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POLICY DEPARTMENT
STRUCTURAL AND COHESION POLICIES **B**

Agriculture and Rural Development

Culture and Education

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**THE FUTURE OF THE
QUALITY POLICY IN THE
LIGHT OF THE CAP
POST-2013**

NOTE



DIRECTORATE GENERAL FOR INTERNAL POLICIES
POLICY DEPARTMENT B: STRUCTURAL AND COHESION POLICIES

AGRICULTURE AND RURAL DEVELOPMENT

THE FUTURE OF THE QUALITY POLICY IN THE LIGHT OF THE CAP POST-2013

NOTE

This document was requested by the European Parliament's Committee on Agriculture and Rural Development.

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Abstract:

The quality policy is an integral part of the CAP and represents a useful instrument to enforce at the same time the competitiveness of the agricultural system and the vitality of the rural areas. With the "quality package", changes are introduced in the normative outline of the PDO, PGI and TSG products, with the objective of answering to the needs of both producers, for a sustainable profitability, and consumers, for a higher information and guaranty on the provenience of the products.

Nevertheless, considering the magnitude of structural and socio-economical differences that mark the quality production systems across Europe, the possibility to make the system capable of answering to the different needs seems to be still open.

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LIST OF ABBREVIATIONS

- CAP** Common Agricultural Policy
- EU** European Union
- MS** Member State
- PDO** Protected Designation of Origin
- PGI** Protected Geographical Indication
- TFEU** Treaty on the Functioning of the European Union
- TRIPS** Trade Related Intellectual Property Rights
- TSG** Traditional Specialities Guaranteed
- WTO** World Trade Organization

INTRODUCTION

This briefing note responds to a request by the European Parliament's Committee on Agriculture and Rural Development to develop an analysis on the content of the European Commission "Quality Package" proposals.

The note begins with a few comments on the significance of food quality and the role of the quality policy in the EU (Chapter I).

In Chapter II, the note provides an overview framework of the key elements that characterise the current situation of the EU quality product market.

Then, in Chapter III, the note responds to the specific questions raised in the technical specifications that have accompanied the European Parliament's request for this briefing note.

In particular, the note highlights the strengths and weaknesses of the quality package proposal to meet the needs of market development of PDO/PGI and TSG products, as well as its consistency with the new CAP post 2013 framework.

1. QUALITY PRODUCTS AND QUALITY POLICY

Quality is a concept with many implications, and therefore hard to analyze and to define. Following an economical approach that focuses on the consumer, two dimensions can be identified, with which it's possible to analyze the quality: horizontal and vertical (Grunert, 2005). The horizontal dimension is temporal and distinguishes the perception of quality before (building of the quality expectation) and after (experience of quality) the purchase; the vertical dimension studies how the consumer:

- infers the quality from a variety of signals;
- bounds the properties of the food products to his behaviour and to his values.

The quality signals are informative clues about the qualitative characteristics of the product, that can be analysed and evaluated by the consumer before consuming. Those signals can be intrinsic, if related to the physical characteristics of the product (colour, shape), or extrinsic, if not related to tangible aspects of the product: the brand, the price, the geographical origin are examples of quality signs that may constitute real marketing instruments for the brand (Nelson, 1970).

An indicator of quality generates a sort of "promise" of the product to the consumer, related to his ability to recognise the attributes of quality (in other words, the expected benefits).

The efficacy of quality signals depends from the characteristics of a product or its visibility. If considering, for example, the local products, it's necessary to evaluate the degree of knowledge of the denominations brand, not always known to everyone: this –"knowledge gap" may compromise the effectiveness of the brand and adversely affect the symbol itself. In this case, the consumer will be forced to "withdraw" to other typologies of signals (as, for example, the price). The quality of the food products represents since ever a priority for consumers, companies and institutions. Over the years, the European citizen has asked himself what the quality of food products actually is, coming to identify the quality of a nourishment mainly with the intrinsic characteristics of the product: a nourishment is a quality product if it is considered good, tasty and with a delicious look.¹

But in the current food system, quality is also compliance to specific technological rules, to requirements in the production rules; moreover, quality is bound with the modality and the characteristics of the production system, with the food safety and to a correct information to the consumer.

However, with the globalisation process and the opening of the community market that quality assumes another important dimension: it became a competitive factor.

Due to a higher competition from the extra-EU companies, that have comparative advantages arising from both production cost structure and trade capacities², the European producers have identified in the "leverage quality" a strategic factor able to move the competitive comparison away from the prices level, on which they would result as losers.

¹ Eurobarometre 50.1 (1999), "Les Europeens et le labels de qualité", Bruxelles.

² The European agricultural and food industries companies present lower structural dimensions as those of the advanced economy countries; consequently, this involves lower organizational capabilities and lower financial capabilities, which may penalize the companies, than the necessary investments in innovation and promotions, necessary to compete on the global market.

Even the common policy on agricultural quality has been going hand in hand with that awareness. It was indeed necessary to wait until the first '90 to see the birth of regulations on quality products that, with the aim of harmonization of the existing national legislations and safeguard Protected Designation of Origin (PDO), geographical indications (PGI) and Traditional Speciality Guaranteed (TSG). It occurred to wait the CAP reform of 2003 in order to have more tools to support quality of food products.

In this process of harmonization and development of a framework of quality policies, it should be remembered how the European Community has faced numerous difficulties in identifying a clear, unambiguous and shared concept of food quality.

These difficulties arise mainly from the differences in the consumer perception, for some of which the meaning of quality identifies coincides with health and hygiene safety (in the case of consumers the Countries of Central and Northern Europe) while for others (those of southern Europe countries) the quality is mainly linked to the territorial origin.

In particular, for the latter, the quality concept is identified with the set of tangible and intangible attributes within a given territory (expertise, climate, etc.), combined with the traditional production process necessary to determine the quality of a food product.

These different perceptions derive mainly from the differences between the consumption patterns, between food cultures and between culinary traditions that have historically distinguished the southern European countries from those of the Centre-North.

The different perception of quality, based on local source or on food safety, does not exist only among EU consumers, but is also found worldwide, particularly in the field of international law, where the provisions concerning the quality of food is inextricably intertwined with the food security issue.

It is worth remembering - in this respect - how the Codex Alimentarius and the TRIPS agreement³ represents some of the most important regulatory framework designed to promote a progressive harmonization of food legislation in order to facilitate the international trade of these products.

While in Europe quality means compliance with a number of specific rules on safety and protection of public health, unlike other countries, the European Union has sought to regulate and to protect the quality *of the products related to the territory and to the traditional production processes*.

The EC Regulations 2081 and 2082 of 1992 (establishing the PDO, PGI and TSG)⁴ are not only issued to meet the need for harmonization of different rules in the different Member States concerning food quality. They represent a starting point on which to graft tools and measures to promote local products from rural areas in Europe.

³ Trade Related Intellectual Property Rights. This agreement will be explained in paragraph 3.2.

⁴ Regimes related to geographical indications exist in the sector of wines and spirits: the Regulation EC 607/2009 laying down certain detailed rules for the implementation of Council Regulation (EC) No. 479/2008 as regards protected designations of origins and geographical indications, traditional terms, labelling and presentation of certain wine sector products has disposed an harmonization of the system of designations of origin and geographical indication of wines with the system of PDO and TSG labels.

As written in the second part of the EC Regulation 510/06⁵: *"...the diversification of agricultural production should be encouraged so as to achieve a better balance between supply and demand on the markets. The promotion of products having certain characteristics can be of considerable benefit to the rural economy, particularly in less favoured or remote areas, by improving the incomes of farmers and by retaining the rural population in these areas"*.

With the integration, under the EC Regulation 1698/2005 on support for rural development⁶, of measures that have the dual objective to both support producers members of the quality supply chains and to promote those products to the consumer of PDO, PGI and TSG brands, those instruments assume also the function of marketing tools.

The policy of quality therefore acquires its own identity: using the lever of brands of territorial origin, local products are not only protected outside the production area, but they can also promote and support their market growth.

But it's only after the Commission Communication on the CAP post-2013⁷ that the policy of food quality become an integral part of the CAP.

Between the various challenges identified in the EC Communication, in order to improve the contribution of quality product to achieve the CAP objectives, the Communication underline the need to maintain the diversification between agricultural activities in rural areas and to strengthen the competitiveness.

The challenge is now to understand, in the light of the ambitious objectives assigned to the European local products of quality, if the provision including in the quality package will be able to support the growth paths of these products and, consequently, to ensure the development and vitality of the rural areas.

⁵ Council Regulation (EC) No 510/2006 of 20 March 2006 on the protection of geographical indications and designations of origin for agricultural products and foodstuffs.

⁶ Council regulation (EC) No 1698/2005 of 20 September 2005, on support for rural development by the European Agricultural Fund for Rural Development (EAFRD).

⁷ Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions, "the CAP towards 2020: Meeting the food, natural resources and territorial challenges of the future", (COM (2010) 672), 18 November 2010.

2. THE ECONOMIC ROLE OF QUALITY PRODUCTS IN THE EUROPEAN AGRICULTURAL AND FOOD SYSTEM

To understand the effects and the benefits linked to the "quality package"⁸ it is first necessary to understand the characteristics and peculiarities that distinguish the market for such products.

First of all we have to consider that, in the European Union, the number of PDO, PGI and TSG food products (away from wines that add another 1,800 denominations)⁹ reached 1,000 registrations¹⁰ in February 2011. This is almost twice the registrations there were ten years ago (registered food products, in 2000, included in accordance with EU law - EC Regulation 510/06 and 509 - were less than 600).

This strong growth in the number of registrations shows the interest that producers have in working under a certified quality system. An interest that, in spite of higher production costs, derives mainly from the awareness of a satisfaction from consumers, more and more oriented to privilege the qualitative aspect of the food purchases as well as willing to pay higher prices for local products.

A Eurobarometer survey¹¹ has highlighted how the main purchase criteria followed by European consumers are price and quality with a preference towards this last attribute (as stated by 42% of respondents).

However despite the strong growth occurred in the registrations the PDO/PGI food products system is still a niche sector in the context of food consumption in Europe: compared with 1,400 billion euro spent on food consumption¹², the importance of these quality food products - meant as value to the consumer - does not reach 2% of this value.

The result does not change much when you compare the impact of PDO/PGI on total volumes per single sector. With the exception of cheese, where denominations of origin represent about 9% of the total industry volumes and beers, which register slightly more than 7%, the weight of PDO/PGI volumes of other products (fruits and vegetables, olive oil, fresh meat) on the industry does not exceed 2%.

This low level of importance is caused primarily by the small size that characterizing the geographical indication production system. *Table 1* shows how the average production value (wholesale prices) is approximately € 19,000 for each single PDO/PGI. Average values are significantly higher in Italy, Germany, United Kingdom and Denmark.

⁸ Proposal for a Regulation of the European Parliament and of the Council on agricultural product quality schemes (COM (2010) 733); Proposal for a Regulation of the European Parliament and of the Council amending Council Regulation (EC) No 1234/2007 as regards marketing standards (COM (2010) 738); Commission Communication — EU best practice guidelines for voluntary certification schemes for agricultural products and foodstuffs, (2010/C 341/04); Commission Communication — Guidelines on the labeling of foodstuffs using protected designations of origin (PDOs) or protected geographical indications (PGIs) as ingredients, (2010/C 341/03), 10 December 2010.

⁹ Commission staff working paper, impact assessment on geographical indications. Accompanying document to the Proposal for a Regulation of the European Parliament and of the Council on agricultural product quality schemes.

¹⁰ IP/11/154, Brussels, 15 February 2011 "1000th quality food name registered".

¹¹ Eurobarometer 238 survey, Risk Issues, published February 2006.

¹² Household and outdoor food consumption, excluding alcoholic beverages.

By contrast, the lowest average values are found in Portugal (less than € 1,000 for single product), Greece and Spain. This fragmentation goes hand in hand with geographical concentration: the PDO/PGI in Italy, Germany and France register 79% of the whole value of the European geographical indication system.

Table 1: Value of production of PDO/PGI for agricultural products and foodstuffs in EU-27 (2008)

| Member State | PDO/PGI (nr.) | Value (‘000 €) | Average value (€ / product) |
|----------------|------------------|-------------------|--------------------------------|
| EU -27 | 764 | 14,518,679 | 19,004 |
| Italy | 165 | 5,205,103 | 31,546 |
| Germany | 62 | 3,612,011 | 58,258 |
| France | 156 | 2,585,640 | 16,575 |
| United Kingdom | 29 | 988,656 | 34,092 |
| Spain | 110 | 858,554 | 7,805 |
| Greece | 85 | 621,902 | 7,316 |
| Czech Republic | 10 | 92,958 | 9,296 |
| Austria | 12 | 117,717 | 9,810 |
| Netherland | 6 | 115,470 | 19,245 |
| Denmark | 3 | 82,195 | 27,398 |
| Portugal | 105 | 71,989 | 686,000 |
| Other MS | 21 | 166,484 | 7,928 |

Source: author's calculations on European Commission data.

The characteristic of the European system of quality products (small size of the products and relevant geographic concentration) is the result of national consumption behavior.

Table 2, in fact, shows how beers (that register 63% of Germany's PDO/PGI value) actually have a strong "production structure". Similarly, the average value of cheeses and processed meats (which, jointly, represent 93% of the value of the Italian's PDO/PGI) is higher than the overall average.

On the other hand, an high fragmentation distinguishes oils and fats, fruits, vegetables and fresh meat. The difference in value depends on the degree of processing: fruits, vegetables, fresh agricultural products have a lower processing level than the other PDO/PGI products which come from industrial transformation processes (such as, for example, cheeses, meat-based products, baked goods and beer). These differences explain the lower economic values encountered in Spain and in Greece where the largest number of registered products is related to fruit, vegetables and olive oil.

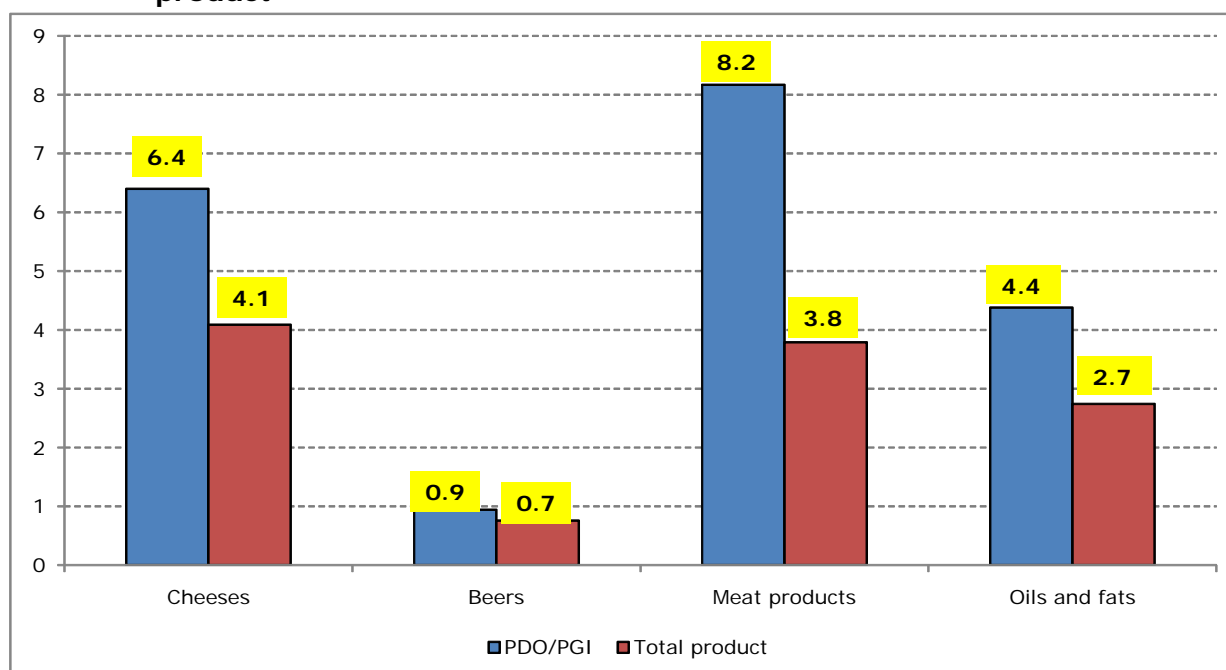
Table 2: Value and volume of production of PDO/PGI by type of product (2008)

| Type of products | PDO/PGI (nr.) | Value ('000 €) | Volume (tons) | Average value (€ /product) | Average volume (tons/product) |
|--------------------------------|------------------|-------------------|------------------|-------------------------------|----------------------------------|
| EU -27 | 764 | 14,518,679 | 5,673,617 | 19,004 | 7,426 |
| Cheeses | 163 | 5,624,579 | 879,196 | 34,507 | 5,394 |
| Beers | 17 | 2,365,834 | 2,505,058 | 139,167 | 147,356 |
| Meat products | 85 | 2,616,095 | 320,250 | 30,778 | 3,768 |
| Fresh meat | 106 | 1,114,975 | 251,418 | 10,519 | 2,372 |
| Fruits, vegetables and cereals | 172 | 870,049 | 778,203 | 5,058 | 4,524 |
| Bread, pastry, confect. | 25 | 741,853 | 145,022 | 29,674 | 5,801 |
| Oils and fats | 104 | 359,906 | 82,221 | 3,461 | 791 |
| Other products | 92 | 825,388 | 712,249 | 8,972 | 7,742 |

Source: author's calculations on European Commission data.

Despite this fragmentation there is a positive aspect that distinguishes PDO/PGI from the other and confirms the added value that they have in comparison to standard, not certified, products: they obtain the highest prices on the market.

A comparison between the main processed products, highlights significant differences in wholesale prices (*figure 1*) - on average 56% for cheese, 24% for beer, 116% for meat-based products and 60% for olive oils and fats -.

Figure 1: Wholesale Price: a comparison between PDO/PGI product and standard product*

***Standard product:** cheeses (NACE Rev. 2 code 10514030+10514050+10514070), beers (NACE Rev. 2 code 11051000), meat products (NACE Rev. 2 code 10131120+10131460), oils and fats (NACE Rev. 2 code 10412310+10513030+10513050)

Source: author's calculations on European Commission and Eurostat data (Prodcom database).

Territorial concentration is also the result of additional features, such as:

- the degree of growth in production due to enlargement of the geographic areas under the designation or to long-established food traditions;
- the success of a product on the market and therefore a higher degree of penetration into and extent of the market of reference (local, national or international).

In this regard, it is sufficient to note that the first 5 Italian PDO/PGI products register about 63% of the total national geographical indication of food products value. In the case of Spain this weight is about the half, 30%. This is the result from great differences in production volumes of the individual denominations. The main Italian PDO cheese, "Grana Padano", exceeds an annual production of 160,000 tons. The main French cheese, "Comtè", does not reach 50,000 tons. A similar disparity exists in the case of meat-based products. The main Italian ham, "Parma", annually certifies nearly 10 million hams. The main Spanish ham, "Jamon de Teruel", does not exceeds 470,000 hams.

These characteristics show how the European PDO/PGI system is composed of a number of situations that are very different one from the other. This is precisely why the EU rules for indication of origin were created: to harmonize previously existing national systems (systems that, as in the case of Italy or France, have been existing for a very long time) into a single body of law.

It is clear that the greatest effort that Common policy for the quality (which no longer wishes to be limited to harmonizing the system of rules but rather wants to support development of individual products on an open and competitive market) will have to carry out, is to respond to the needs for growth expressed by local systems that differ greatly from product to product and from territory to territory.

This means that, even in a single coherent quality policy framework that considers PDO, PGI and TSG denominations not as an attributes but as a system of products with their own identities and competitive capacities, the tools and related policy measures still need to be diversified and structured in the light of such diversity, in order to support these products according to the growing paths, more congenial to each of them.

3. THE ANSWERS OF THE QUALITY PACKAGE TO THE NEEDS OF DEVELOPMENT OF QUALITY PRODUCTS

3.1. The need for a deeper consumer's knowledge of the quality brands

One of the key messages highlighted by the Commission in the "quality package" regards the goal of better information on food quality.

More precisely it explains how *"...farmers, who are under pressure from the economic downturn, concentration of retailer bargaining power, and global competition, need the tools to better communicate about their products to consumers..."*¹³.

In fact, distinguishing marks like geographical names (and thus PDO, PGI, TSG), are considered by economic theory as potential tools for solving problems linked to "market failure" due to the existence of an information asymmetry between producers and consumers.

However, in order to eliminate the "market failure" the distinctive signs must be known – or at least understood – by consumers and, above all, to understand what is behind the PDO or PGI brand. Otherwise it is unrealistic to think that only the community recognition is able to help products to achieve higher prices in the market. Indeed there are not infrequent instances of PDO or PGI (particularly in the case of olive oils and vegetables) where the higher cost of production, caused by compliance with a specification and by the amount of red tape, fails to be offset by the increase in sale price. This is a gap that, if it cannot be removed, inevitably leads to dropping out of the producers from the certification system.

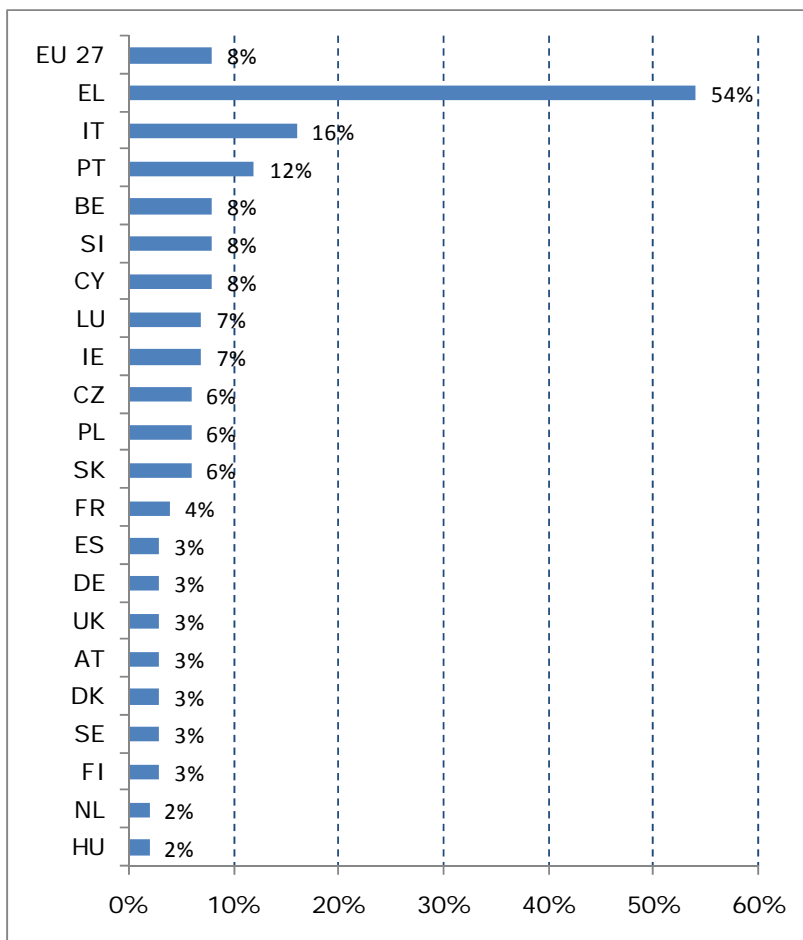
Several surveys have been carried out over the years at the European level in order to understand the degree of consumer awareness of the PDO or PGI brands¹⁴. The same result was seen in each case: the degree of brand knowledge and awareness is very low, even where the use of the brand is more established.

The latest survey, performed by London Economics in 2008 in the EU-27¹⁵, shows large regional differences. Although brand awareness is directly proportional to the number of certified products, the survey points out some exceptional situations. It is surprising the case of Greece, where over the half of the respondents claimed to recognize the symbol of the PDO or PGI thanks primarily to the widely reported debate in the press for registration of PDO "Feta cheese". The average European degree of awareness of the PDO or PGI symbol is only 8% (*figure 2*).

¹³ Dacian Ciolos, "An enhanced EU policy to help better communicate the quality of food products", IP/10/1692.

¹⁴ Among the latest surveys, stands out the survey carried on by Eurobarometer 50.1 (1998) "Les Européens et le labels de qualité".

¹⁵ Evaluation of the CAP policy on protected designation of origin (PDO) and protected geographical indications (PGI). London Economics, November 2008.

Figure 2: Recognition of PDO or PGI symbols (by country), 2008

Source: London Economics.

Italy and Portugal, where respondents who claimed to recognize the brand, are respectively 16% and 12%. On the other hand, there is an increased the rate of market penetration by other symbols applicable to other food products, such as organic or fair-trade, even though in this case it is important to underline that awareness could come more from their more user-friendly name (as opposed to the acronym of geographical indications).

In general there is very low consumer involvement towards any type of mark referring to a food quality and/or safety guarantee: about two-thirds of respondents, did not recognize any symbol, whether PDO, PGI, traditional product, biological product or fair trade. Moreover only 51% of the consumers who claim to know the PDO/PGI symbols know that these logos are meant to indicate that a product is produced in a specific geographical area.

As proof of this information gap, a recent survey on food purchasing habits of the Italian consumers ¹⁶ revealed how purchase of PDO/PGI products interests less than 30% of consumers. This percentage is different from the rate of market penetration of most famous Italian PDO and PGI products (such as "Parmigiano Reggiano", "prosciutto di Parma" or "San Daniele") which is higher than 80%. This difference comes from the consumer's inability to associate the PDO recognition with these products, proof that the

¹⁶ Primo Rapporto sulle abitudini alimentari degli italiani, Censis-SWG, Rome 2010.

community trademark has not yet been fully assimilated by consumers, not even for frequently purchased products.

The knowledge gap towards PDO, PGI, TSG labels represents a major competitive disadvantage for those types of products. In practice, the function of reducing asymmetric information that should be carried out by the signs of quality is seriously undermined by the limited knowledge of consumers of the EU logos.

Although the "quality package" confirms, by the strengthening of the 'Groups' role, the possibility of developing informative and promotional activities to communicate to consumers the properties that give value to their products, it would be helpful to accompany these measures with institutional information campaigns by the EU on the PDO, PGI and TSG logos and on their significance, in complete autonomy from individual products¹⁷.

No policy intervention aimed at enhancing PDO, PGI, TSG products will ever fully and effectively achieve its goals until a large proportion of European consumers is unable to recognize these logos and the values that they express.

Even worse there is the risk, by earmarking of dedicated resources or of specific measures to other chapters related to single quality products, of creating a race for EU recognition even by producers with the least qualifications for doing so. This would lead to a "crowd" of applications at Community offices without any corresponding parallel productive and economic growth of already registered products.

3.2. The need for international protection of quality products

The heterogeneity that distinguishes PDO/PGI products in terms of production volumes, highlighted in chapter 2, is synonymous of different needs of producers and transformers. While small PDO/PGI are located in local/national markets, those with higher volumes of production use the community brand in order to gain market shares in foreign countries, thanks to the protection given by the denomination inside Europe.

On the other hand, that that 18% of the 14.5 billion euro PDO/PGI production value is obtained on foreign markets.¹⁸

However, there are some limitations in the denomination protection given by EC 509 and 510/06 Regulations. We must remember that this protection is limited to the territory of the European Union. In addition, it does not relate to Community laws able to penalize the possible illegitimate use of the denomination, nor to identification of the subjects who are expected to verify and, eventually, impose the penalties.

Imitation of quality products is a common practice in extra European markets and is one of the main obstacles to development of the PDO/PGI¹⁹ system in those contexts. We cannot

¹⁷ With the term Groups (art. 42 Proposal for a Regulation of the European Parliament and of the Council on agricultural product quality schemes (COM (2010) 733)) is meant Association of producers and/or transformers connected to the quality product.

¹⁸ Commission staff working paper, impact assessment on geographical indications. Accompanying document to the Proposal for a Regulation of the European Parliament and of the Council on agricultural product quality schemes.

underestimate the opportunities that extra European markets offer to these products: even if today the share of European quality products in those markets is only 5% of the total, for some PDO/PGI the potential for growth is undoubtedly much higher (*table 3*).

Table 3: Value of PDO/PGI by Member State: share of Extra-EU export (2008)

| Member State | PDO/PGI | |
|----------------|------------------------------------|----------------|
| | Extra-EU export (% total value) | (.000 €) |
| EU -27 | 5% | 725.934 |
| Italy | 8% | 416.408 |
| Germany | 2% | 72.240 |
| France | 1% | 25.856 |
| United Kingdom | 7% | 69.206 |
| Spain | 4% | 34.342 |
| Greece | 6% | 37.314 |
| Czech Republic | 23% | 21.380 |
| Austria | 8% | 9.417 |
| Denmark | 15% | 12.329 |
| Portugal | 13% | 9.359 |
| Other MS | 0% | 18.081 |

Source: author's calculations on European Commission data.

The 57% of turnover obtained by PDO/PGI's products on the extra-EU market comes from Italian products. On Italian level, it's 8%. Other rates are 23 % of total value in the Czech Republic, 15% in Denmark and 13 % in Portugal. As far as types of products are concerned PDO/PGI cheeses are the most exported products outside EU countries (especially to the United States) with 7% of total value of that sector (*table 4*). As far as names are concerned, 51 cheeses are exporting part of their production in third countries markets.²⁰

¹⁹ In the US market, according to a study carried on by Nomisma (Originale Italiano, Rapporto Indicod Ecr, Agra Editrice, 2005) in 2003 approximately 30% of the 16 billion US \$ of turnover of "Italian sounding" products consisted of "imitations of Italian Geographical Indications". In this context the retail value of geographical indications has been estimated at 2 billion US \$: 7% of the total. This is indeed a very relevant value if compared to the fact that the US retail market share by true Italian PDO/PGI, in absolute values, is practically the same. In terms of businesses, the most imitated brand is "Parmigiano Reggiano", with a sale value of 678 million US \$, present almost exclusively under the name of "Parmesan". This is followed by "Pecorino Romano", almost always called "Romano Cheese", for a sale value of 66 million US \$.

²⁰ Commission staff working paper, impact assessment on geographical indications. Document accompanying the Proposal for a European Parliament and Council Regulation of agricultural product quality schemes.

Table 4: Value of PDO/PGI by type of products: share of Extra-EU export (2008)

| Type of products | PDO/PGI | |
|--------------------------------|------------------------------------|----------------|
| | Extra-EU export (% total value) | (.000 €) |
| EU -27 | 5% | 725.934 |
| Cheeses | 7% | 393.721 |
| Beers | 4% | 94.633 |
| Meat products | 3% | 78.483 |
| Fresh meat | 0% | - |
| Fruits, vegetables and cereals | 3% | 26.101 |
| Bread, pastry, confect. | 1% | 7.419 |
| Oils and fats | 8% | 28.792 |
| Other products | 12% | 96.785 |

Source: author's calculations on European Commission data.

With respect to the above mentioned issues regarding the community protection, the proposals included in the "quality package" lead to the improvement of that function through the adoption by Member States of adequate administrative and legal measures to prevent or stop illegal use of the PDO/PGI (so-called "ex-officio" protection). In other words each MS is requested to organize its own protection system for every European Union PDO/PGI. This measure fills a gap that has, until now, practically reduced the effectiveness of the community brand protection system. .

The "package", also provides that the European Agricultural Fund for Rural Development (EAFRD) have to finance the activities necessary to protect the use of geographic indications, abbreviations or symbols referring to the quality systems from any action or practice that leads the consumer to misunderstanding, both inside the territory of the European Union and in extra-European countries.

The matter of extra-EU protection is more complicated. The TRIPS agreement is a "potentially" effective tool to improve international protection of geographical indications, thanks in part to the great number of WTO countries, 150. This is due to the fact that the TRIPS agreement, unlike other international conventions concluded on the same issue²¹, establishes a definition of geographical indication that is shared by each member country. This foresees appealing to a unitary and integrated protection and dispute resolution system, uniformly applicable to any issue that is of the competence of the WTO and to all of its members.

The agreement, in article 22.1 defines Geographical Indications by specifying that *"Geographical indications are, for the purposes of this Agreement, indications which identify a good as originating in the territory of a Member, or a region or locality in that territory, where a given quality, reputation or other characteristic of the good is essentially attributable to its geographical origin"*. The protection established by art. 22 is general,

²¹ On these issues refer to the Convention of Paris dated March 20th, 1883 on the protection of industrial property, the Agreement of Madrid dated April 14th, 1891 concerning the prohibition of false indications of the origins of goods, revised in London on June 2nd, 1934. Also refer to the international Convention on the use of designations of origin and on denomination of cheeses signed in Stresa on June, 1st 1951 and, lastly, to the Lisbon Agreement dated October 31st, 1958 on protection of denomination of origin and on their international registration.

generic and with little effectiveness: when the legitimate proprietor of a determined geographical indication is willing to oppose misuse of the geographical indication he is required to demonstrate that the use performed by the counterpart can mislead the public.

Article 23, on the other hand, establishes added protection for geographical indications for wines and alcoholic beverages. These are valid even when the geographical indication is translated or accompanied by expressions like "gender", "type", "style", "imitations" or similar.

This double structure has created a two level protection system: the first one is considered generic protection, specified in article 22 and applicable to the geographical indications of all products. The second, supplementary, is specified in article 23 and is applicable to indications of wine and alcoholic beverages.

The result of this "double level" system is that according to article 23 it is not possible to use indications like "sparkling wine Champagne style, made in Chile", while it would be possible to use the term "Roquefort Cheese, made in Argentina" or "Parma Ham, made in Canada", since the last two ones could be considered as not misleading for the public, since the real origin of the product is indicated.

This situation increases the risk that geographical indications transform themselves into generic names and may be freely used by anyone and become the name of a whole category of products.

These different treatments between wines and other food products are also indicated in art. 23.4 which states "*...in order to facilitate the protection of geographical indications for wines, negotiations shall be undertaken in the Council for TRIPS concerning the establishment of a multilateral system of notification and registration of geographical indications for wines eligible for protection in those Members participating in the system*".

At the same time the TRIPS agreement does not explain the meaning of "*multilateral system of notification and registration*". This "gap" has created two different positions in the negotiations: one for the European Union and one for the United States, both supported by countries with similar interests.

The different positions expressed in the negotiations stem from the different regulations that each country has given to its geographical indication product. Europe, for example, supports the protection of geographical indications regarding names and trademarks, in America and in Australia, on the other hand, there is less attention to geographical indications. The consequence is a lower level of protection.

More specifically the two opposed positions provide, respectively:

- institution of a multilateral registry of geographical indications extended to all food products – as well as wines and alcoholic beverages – carried out by the WTO Secretariat which provides for registration of denominations according to the requests presented by MS. The register, which has to be consulted by each MS in occasion of any procedure for protection or registration of trade mark or geographical indication, is the proof of the presence of such denomination and of its connection to a specific territory. This is basically the position expressed by the

European Union²² along with more than one hundred other countries, including Brazil, Thailand, Turkey, Swiss and all the countries from the ACP group (Africa, Caribbean and Pacific);

- downgrading of the multilateral register to a simple database made on a “strictly volunteer” basis that has to be consulted in order to verify the compatibility with other denominations and brands that need to be registered only in case where the country participates in the system. This is the proposal made by the United States together with other countries, among them Argentina, Chile, Canada, Australia and New Zealand²³. In addition the document does not forecast extension of the registration to products that are not wine and alcoholic beverages.

Negotiation within the WTO now has to deal in detail with the single points that should regulate functioning of this multilateral register:

- notification: how a term would be notified and which member would do it (also related to “participation”);
- registration: how the system would be run and the WTO Secretariat’s role;
- legal effects/consequences of registration, in particular any commitments or obligations on members arising from a term’s registration (also related to “participation”);
- fees and costs — including who would bear these burdens;
- special treatment for developing countries (officially, “special and differential treatment”);
- participation: whether the system is entirely voluntary, or whether a term’s registration would have some implications for all WTO members.

Regarding the protection of geographical indications outside of EU, the “quality package”, offers some adjustments to harmonise the definition of PDO and PGI within the TRIPS agreement in order to facilitate WTO negotiations.

A possible alternative option to improve the efficacy of international protection of geographical indications is also worth mentioning. It consists of the creation of bilateral and regional agreements between single countries and/or groups of countries, with the awareness that these types of agreements bind only the agreeing parties and would need to be repeated in all international potentially interested markets of PDO/PGI/TSGs.

²² WTO, TN/IP/W/11, 14 June 2005; TN/C/W/52, 19 July 2008.

²³ WTO, TN/IP/W/10/Rev.2, 24 July 2008.

3.3. The need to strengthen the bargaining power of PDO/PGI producers

The fragmentation of PDO/PGI system is characterised both by volumes of production and the producing businesses. Not only the most denominations of origin and geographical indications put together small quantities of certifications but also the production system that lies behind them is composed of a multitude of small and medium-size farms and food processing companies.

With respect to this, in Italy and France, there are 76,000²⁴ and 56,000²⁵ farmers producing respectively 1.1 million and 600,000 tons of PDO/PGI products. As far as the the sector of PDO cheeses is regarded, in Italy (first European producer for quantity and value), there are over 1,400 dairies producing almost 450,000 tons. In Spain, 29,500 tons of cheese are produced by 433 dairies. In France, of the 187,000 tons produced, 8% (14,800 tons) regards volumes obtained from 1,350 farmers. Even one of the most famous Italian cheeses, Parmigiano Reggiano PDO, is obtained from 409 dairies producing about 113,000 tons.

On the other hand this production, when it comes to selling to consumers, has to confront itself with highly concentrated large scale retailers. Over 70% of French PDO cheese production is delivered by large-scale retailers²⁶. In Italy this percentage is lower but still exceeds 60%²⁷.

And in these markets the degree of concentration of the main large-scale retailers is very important: the first 5 in France have the turnover of 81% of the value of food consumptions; in Italy this percentage is 25%²⁸.

In other words even PDO/PGI products are subject to this "hourglass model"²⁹ that characterizes the agri-food system, determined by oligopolies that cover almost every food sector: an effect that reduces the bargaining power of producers with retailers, generating negative impacts on the profitability of farmers.

The effects of these model are more or less same in the primary sector, while its economic consequences are more heavy for PDO/PGI producers. The presence of a production specification "*de jure*" and "*de facto*":

- makes homogenous the quantities of products produced by different companies,
- delegates marketing activities related to the same denomination to "Groups" (Consortiums , Associations of producers, etc.).

It's clear how differentiation strategies, used by a single producer within a quality supply chain, are actually quite limited and expensive.

²⁴ Source: Istat (http://agri.istat.it/sag_is_pdwout/jsp/Introduzione.jsp?id=14A).

²⁵ Source: Inao (<http://www.inao.gouv.fr>).

²⁶ Source: Inao (2010), "Produit laitiers AOC. Les chiffres clés 2009".

²⁷ Source: Nomisma (2008a).

²⁸ Source: Il Sole 24 Ore (2010) "Rapporto sulla GDA in Italia e confronti internazionali – 2010".

²⁹ Grievink J. W.(2003), "The Changing Face of the Global Food Supply Chain", in: OECD Conference on Changing Dimensions of the Food Economy: Exploring The Policy Issues, Le Hague, Netherlands, 6-7 February.

In fact, considering the small size of the companies of the quality supply chain and the costs related to marketing activities, the strategies promoting trademarks are very few.

In case of the production of big quantities of PDO products and the existence of mature markets the capacity of the company to fix the selling price (*price maker*) gradually decrease until it becomes equal to that of a commodity producers (*price taker*).

In the case of commodity producers and despite their low capacity to affect selling prices, may try to retrieve profit margins through gains in production efficiency (for example, through technological investments, reduction of production costs, economies of scale, etc.), in the case of PDO/PGI products this resilience is hampered by production regulation qualitative issues that may be incompatible with these efficiency strategies (for example incompatibility between manual and traditional production methods that connote PDO/PGI's products and industrial transformation based on automation of the production process).

In the case of commodity producers, the companies may try to make profit by improving the efficiency (for example, through technological investments, reduction of production costs, economies of scale, etc), while this strategy is not applicable to PDO/PGI producers and may cause the quality reduction, because they have to follow the production specifications (for example, there are an incompatibility between manual and traditional production methods that characterizes PDO/PGI's products and an industrial transformation based on automation of the production process).

It's evident that the initial price reduction of PDO/PGI products affects uniformly and transversally the entire system of producers taking part of the same quality system. As consequence, these producers will have to fully sustain their profit loss.

The decrease of profits under production costs will definitely lead them to go out of business. However, the closure of PDO/PGI's farmer or food processing company does not imply the reorganisation of the sector. The PDO/PGI are usually produced in rural and less favoured areas such as mountain areas, thus it is clear the closure of a livestock holding or dairy has several negative impacts: not only economic but also social as well as safeguard of territory and loss of historical and cultural heritage. A PDO/PGI cheese dairy that closes is not like an industrial plant that may reopen when the economic situation turns better. Closure is a loss that will never be recovered.

The necessity to avoid these negative scenarios to increase the bargaining power of PDO/PGI producers in the food system complies fully with the framework of the CAP's post 2013 goals.

The "quality package" may become a tool to achieve a dual purpose, both in the sphere of promotion of PDO/PGI products and in the more general framework of the European farming and agri-food sector.

The proposal of quality package aims to enhance the producer's or the "Groups" role through monitoring of usage of PDO/PGI/TSG, implementing of information and promotion activities, communicating to consumers on the added value properties of their products, and promoting the activities that guarantee conformity to production specifications in order to improve the efficiency of the quality system.

Even if these proposals are useful to achieve the identified goal, there is still room for manoeuvre to improve the bargaining power of producers in the European agri-food system.

For these reasons, it is crucial to have tools able to activate the development policies and quality management of PDO/PGI products. It is very important to make agreements aiming to plan the production following on the market trends in order to ensure better quality.

This refers to what was already expressed in the European Parliament Resolution dated March 25, 2010 on the quality policy of agricultural products, where, at point 36, the proposal is made to strengthen the role of consortiums holding geographical indications with the aim of defining legislation both on management of production and on use of geographical indications for processed products.³⁰

In accordance with the competition rules and the "milk package"³¹, it could be introduced the possibility to use the contracting mechanisms able to manage efficiently the production. This possibility of planning of production, with reference to the "milk package" and what already implemented in the fruit and vegetables sector, might be connected to the registration of organisations of producers or of inter-professional bodies within quality systems (extending this opportunity mainly to "Groups"). This would be done with the aim of increasing the bargaining power of the producers even despite of the competition rules.

3.4. The need for administrative and commercial simplification

Administrative simplification generally represents one of the main requests expressed by PDO/PGI producers as well as by European farmers. This is also expressed in the post 2013 CAP Communication³², where it is stated that among the motivations that justify this reform, there is also the *need "...to pursue the simplification of the CAP implementation procedures and enhance control requirements and reduce the administrative burden for recipients of funds"*.

The "quality package" has proposed to simplify the current registration process for denominations of origin and geographical indications, both reducing the time necessary for examination of geographical indications (from one year to 6 months) and bringing the period for publication of the request for registration in the Official Journal of the European Union and for presenting objections down from 6 to 2 months. Even if the time savings

³⁰ European Parliament Resolution dated March 25, 2010 on agricultural product quality policy: which strategy to follow? (2009/2105 (INI)). At point 36 it is specified that the European Parliament "proposes enhancing the role of geographical indication owners' consortia, with a view to defining the legislation with regard to both volume management and use of geographical indications in respect of the goods produced; considers that consortia should be able to play a role in the coordination of economic operators, with a view to bringing quantities produced and placed on the market as closely into line as possible with the quantities that the market can absorb, and in promotion measures vis-à-vis farmers and consumers; considers that this would more effectively guarantee the long-term viability of the different stages of production, processing and distribution, which is essential to the life of rural areas; adds that quantity control is one of the requirements of quality control; takes the view that the definition of the role of consortia should be included in Community legislation; considers that practices and experiences identified in the various EU Member States could be recorded and used in defining the rights and duties of consortia".

³¹ Proposal for a European Parliament and Council regulation amending Council Regulation (EC) No 1234/2007 as regards contractual relations in the milk and milk products sector.

³² Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions, "The CAP towards 2020: Meeting the food, natural resources and territorial challenges of the future", (COM (2010) 672), 18 November 2010.

may not seem substantial we must consider that, on the average, it takes several years to register a PDO/PGI³³.

On the contrary, by keeping separate regimes for food products, on one hand, and wines and alcoholic beverages on the other, it does not appear to be going in the direction of simplification. The possibility of eventually combining different schemes could permit synergies coming from the consumer communication and information campaigns on the PDO/PGI logos which, as previously mentioned, should be carried out to overcome one of the main informative asymmetries between demand and offer in the European quality system.

The use of delegated acts is a frequent practice in the "quality package" that should respond, according to the Commission, to the need for executive simplification of the regulatory framework.

According to the article 290 of the TFEU³⁴, a legislative act may delegate to the Commission the power of adopting non legislative acts of general importance that integrate or modify the unessential elements of the legislative act itself. For example delegated acts may clarify specific technical characteristics or consist in a further change of some elements of a legislative act. However it is not so simple to distinguish between essential and unessential elements in a basic act and theoretically the practice of delegate acts could threaten the legislative function of the Parliament or at least require greater control from the parliamentary Commissions over the guarantees that the institute of delegation offers to the Parliament. It is to be specified, in this last regard, that the delegation has to come from a legislative act previously and jointly adopted by the Parliament and the Council. In addition the same basic act has to establish the conditions by which the delegation must be taken. And, finally, the Council and the Parliament may revoke a delegation, attribute it a limited duration and make objections against the delegated act.

For general purposes it seems evident that excessive recourse to delegated acts would end up compromising the balance of institutions, the principle of transparency and the legitimacy itself of the legislative procedures of the Union³⁵. The use of delegated acts, in the case of the "quality package", is counted in no less than 18 out of 51 articles in the proposal of European Parliament and Council regulations of the quality regimes of agricultural products and in 6 cases out of 16 articles regarding the proposal to amend EC Council regulation n. 1234/2007 on marketing standards. In many cases the topics and the procedures to be disciplined by delegated acts, in the case of the proposed regulation of the quality regimes of agricultural products, do not represent secondary aspects. The possibility of enlarging or reducing the types of agricultural products that may benefit from PDO/PGI/TSG, of making exceptions regarding the production or supply zone of the PDO/PGI, as well as, among other things, of defining specific conditions for the request for and the cancellation of denomination registrations are topics governed by delegated acts able to have significant economic effects both on the agricultural sector and on the development potential of the European system of quality products.

³³ Source: Nomisma (2008a).

³⁴ European Union Operation Treaty.

³⁵ Directorate-general for internal policies of the Union, Policy Department B: structural and cohesion policies (2010), "Study on Structural and Cohesion Policies following the Treaty of Lisbon".

With regard to commercial simplification the “quality package”, in addition to the measures contained in the regulation proposal to rationalize marketing rules, especially through the use of delegated acts, it is also completed by two non-binding guidelines on the functioning of the voluntary certification schemes and, in particular, on the labelling of the products that use geographical indications as ingredients. However it is necessary to highlight, regarding these latter guidelines, that the Commission has not yet clarified certain provisions related to the use of the registered denomination in the ingredients of a food product, such as, for example the minimum quantity of PDO/PGI product to use and able to give an essential characteristic to the processed food product. This disposition assumes substantial importance when we consider the possible added value that the PDO/PGI ingredient is able to give to the processed product.

If on the one hand, the indication of the PDO/PGI ingredient on the label or in the package of the food product represents a kind of advertisement and promotion for this product, it is also true that in case of clearly famous ingredients (and European PDO/PGI products are the most famous and the most imitated agri-food products in the world) the processed product may be very appreciated by the consumer, applying also higher prices.

In terms of economic balance, the payment for the PDO/PGI ingredient is the price paid by the transformer to the producer for the quantity actually purchased. On the other hand the transformer acquires major reputation by the by the presence of the most “famous” ingredient.

It would be proper, given that reputation is the result of the PDO/PGI promotion activities carried out by the Groups including the related costs, to consider – in the proposal – giving to these associations/organizations the right to authorize³⁶ the use of their own PDO/PGI products in the processed foodstuffs.

³⁶ Delegation of authorization to use denomination products as ingredients in transformed products to the Groups would be another measure strengthening the role of these producers’ associations, in line with what are considered the purposes the “quality package” and in addition to the provisions already inserted in art. 42 of the regulation proposal by the European Parliament and Council on agricultural product quality systems.

4. CONCLUSIONS

The strength and relevance of the European agri-food quality system cannot be based exclusively on the number of registered denominations but should also come from the PDO/PGI/TSG products social and economic values.

A market analysis of registered denominations has brought to light that 1,000 registered products with a value of approximately €14,5 billion accounts for less than 2% of the entire value of the European food production.

However due to their links to specific geographical areas and unlike standard products PDO and PGI products mean also local development, environment protection, territorial enhancement: in other words, greater production of public goods.

This, notwithstanding, as for all agri-food products, also for the registered denomination ones a larger production of public goods stems from economic and market growth and this can only be supported by a policy that mainly takes into account the competitive capacity of companies.

The European quality policy was born aimed at harmonizing existing national regulations to protect and increase the value of local products and to promote its commercialization within the common market. While such initial objective has been achieved, the next goal has moved beyond community borders. In fact, the next European Union objective is the international protection which will be sought by establishing a multilateral register for geographical indications according to the TRIPS agreement.

But this cannot be the only goal. The quality policy, in light of the continuous requests for PDO/PGI registrations, has to furnish the tools to support the growth of market which struggle to adapt themselves, in an equal and equally efficient way, to the different production conditions that characterize the many registered denominations.

Should this not be the goal of the European Union then the only positive effect of community quality policy would be to infinitely expand a register made of individual denominations without a corresponding contextual socio-economic growth, neither of the products nor of the territorial systems linked to them. And in this case, who would gain from this situation?

If we want to convert PDO/PGI/TSG denominations into marketing tools, and not mere means for electoral consensus (as it happens in many local areas throughout Europe nowadays), we need to take other elements into account.

Firstly the fact that the PDO/PGI/TSG products, while they do have more instruments for differentiation from standard products (such as the European logo) at the same time find that the majority of consumers are unable to recognize or understand these instruments. The result is that the competitive logic these products face is practically the same as for every other food product.

The reduced average value assigned to European denominations is not just a peculiarity that differentiates these productions: quite often it is the result of a problem, that of the market success. If we wrongly believe, that quality only suits small production levels then

how can we think of developing the European agri-food sector based on this prerequisite? And which and how many positive effects may favour the territorial systems from registered denominations that are barely able to certify just a few tons of product?

How trustful to the eyes of the international community a system that requires the protection of territorial brands - at the expense of commercial brands- can be, and that continuously grow in number year after year but which, in terms of the overall economic value, is worth less than the turnover of the main European agri-food company in the EU food and drink market?³⁷

It will be said that is not fair to compare the system of local products to those of the standard food industry and that the system of territorial brands has been created precisely to give a further instrument to these productions to "survive" in a competitive arena where small and very small companies have to cohabit with multinational companies.

Maybe this is the weakness of the European quality policy: the policy is more incline to preserve than to develop local products. In other words it tends to facilitate a conservation process (also by being recorded into the community register) and then provides tools to promote and protect them becoming most effective only when these products succeed in being sold outside of their country of origin. And up to now, due to these structural weaknesses that make this denominations highly fragmented productive realities, only 18% of the PDO and PGI products value is obtained outside national borders.

The true challenge for an European quality policy that wants to make PDO/PGI/TSG products true instruments for social and economical development and to vitalize rural areas should be twofold: on one hand, succeed in preserving the fragmented system of production and processing companies rooted in rural - often disadvantaged - areas of the Community and, on the other hand, give them the tools to compete and make them grow on the market. Even if these might seem opposed goals (often, in real economics, the efficiency and competitiveness of a sector is reached by eliminating the more marginal firms) they are surely goals that cannot be separated: if, for example, the quality policy tends to reach only the first goal (preservation) then we would find ourselves with a policy that is more social than economic.

An ambitious policy for quality of European agri-food products should identify paths and tools to promote the growth of registered denominations with this double challenge clearly in mind. And the latter can be pursued by giving the companies instruments that are able to increase their competitiveness and their contractual power in the agri-food system.

This means tools that are able to facilitate associations between producers of quality products, to program production in function of the market and to promote awareness of community brands. But at the same time it means to rationalize the system of denomination registration³⁸ so that international partners will give more credit to a European quality system where products are really different and special when compared to normal standard products.

³⁷ In 2008, the largest European agri-food company (Nestlé) had a turnover of 17.6 billion Euro in EU food and beverage market .

³⁸ With regard to this goal art. 51 of the "quality package" introduces the possibility of cancelling registration of a PDO, PGI or TSG whenever a product that benefits from the community brand has not been in commerce for at least five years.

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