



Center for Agricultural and  
Rural Development (CARD)

November 2003

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## Geographical Indications, Property Rights, and Value-Added Agriculture

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*Review Paper (IAR 9:4:1-3)*  
November 2003

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This paper originally appeared in the *Iowa Ag Review*, vol. 9, no. 4, Fall 2003. It is available online on the CARD website: [www.card.iastate.edu](http://www.card.iastate.edu). Permission is granted to reproduce this information with appropriate attribution to the author(s), the *Iowa Ag Review*, and the Center for Agricultural and Rural Development, Iowa State University, Ames, Iowa 50011-1070.

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Supported in part by the Agricultural Marketing Resource Center, Iowa State University.

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## GEOGRAPHICAL INDICATIONS, PROPERTY RIGHTS, AND VALUE-ADDED AGRICULTURE

What do Vidalia onions, Wisconsin cheese, and Kona coffee have that feta cheese, champagne, and cognac do not? The first three products have trademark protection for their brand names (in this case, through U.S. trademark law). The latter three have no brand name protection, but that could change. Protection would become available for the latter products if E.U. proposals to increase protection for products identified as originating from a particular geographic region—so-called Geographical Indications (GIs)—are adopted. The European Union proposes to (1) establish a register of GIs that would give protection to products across international boundaries; (2) extend the protections that are enjoyed by wines and spirits to food products; and (3) allow E.U. member countries to retrieve or “claw back” GIs currently being used by other countries. The first 41 products with GIs that the European Union wants to protect are shown in the accompanying box.

The E.U. proposal is strongly opposed by the United States, Australia, Canada, and other major food exporters. Furthermore, the United States and Australia believe that current E.U. domestic laws concerning GIs go too far. On October 2, the Dispute Settlement Body of the World Trade Organization agreed to look into European Community rules on trademarks and GIs at the request of the United States and Australia.

The U.S. position seems to contradict the encouragement U.S. producers are getting from the U.S. Department of Agriculture to move away from production of homogeneous commodities toward production of value-added products that can increase returns. One feasible way to differentiate a product and add value to it is to brand it with the region from which it originated.

Alaska fishermen are trying to do this by joining together to produce Copper River Salmon and Castle Cape Reds. Wisconsin milk producers have joined to create Wisconsin Real Cheese and Wisconsin Style Havarti. And many states have created certification programs for products that originate in their states. Examples include A Taste of Iowa, Idaho Preferred, Fresh from Florida, Get Real Get Maine, and Maryland Seafood—It’s As Good as It Looks. Given that producers are showing increased interest in using GIs to create

**The European Union’s Wish List of Geographical Indicators** (prepared for the World Trade Organization conference in Cancun)

**Wines & Spirits**

Beaujolais  
Bordeaux  
Bourgogne  
Chablis  
Champagne  
Chianti  
Cognac  
Grappa di Barolo,  
del Piemonte,  
di Lombardia,  
del Trentino  
del Friuli,  
del Veneto,  
dell’Alto Adige

Graves  
Liebfrau(en)milch  
Malaga  
Marsala  
Madeira  
Médoc  
Moselle  
Ouzo  
Porto  
Rhin  
Rioja  
Saint-Emilion  
Sauternes  
Jerez, Xerez

**Other Products**

Asiago  
Azafrán de la Mancha  
Comté  
Feta  
Fontina  
Gorgonzola  
Grana Padano  
Jijona y Turrón de Alicante  
Manchego  
Mortadella Bologna  
Mozzarella di Bufala Campana  
Parmigiano Reggiano  
Pecorino Romano  
Prosciutto di Parma  
Prosciutto di San Daniele  
Prosciutto Toscano  
Queijo São Jorge  
Reblochon  
Roquefort

branded products, why has the United States opposed policy changes that would seem to strengthen their hand?

### **Financial Interests in GIs**

The objective of the 1992 E.U. law governing protection of GIs is to "...add value to certain specific high-quality products from a demarcated geographical area. To promote, in a rural development context, the diversification of agricultural production" (see the full text at <http://europa.eu.int/scadplus/leg/en/lvb/l21097.htm>). Pascal Lamy, the E.U.'s chief trade negotiator, is quoted in a report by the American Farm Bureau as saying "I am convinced that the future of European agriculture lies not in quantity of exports but quality, the quality of the European trademark. That is why we are fighting to stop appropriation of the image of our products and improve protection."

A quick glance at the list of GIs that the European Union wants to protect clearly shows why they see value in their proposal. Common foods, wines, and spirits that we consume would be given increased protection. For example, Korbel California Champagne at about \$12 per bottle would become Korbel California Sparkling Wine. In order to enjoy Champagne, you would have to buy a bottle of high-quality \$40 wine made from grapes produced in the Champagne region of France. Under the E.U. proposal, the demand for French champagne would be expected to increase, thereby increasing the region's wine profits at the expense of producers of California sparkling wines.

Another item on the list is feta, which is a well-known Greek curd cheese with a tradition dating back thousands of years. In 2002, the European Commission gave Greece a PDO (Protected Designation of Origin) for feta, concluding that "feta" is not a generic word for any kind of tangy, salty curd cheese cured in a brine solution. Rather, the Commission ruled that cheese labeled as Feta cheese can only be produced in certain areas of Greece from goat's or sheep's milk.

To Americans, feta cheese is a style of cheese that is crumbly and salty and is usually used in Greek dishes. Most U.S.-consumed cheese that fits this description is made in Wisconsin from cow's milk. For example Mediterra Danish Feta is produced in Wisconsin by Arla Foods of New Jersey and Denmark. Arla is now forbidden from producing feta in Europe unless it does so in facilities in Greece. Should Wisconsin producers be allowed to use the term "feta" as a generic term to describe their cheese? Increased protection of GIs would suggest not. Would the demand for this Wisconsin cheese disappear if it could not be called feta cheese?

### **Potential Losses from Increased Property Rights Protection**

Companies outside the European Union that have built their reputation in part on products that originally came from Europe could suffer under the E.U. proposal if they were required to change the name of their products and if demand for the products were to decrease. Kraft and other companies generate millions of dollars annually from sales of inexpensive parmesan cheese, which takes its name from the world class Parmigiano Reggiano. Many of us were raised on Oscar Mayer bologna (also produced by Kraft), a version of its namesake, Mortadella Bologna, a sausage originally produced only in Bologna in the sixteenth century but now produced in northern and central Italy.

People consume Oscar Meyer bologna, Kraft parmesan cheese, and Korbel California champagne for a variety of reasons. The amount spent on advertising to maintain these brand names suggests that the companies believe that their product names are important. If names were changed because of adoption of the E.U. proposal, then presumably sales of these products would decrease, with resulting financial losses.

The reason the United States is against the 1992 E.U. law and against the current E.U. proposal is not difficult to understand: existing U.S. companies are threatened. But might there be some offsetting benefits to consumers or new companies from increasing protection for GIs?

### **Potential Benefits from Increased Property Rights Protection**

The United States has been a forceful and consistent international advocate for increased protection of intellectual property rights. The fights against bootleg DVDs in China, production of unlicensed generic drugs in Africa, or the protection of the rights of seed companies have been led by the United States. This should come as no surprise given that a large proportion of intellectual property is held by U.S. citizens and companies.

But protection of intellectual property also serves a greater societal goal of rewarding creativity and discovery. Lack of protection for intellectual property would decrease monetary incentives for people to engage in activities that lead to invention. Pharmaceutical companies would invest less in discovering new drugs. The recording industry would pay its artists less. And seed companies would invest less in new seed technologies.

Suppose the United States joined Europe's efforts to increase international protection for GIs in agricultural products. This policy change would immediately increase the incentive to create and register new products and brand names based on geographic origin. Regional foods could be marketed internationally with less risk that their niche would be overwhelmed by domestic competition. That is, protection of the GI would increase the incentive to create new brands because future competition would be limited.

There are numerous examples of how increased protection has led to increased profits for producers in Europe. Italian "Toscano" oil receives a 20 percent premium over commodity oil since the company registered its brand name in 1998. The market price for Bresse poultry in France is quadruple that of commodity poultry meat. Milk used to produce French Comté cheese sells for a 10 percent premium.

The key to maintaining these price premiums is control of quality and quantity. And the only way this control can be (legally) attained is by giving the owners of a product property rights over its brand name.

### **Does Europe Have a Monopoly on Fine Foods?**

Most of the benefits of increased protection for GIs are expected to flow primarily to European producers. After all, the wide variety of foods available across the many regions of Europe serves as the basis of much of Western cuisine. And Europe's food industry and farmers certainly would reap a large proportion of the initial benefits of

increased protection for GIs. After all, it has been the European Union's policy since at least passage of the 1992 law to create a mechanism to reward its farmers for their investments in value-added food items. Thus, European farmers and companies are in a much better position to benefit from increased protection than U.S. farmers and companies.

But Europe does not have a monopoly on fine foods. For instance, high-quality, corn-fed beef slaughtered in plants throughout the U.S. Corn Belt is in high demand in Japan. The demand for non-commodity U.S. cheeses identified with particular regions is growing. International demand exists for products made from California citrus, nuts, and other fruit. Increased international protection for GIs could unleash the creativity of U.S. farmers and food companies over the next 30 years to meet new kinds of food products demanded by consumers all over the world.

### **A Turning Point for U.S. Agriculture?**

Rich-country policymakers are under increasing pressure to reduce taxpayer subsidies given to farmers. The current round of World Trade Organization negotiations has stalled because poor countries banded together with middle-income countries, such as China and Brazil, to block movement on an agreement until more progress is made on reducing U.S. and E.U. agricultural subsidies. Because farmer subsidies overwhelmingly focus on commodities, the current system of farm support encourages farmers and researchers to continue to focus their energies on finding ever-cheaper ways to produce more grain, oilseeds, and fiber.

Europe is attempting to wean its farmers from subsidies in two ways. The first is to increase the proportion of payments that are decoupled from production levels, much like the United States has done with its direct payments. The second approach is to create incentives for farmers to invest in higher-quality, value-added food products by bestowing greater property rights over the names of regional products. The aim is to create a more diversified, profit-oriented agriculture. Again, there is evidence that this approach is working. The Italian food industry in Tuscany and Emilia-Romagna is booming with new investments in value-added food items protected by GIs. Growth in the availability of noncommodity meats, poultry, and produce in France and Britain over the last five year is extraordinary. Clearly, the strengthening of property rights through GIs has helped producers meet the demand for high-quality food items.

With luck, world prosperity will continue. If it does, then so too will the demand for food items that make up a diversified, high-quality diet. One way to ensure that growth in demand for high-quality foods will benefit farmers is to give entrepreneurial farmers greater control over the quality and quantity of the food items they produce. Only then can they guard against imitators, who would overwhelm an otherwise profitable niche market. Increased protection of GIs is just the type of support needed by farmers who want to move away from commodities. If we want a more diverse and less subsidized agricultural sector, we might have something to learn from European agricultural policy. ■