore guarantees the place, method and quality of production and which transfer a local identity and culture to their consumers gain importance.

Consumers are strong actors of the change turning toward short supply chain and high quality. As people increase their income and earn more, they turn toward the products in the wide range and seek a higher quality rather than increasing the quantity they consume (Malassis, 1973). Therefore, they require some guarantee about the fact that the foods are genuine and reliable. Local products are a way of creating confidence in consumers as to the fact that the product has come from a certain location and hat it has been produced in a special way.

III – Advantages of Production of Geographically Indicated Products

The studies carried out show that the retail prices of the products bearing geographical indications are higher than those of their equals. Yet consumers consider such price difference as the process-production commitment and the cost of quality. Therefore, while the price difference is 30% between the geographically indicated cheeses and those of the other cheeses in France, the difference reaches such a great and significant level as 230% in a specialty product as wine (Folkesson, 2005). This concept which is called price premium is the amount paid by a consumer as compared to another product which offers similar or fewer benefits. Producers want to make more investment in such products which contain an extra price. Considering that this type of products are labour-intensive and that the majority of the producers thereof are small-sized businesses, extra prices shall help such businesses to survive (Folkesson, 2005, p. 53-54). But this means, production shall not be relocated, rural production and employment shall strengthen and support shall be provided for rural development.

IV – Comparison of a Standard Product and a Local Product

Ability to identify the differences of the local production which is the subject of geographical indication from a standard production is important in terms of revealing the economic advantages of the production of a geographically indicated product. At this point, marketing, supply chain and producer-consumer relationships of traditional local products have been studied and the following most basic difference from the standard products in the marketing of traditional products: while a marketing mix is usually formed as product, price, publicity and positioning respectively in a standard product, such sequence is in the form of product, positioning, publicity and price in traditional products (Lassaut, Sylvander, 1997). In other words, price is the marketing mix component which is considered last. As a matter of fact, it has been concluded in the Eurobarometer questionnaires carried out in the European Union that approximately half of the European consumers (43%) are ready to pay more for the origin-labelled products (products of which origin and method of production are guaranteed) (Folkesson, 2005, p. 48-49).

It is stated that original productions may be more profitable than agricultural productions. In the most basic sense, it is possible to link it to two factors: first, diversification enhances the market strength of producers. Secondly, such products may have special properties with a high tendency of being purchased by consumers by the use of a proper communication (Folkesson, 2005, p. 15-16). Indeed, the existence of a geographical indication statement, i.e. a statement which indicates that the product belongs to a certain location and that such location is famous for such product ensures consumers to turn toward such product in the marketing of the product, and this makes the geographical indications a significant marketing instrument in terms of product diversification⁸. As a matter of fact, what is wanted to be sold to consumers with the Kayseri pastrami label is in fact the image which the taste created by the build-up of that location inspires in the minds.

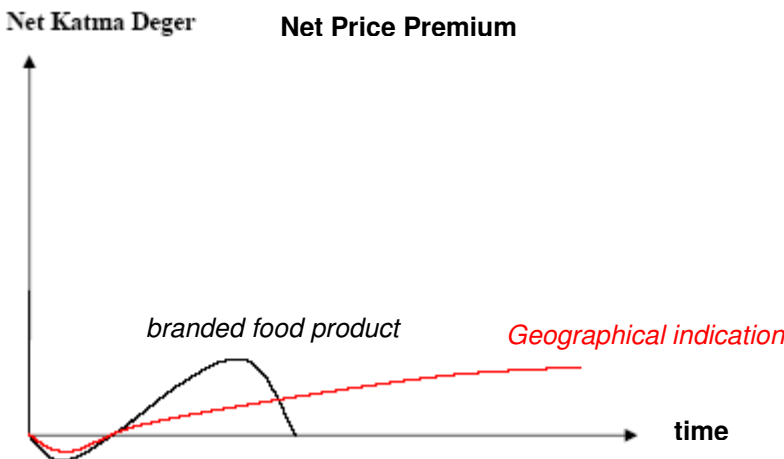
Geographical indications are further part of the market diversification for the product. Thanks to geographical indications, the product finds an opportunity to be merchandised more out of the place of production, thus becoming part of the market diversification. One of the most important instruments of the marketing strategy which is used most, advertising is important both in promoting the product and in ensuring the awareness of the origin of the product. Yet, geographical indications not only affirmatively affect the product's renown and image in the market but advertises the geographical location from which the product originates as well. With this characteristic, it also makes great contributions to revenues from tourism.

Original productions such as geographical indications which are more profitable than the standard production may be an instrument which satisfy the requirements of the “niche markets” due to such characteristics of theirs. Yet, in this market segment with a narrow scope, customers afford to pay a high amount for the product which best satisfy their needs. Niche marketing is rather practised by small-sized businesses capable of flexibility. The firm practising niche marketing may put an outstanding premium on its costs due to the values which it adds to the goods/services it produces. While those firms performing batch marketing achieve a huge sales volume in the market, those firms performing niche marketing achieves a high profit margin. By producing geographically indicated products which create a price premium, producers in fact evaluate the opportunity of achieving a high premium as offered by niche marketing.

Particularly, those farmers in the developing countries need to produce for identified markets rather than trying to sell what they have produced –in a more competitive manner. And this makes the production of origin-based products an important instrument. Due to its deep regional roots, it may be said that the origin-based product production and marketing is more appropriate for “small- and medium-sized businesses” as compared to multinational businesses because small-sized businesses are more successful in utilising their local identities.

It shall be appropriate to include here a study which shows that originality pays back in the long run in geographical indications. According to this study, the economic performance of the geographical indication system is calculated by adding the net price premium to the local resources utilised. And the total net price premium is calculated by multiplying the net profit margin per unit by the goods sold in that period of time (usually one year).

Figure 1 Net Price Premium of Branded Product and Geographically Indicated Product



The time component is especially relevant for the geographically indicated product. In the beginning, the net price premium of the geographically indicated product may be lower than that of a comparable branded product, but it is higher in the long run. (Figure 1) The reason for such effect is that geographical indications are usually made by hand or by traditional method compared to the other products and that it has been deeply rooted especially in the location where it is found. ‘Originality’ and ‘quality’ pay back in the long run.

V – Conclusion

Geographical indications which are an important instrument of the EU agricultural policy are an incentive used in encouraging the producers, meeting with the market demand in a better way, accelerating the marketing of local products and producing products of higher quality. Yet, this quality label provides the producers with a high income as a reward for their efforts to improve the quality against quantity while it guarantees the production method and origin of production and furnishes the consumers with information on the quality and origin of the product.

It is possible to say that production of geographically indicated products is more profitable for small- and medium-sized businesses with a high flexibility which utilise the opportunities of the niche market and carry out original productions in the long run. In this study in which the local products which are the subject of geographical indications are considered from an economic aspect, it has been revealed that these typical products identified with their locations prevent the relocation of production thanks to the price premium and other market advantages they create in favour of producers and protect the rural population and by this means makes some contribution to the rural development and that they may make outstanding contributions to the national economy through marketing (advertising) and tourism.

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