

No Terroir in the Cold? A Note on the Geography of Geographical Indications

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Abstract

Geographical Indications (GIs) are increasingly important instruments of agricultural and food regulations and are growing as contentious issues in trade negotiations and disputes. GIs can improve welfare but they can also be a protectionist instrument. The EU has the most GIs in the world, but they are concentrated in the south of the EU. Even excluding wine, there are seven times more food GIs per capita in the southern EU Member States than in other EU Member States. This note discusses several factors which may explain the geographic concentration of GIs in the south of the EU.

Keywords: *Europe; geographical indications; political economy; regulation.*

JEL classifications: *L51, Q13, Q18, R12.*

1. Introduction

In his 2006 Presidential Address titled ‘*The War on Terroir*’, the late Tim Josling (2006, p. 337), one of our profession’s leading thinkers on trade issues, argued that ‘terroir, the concept of an essential link between location of production and a specific quality attribute, is emerging as a contentious issue in trade negotiations and disputes. This issue is manifest through disputes and disagreements about appropriate protection of “geographical indications” (GIs)’. Disputes on GIs are spreading rapidly though the (proposed) inclusion of GIs in various regional and bilateral trade agreements.

What makes the discussion complex is that linking quality attributes to ‘*terroirs*’ (GIs) can have both equity and efficiency effects – as standards in general (Swinnen,

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2016, 2017). GIs can reduce information asymmetries and improve efficiency (Mérel and Sexton, 2012). However, GIs can also be used as protectionist instruments as they create rents for land and vineyard owners, thereby providing incentives for lobbying to influence political decisions on GIs (Moschini *et al.*, 2008; Landi and Stefani, 2015). These (potential) mixed effects are at the heart of current trade disputes and complicate the determination of whether regulations (such as GIs) enhance welfare or are protectionist instruments, both conceptually and empirically (Beghin *et al.*, 2015).

There is a rich literature on the political economy of agricultural and food policies but mostly focused on tariffs and subsidies (Anderson *et al.*, 2013; Swinnen, 2018). There are fewer studies on why governments use specific policy instruments, especially for the use of standards and regulations, such as GIs, as non-tariff barriers (Swinnen and Vandemoortele, 2011).

It is well known that the EU has more GIs than any other country/region and is also very active in protecting them externally through preferential trade agreements (PTAs). However, these GIs are very unevenly spread across the EU. There is a strong geographic concentration of GIs in the south of the EU.

One obvious reason for this is that wine GIs take up a significant share of the EU's GIs. However, excluding wine GIs, there are seven times more food GIs in southern Member States (MS) than in northern MS. This is an intriguing observation – and one with important implications for trade negotiations since it begs the question of what might be the causes of this apparent concentration.

2. History and Geography of GIs

Historically, the first GIs were in the European wine sector. Meloni and Swinnen (2016, 2018) conclude that both economics (reducing asymmetric information) and politics (the conflict over the distribution of rents) were important factors in the creation of the first wine GIs. These GIs later became part of the EU Common Wine Policy. Outside wine, GIs for food were only introduced in 1996 when 329 food GIs were registered – compared to 736 Wine GIs (see Table 1).²

By 2017, the total number of GIs in the EU was 3,097 of which 1,760 (57%) for wine and 1,337 for food (43%). There is strong concentration of GIs in the southern MS.³ Not surprisingly 89% of wine GIs are in the South. More surprising, southern MS also account for 77% of all food GIs (excluding wine) in the EU. Northern countries have only 12% of food GIs and countries in the middle 13%.

On average, there are 2.97 food GIs per million inhabitants for the EU-28, but only around 1 in the north and more than 7 in the south for the old MS of the EU-15 (OMS). In the new MS (NMS) there are 0.9 in the north and 3.4 in the south (and those in the middle are in between).

There has been convergence between east and west. In 2005, NMS had only 3 GIs. By 2017, there were 391 GIs in the NMS of which 250 were for wine and 141 for food. On a per capita basis, there has been a complete convergence: in 2017, there were around 6.6 GIs per million inhabitants in both NMS and OMS.

²The first food GIs included 'Prosciutto di Parma' (ham from Parma, Italy) and 'Noord-Hollandse Gouda' (cheese from the north of the Netherlands).

³Table 1 classifies the EU in 'northern', 'middle' and 'southern' countries. The classification is somewhat arbitrary but our arguments are robust to shifting some countries 'north' or 'south'.

Table 1
Regional distribution of EU GIs (in absolute numbers, percentages, and per capita)

	1996			2005			2017		
	Food	Wine	Total	Food	Wine	Total	Food	Wine	Total
	Number of GIs								
Old MS (EU-15)	329	736	1,065	653	1,184	1,837	1,196	1,510	2,706
North	23	0	23	43	9	52	103	22	125
Middle	11	40	51	52	60	112	123	80	203
South	295	696	991	558	1,115	1,673	970	1,408	2,378
New MS	0	0	0	3	0	3	141	250	391
North	0	0	0	0	0	0	37	0	37
Middle	0	0	0	3	0	3	55	97	152
South	0	0	0	0	0	0	49	153	202
EU-28 Total	329	736	1,065	656	1,184	1,840	1,337	1,760	3,097
% of EU total									
Old MS (EU-15)	100.0%	100.0%	100.0%	99.5%	100.0%	99.8%	89.5%	85.8%	87.4%
North	7.0%	0.0%	2.2%	6.6%	0.8%	2.8%	7.7%	1.3%	4.0%
Middle	3.3%	5.4%	4.8%	7.9%	5.1%	6.1%	9.2%	4.5%	6.6%
South	89.7%	94.6%	93.1%	85.1%	94.2%	90.9%	72.6%	80.0%	76.8%
New MS	0.0%	0.0%	0.0%	0.5%	0.0%	0.2%	10.5%	14.2%	12.6%
North	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	2.8%	0.0%	1.2%
Middle	0.0%	0.0%	0.0%	0.5%	0.0%	0.2%	4.1%	5.5%	4.9%
South	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	3.7%	8.7%	6.5%
EU-28 Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Per capita									
Old MS (EU-15)	1.41	1.51	2.92	2.46	2.42	4.88	3.52	3.14	6.65
North	0.15	0.00	0.15	0.42	0.09	0.51	1.03	0.26	1.29
Middle	1.42	1.15	2.57	2.73	1.48	4.20	2.73	1.59	4.32
South	2.92	3.60	6.52	4.69	5.98	10.67	7.14	7.83	14.97

GIs per million inhabitants, average over countries

Table 1
(Continued)

	1996			2005			2017		
	Food	Wine	Total	Food	Wine	Total	Food	Wine	Total
New MS	0.00	0.00	0.00	0.02	0.00	0.02	2.33	4.26	6.59
North	0.00	0.00	0.00	0.00	0.00	0.00	0.89	0.00	0.89
Middle	0.00	0.00	0.00	0.10	0.00	0.10	2.13	3.84	5.96
South	0.00	0.00	0.00	0.00	0.00	0.00	3.39	7.31	10.70
EU-28 Total	0.76	0.81	1.56	1.33	1.30	2.63	2.97	3.66	6.62

Notes: OMS North: Denmark, Finland, Ireland, Netherlands, Sweden, United Kingdom;

OMS Middle: Austria, Belgium, Germany, Luxembourg;

OMS South: France, Greece, Italy, Portugal, Spain;

NMS North: Estonia, Latvia, Lithuania, Poland;

NMS Middle: Czech Republic, Hungary, Slovakia;

NMS South: Bulgaria, Croatia, Cyprus, Malta, Romania, Slovenia.

There is much less convergence between north and south: in 1996, there were 295 food GIs in the south and 23 in the north of OMS, a difference of 272. By 2017 the difference had grown to 867 (with 970 in the south and 103 in the north). The south's share of GIs declined somewhat: from 89.7% to 72.6%, with most of the increase in shares going to the middle countries, rather than the north.

How can one explain this geographic distribution? The southern concentration of wine GIs is logical since the climate in the south is best suited for growing grapes. However, for (other) food items, such as meat and cheese, climatic variations are not obvious explanations. What then might explain these geographic patterns?

3. Economic and Political Hypotheses

3.1. Hypothesis 1: Better and/or more differentiated food

Irrespective of the climate, the Southern EU's dominance in food GIs might simply reflect more differentiated and higher quality food products. If there is asymmetric information this would mean that the region with higher quality or with a wider variety of food products would benefit more from GIs that reduce asymmetric information. However, while there are many anecdotal references to the 'high quality' food in countries such as France and Italy, there is very little hard evidence on this, and what is available does not always support this argument (see Ninni *et al.*, 2006; Fischer, 2010).

3.2. Hypothesis 2: Less productive and more protectionist-seeking

The agri-food industry in the south may be less productive than in the north and therefore use GIs as an instrument to protect against intra-EU and global competition. This motivation for protectionist lobbying is consistent with the relative income hypothesis and loss aversion motives in agricultural and food policy (Swinnen, 1994, 2018). Cesaro *et al.* (2017) indeed find that, at the regional level, more GIs are present in regions with lower productivity.

3.3. Hypothesis 3: Globalization of food

Asymmetric information is likely to increase when producers and consumers are farther apart and when more products from more distant regions become available. As a consequence, increased globalisation of food systems in recent decades may have increased the benefits from GIs for consumers who are progressively less aware of the origin and quality of products in the (globalised) marketplace (Marette *et al.*, 2008).

3.4. Hypothesis 4: Substitution of protectionist instruments

The protectionist argument for increasing GIs would also be consistent with the rise of the number of GIs as the protection afforded by traditional policy instruments, such as tariffs, price support and import quota, has been reduced since the early 1990s. The GATT Uruguay Round Agreement on Agriculture and reforms of the Common Agricultural Policy (CAP) in the 1990s and 2000s have coincided with the rise of GIs (from 2.9 per million inhabitants in 1996 to 4.9 in 2005 to 6.7 in 2017 – for the OMS).

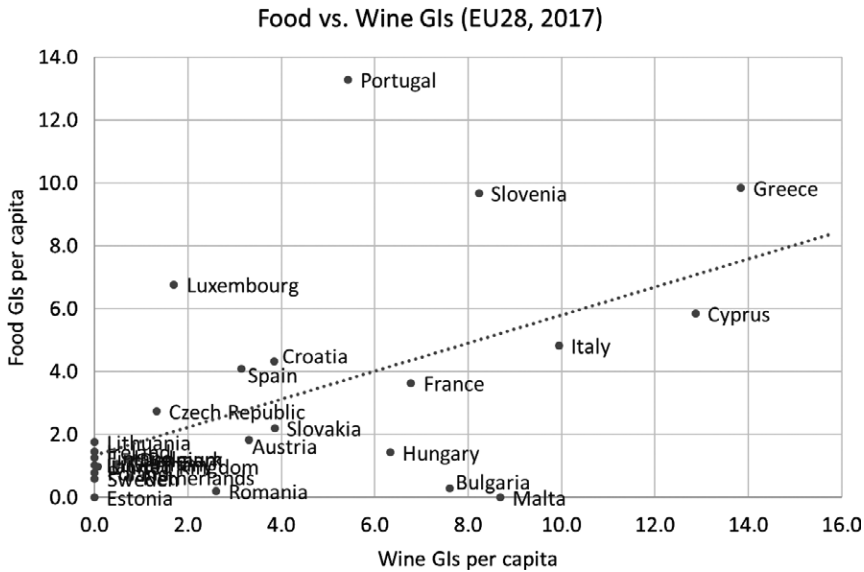


Figure 1. Correlation between wine GIs and food GIs per capita

3.5. Hypothesis 5: Learning by doing (economics)

This hypothesis is supported by the positive correlation between the GIs in wine and in food at the regional level. Figure 1 illustrates this correlation, equal to 0.55, for 2017. GIs have been first introduced in the wine sector – thus in the south. The applications for GI require a certain institutional capacity to put the application together on the side of the applicant, and a capacity to process the application on the side of the local and EU institutions. Hence the institutional and administrative knowledge and capacity, which has been created in southern regions with the application of the wine GIs, may have created spillovers in the rest of the agri-food sector.

Related to this, producers' and consumers' experience with GI products and their costs and benefits may also have created spillovers in making GI applications for non-wine food products a more obvious strategy for producers and more acceptable or attractive for consumers.

3.6. Hypothesis 6: Learning by doing (politics)

Similar arguments can be used to explain 'learning by doing' in the politics of GI applications. The strong correlation between wine and food GIs is also consistent with the existence of political economy spillovers. GIs have been first introduced in the wine sector and have been the subject of much lobbying of vested interests (Meloni and Swinnen, 2013, 2018). The applications for GI require a certain political capacity to design successful lobbying strategies. Hence political knowledge may have been created in southern regions with the application of wine GIs with political spillovers in other agri-food sectors.

In summary, as shown in Table 2, these hypotheses predict that both economic and political factors may be behind the observation that there are more GIs in the south.

Table 2
Summary of economic and political hypotheses

	Static (Level)		Dynamic (Growth)	
	Economic <i>Reducing asymmetric information</i>	Political <i>Protectionism</i>	Economic <i>Globalisation</i>	Political <i>Reduction of traditional instruments</i>
Food quality & differentiation	H1: more in South			
Productivity gap		H2: more in South		
Globalisation			H3: growth in North & South	
GATT agreement, CAP reforms				H4: growth in North & South
Pre-existing wine GIs				H5: more in South H6: more in South

4. Other Factors

One can imagine additional hypotheses to explain differences in GI regulation. One argument put forward by Marette *et al.* (2008) is that the difference between EU and US regulations on GIs is caused by ‘philosophical differences’, referring to differences in their approaches to regulation in general – which affects also EU–US differences in GM regulation (Charles, 2001). However, while there may be differences in philosophical approaches towards regulation between, for example, the UK and France, it is not clear that they can explain the differences in uptake of GIs between northern and southern Europe.

Similarly, another factor which is often mentioned is ‘culture’. There are obvious relationships between culture and food preferences, reflected in concepts such as ‘food culture’ (see Atkin, 2016; Briones Alonso *et al.*, 2018). It is much less clear, however, how this would affect *regulations* of food products. Differences in regulations seem more likely (and more directly) to be affected by political and economic factors (and possibly political cultures or legal philosophies) rather than ‘food culture’ *per se*.⁴

5. Concluding Comments

GIs are increasingly important instruments of agricultural and food regulation and growing as contentious issues in trade negotiations and disputes. What makes the discussion complex is that GIs can have both equity and efficiency effects. GIs can reduce information asymmetries and improve efficiency but GIs can also be used as a protectionist instrument to protect vested interests. Determining whether regulations such as GIs enhance welfare or are protectionist instruments is complicated, both conceptually and empirically. Historical studies of GIs conclude that both economic and political factors contributed to the introduction of GIs.

Globally, GIs are most used in the EU with a strong geographic concentration in the south of the EU. One obvious reason for this is that wine GIs take up a significant share of the EU’s GIs. However, food GIs are also more concentrated in the south of the EU.

A potential (economic) explanation for these differences is that southern countries have more differentiated and higher quality food products, which would thus benefit more from reductions in asymmetric information. Another economic hypothesis is that there is ‘learning by doing’ in GI applications and in understanding the impacts. This hypothesis is consistent with the correlation between the GIs in wine, which were introduced first and concentrated for climatic reasons in the south, and food GIs at the regional level.

There are also potential political explanations for more GIs in the south. The first is that agriculture and the food industry in the southern EU countries is less productive and is therefore more inclined to use GIs as an instrument to protect their agriculture and food industry from intra-EU and global competition. Second, the protectionist argument for increasing GIs is also consistent with the rise of the number of GIs as the protection coming from traditional policy instruments, such as tariffs, price support and import quota, has been reduced following the Uruguay Agreement on Agriculture and CAP reforms in the 1990s and 2000s. A third political hypothesis is that the ‘learning by doing’ factor also applies to the politics of GI applications and in

⁴For the role of culture in affecting institutions, see for instance Tabellini (2008).

lobbying. The strong correlation between wine and food GIs is also consistent with the existence of political and institutional spillovers.

In summary, these hypotheses predict that both economic and political factors may be behind the observation that there are more GIs in the south – a conclusion that is consistent with earlier studies pointing at a mix of economic and political determinants of food regulations. This also means that GIs are likely to remain a hotly disputed issue in trade negotiations.

Clearly this short note only presents a series of hypotheses (and also mentions a series of alternative hypotheses), all of which should be tested by thorough empirical analyses – an important area for future research.

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