

# **Annex 12**

**Reports WP 4  
Spain**

**DOLPHINS - WP4 Reports**  
**Ana Sanjuan**  
**Universidad Publica de Navarra**  
**Spain**

JANUARY 2002

## SECOND REPORT ON THE LINK BETWEEN OLP AND CONSUMERS AND CITIZENS (WP4)

The following comments are based on the literature review referred to the Spanish market, personal views and research. Some of the personal research is still in process and is being developed in collaboration with other researchers.

### THEME 3: EXPLAINING OLP BEHAVIOUR

We should bear in mind that in Spain there are 123 PDO/PGI products apart from a variety of TSGs. From those, wine is the most important with 55 designations, followed by cheese, with 13, and spirit drinks with 10. They are spread over 17 "administrative" regions. In some of them, different PDO/PGI co-exist, even for the same product. For instance, in the region of Aragon, there are four PDO wines: Somontano, Cariñena, Campo de Borja and Calatayud.

#### *I.* **Factors influencing OLP usage/consumption**

##### *a.* *Geographical factors*

##### **The ubiquity of the consumer and the product**

Normally, the research about OLP consumption carried out in Spain, are always based on the region whose products are evaluated. This may be explained by the fact that most of the OLPs are mainly destined to the "domestic/regional" market. Only a few firms are more extrovert, either because of the long-period they have been selling the product in the internal market or because of a growing strategy. Some of them, are trying to enlarge the market towards neighbouring Spanish regions while others are exporting to the rest of the world.

That means, that depending on the fact that consumer and product belong to the same region or not, the motives to use OLPs may differ or at least, the weight of these factors will vary. For instance, image, quality, fashionable aspects of the product might be more important for the consumption of a food produced in a different region, while emotional and identity linkages with the own region, might influence more the consumption of the own-region produced food.

##### **The urban and rural areas**

Some works have been done on the differences of food consumption in urban and rural areas. It could be interesting to explore this fact in the case of OLPs. Some theories highlight the consumption of OLPs as a "nostalgic need to reconnect with the natural roots", what can be applied to an urban consumer but not to a consumer living in a rural area. Thus, again, the motivations may differ between urban and rural consumers.

##### **The consumption habits**

The food diets differ between regions, with a bigger weight of specific products. That influences the perception of the origin identification label (and also other quality labels). The less is the weight of a product in the diet, the less involved is the consumer with that product, and consequently the perception will be different from a consumer with more commitment.

##### *b.* *Demographic and economic factors*

Age and education have been found to be important explanatory factors of OLPs consumption, while income is becoming less and less important in Spain. The size of the family, the number of children, can be added to this list of demographic variables. On the other hand, lifestyles or personal traits are becoming relevant variables to explain OLPs usage.

c. *Lifestyle*

In the literature review I have found some scales to investigate "personal attitudes", in particular in the case of the demand for organic food ( Gil et al., 2001). Some of the territorial food products share common features with the organic ones: the origin is a source of differentiation, they are produced by small scale firms, are sold at higher prices than the non-differentiated product, and the share of the market is small. Therefore, they could be useful to investigate the OLPs demand. The scales try to measure attitudes toward health, nutrition, concerns about environment, social involvement, etc. They are Likert scales, where the respondent indicates his/her degree of agreement or disagreement with the statements proposed. In table 1 an example is shown:

Table 1. Attitudinal scale to food, health and lifestyle

I prefer to eat low fat foods  
 I try to moderate my red meat intake  
 I eat fruit and vegetables regularly  
 I read the food composition details on food products  
 I avoid eating processed food  
 I try to eat food with no additives

I periodically check my health at the doctors  
 I periodically visit the dentist  
 I enjoy regular exercise

I try to reduce stress  
 I balance work and private life  
 I try to live in a methodical and ordered way

I am environmentally friendly  
 I usually take part in natural resources protection activities  
 I regularly go to the countryside  
 I regularly travel for leisure  
 I usually collaborate with Non-governmental Organisations (NGOs)

Source: Gil et al.(2001) and Gracia et al.(1998).

Based on these scales, we get different underlying personality traits that can be useful to describe the profile of OLPs consumers:

Environmental concern (and commitment)  
 Personal commitment with the rural areas  
 Health concern  
 Mediterranean diet  
 Balanced lifestyle  
 Etc...

d. *Benefits sought*

Some of the benefits that OLPs consumers seek:

- quality assurance
- product homogeneity
- food safety
- healthiness
  
- contribution to sustainability of rural economy
- identity with the natural roots
- conservation of nature
  
- gastronomic culture
- knowledge of territorial traditions
- prestige

*e. Situations of OLPs usage*

Depending of the product, the situation of consumption may be restricted to home or usual meals (e.g. vegetables; olive oil), while for others there are more possibilities (e.g. wines, cheese):

- meals at home (frequent usage; occasional cooking experience; occasional celebrations)
- meals out (frequent; occasional)
- social and occasional events
- rural tourism (occasional, associated to the search of typical food products identified with the place visited; interest for rural culture)

*f. Linkages among the different factors*

The lifestyle is linked to specific socio-demographic characteristics (e.g. people more environmentally concerned and socially involved are middle-aged and highly-educated people). Lifestyle also conditions the benefits sought (e.g. people concerned about nutrition and health are more leaned to consume OLPs searching for quality, wholesomeness, healthiness, etc.; people more environmentally concerned in the search for nature conservation; etc...). Finally, the personal motivations influences the frequency and the situation of usage (e.g. people more interested in consuming these products as a way to get wider culture will use them when practising rural tourism, for instance; while people looking for quality will use the product permanently in the diet).

## **II. Typology of OLP users/consumers**

First, we might use the variables above to differentiate the OLP consumer from the non-consumer, identifying the relevant variables.

And second, we use these variables to get different profiles of OLP users/consumers. A first division, might be "frequent consumers" and "occasional consumers". I understand that frequency in consumption is associated to the way the product is used; if it takes part in the daily diet or on the contrary, only is used in special occasions.

Then, we might describe each segment attending to lifestyles, personal motivations, benefits sought, and socio-demographic variables. Some studies have been done, but only use partially all these variables.

The tools I know to do this are factor and cluster analysis. Structural equation modelling would be informative once the model about the purchase behaviour is well defined. That is to say, that we define the possible interrelationships and causal linkages amongst socio-demographic, lifestyles, benefits sought and frequency of consumption.

## **THEME 5. OLP OFFERING: IDENTITY, SYMBOLS AND BENEFITS**

The comments I will make in this section of the report are based on the paper by Philippidis et al (2002) and the current investigation that two students and myself are carrying out to study the associations/connotations attached to the concept of "origin" in two products: cheese and wine.

### **I. The meaning of "origin"**

*a. Associations of OLPs*

To investigate the associations or connotations of "territoriality", we may use as an example the scale in table 2. Respondents were asked to rank the importance attached to each of the attributes proposed when purchasing a territorial product (namely olive oil).

Table 2. Territorial product cues

Brand name  
Packaging style  
Colour  
Price Premium  
Taste  
Growing technique  
Processing technique  
Traditional product associations with the region

Rural culture of producers  
 Climate and soil type of the region  
 Size of the manufacturer  
 Label (design/product description)  
 Point of purchase  
 Official European Certification  
*Source: Philippidis et al.(2002)*

Based on the above items, the connotations of "territoriality" can be classified into broad categories:

- quality (intrinsic and extrinsic)
- authenticity
- tradition and heritage
- supply-chain performance (origin certification, size of the manufacturer)

#### *b. Conflicting attributes*

From the questionnaire about territorial wines we discovered that the use of "traditional production techniques" was considered very negatively by respondents. In this case, tradition was viewed as a brake to progress that precluded a product of optimum quality. Thus, in some products tradition can be associated to artisan making, natural ingredients, no-additives, aspects that add value to the product (e.g. cheese), while in others (e.g. wine) tradition is a handicap when understood in such a way.

This is an example of the difficulty to generalise what an OLP offers to the consumer. In some products such as olive oil, the tradition and heritage may weight more in the overall meaning of "origin" while in others such as wine "quality" ranks first.

In the previous section (theme 3) we mentioned some variables that influence the OLP usage and help to describe OLPs consumers. Besides, OLP consumers may differ according to the importance they attach to each of the dimensions of territoriality. In other words, consumers who consider tradition as the main connotation of an OLP, may have a different profile from those who are more concerned about the quality dimension of the origin.

#### *c. benefits sought (see theme 3)*

## **II. Labels and brands: interactions and conflicts**

### *References*

Gil J.M., Gracia A. and Sánchez M. (2001). "Market segmentation and willingness to pay for organic products in Spain". *International Food and Agribusiness Management Review*3: 207-226.

Gracia A., Gil J.M. and Sánchez M. (1998). *Potencial de mercado de los productos ecológicos en Aragón*. (Potential of the organic market in Aragón). DGA, Departamento de Agricultura y Medio Ambiente, Dirección General de Tecnología Agraria, SIA. Zaragoza.

Philippidis G., Sanjuán A.I. and Karakoglou I. (2002) Territorial Product Associations in Greece: The case of olive oil. *Journal of International Food and Agribusiness Marketing* (in revision)

**JUNE 2002**

## **THIRD REPORT ON THE LINK BETWEEN OLP AND CONSUMERS AND CITIZENS (WP4)**

The consumers' perception of PDO/PGIs products and the WTO negotiations

**The report is organised in two sections:**

I. The protection of Geographical names in the WTO

II. The economic arguments for the use of Geographical names

**I've mainly used the following bibliography:**

Bello L. and Gómez J.T. (1996). Las Denominaciones de origen y otras señales de calidad en las estrategias de diferenciación de los productos agroalimentarios. Una propuesta metodológica. Cuadernos Aragoneses de Economía, 6(2): 365-387. (Designations of Origin and other quality cues as strategies of differentiation in agro-food products. A methodological proposal).

Chen J. (1996). A sober second look at appellations of origin: how the United States will crash France's wine and cheese party. Minnesota Journal of Global Trade, 5(1):29-64

Lucatelli S. (2000). Appellations of Origin and Geographical Indications in OECD member countries: economic and legal implications. OECD. COM/AGR/APM/TD/WP(2000)15/FINAL. Paris.

The United States Mission to the European Union(2002). Trade Representative Releases. Inventory of Foreign Trade Barriers. <http://www.useu.be/Categories/Trade/Apr0202USTRReportForeignTradeBarriers.html>. 18/04/2002.

**I. The protection of Geographical names in the WTO****The legal benchmark for recognition in third countries**

In 1994, the GATT Uruguay Round yielded a specific Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS). This agreement defines broadly what a geographical indication is (...an indication that identify a good as originating in the territory of a member,...., where a given quality, reputation or other characteristic of the good is essentially attributable to its geographical origin); and requires its member states to respect and offer special protection to geographical indications recognised under other Members' laws, and ensure enforcement procedures to permit effective action against any act of infringement. TRIPS define the requirements for "general protection" and extends "special protection for wines and spirits". Some conflict with the European legislation may arise from 1) the omission of the "human factors" in the definition of a geographical indication; 2) the admissible co-existence with a trade-mark designated as the geographical indication, that was in use either before the TRIPS agreement or before the geographical indication is protected in its country of origin; 3) the lack of protection to the geographic indication when it is identical with the customary name in common language with that product or with a grape variety.

**The PDO/PGI as a non-tariff barrier to trade and a barrier to entry into the industry**

Non-tariff barriers to trade include non-science based sanitary and phytosanitary standards, customs procedures, government monopolies and lack of transparency in regulations. Hence, the PDO/PGI scheme may be considered as a barrier to trade when it is thought that there is a "separation between territory and human factors" (tradition, heritage and know-how), provided that there is not a "scientific" based linkage; or when the PDO/PGI are mainly considered as an "instrument of the Common Agricultural Policy and Industrial Policy, designed to protect producers and increase their incomes, securing exclusive production rights" (Chao, 1998, p.60-62). For the same reasons, it may also be viewed as an instrument to restrict competition, acting as a barrier to entry into the industry. Nevertheless, when considering the PDO/PGI as a tool of differentiation, the barrier that constitutes a PDO/PGI, either to trade or entry, is similar to any other private brand (Lucatelli, 2000, p.29).

**II. The economic arguments for the use of Geographical names**

There are two main theoretical approaches that can be used to explain and justify the use of geographical names: Information theory and Shapiro's model of reputation.

*1. Information theory*

Information is a valuable resource and not always is fully available for consumers. This leads to asymmetric information: while producers know all the properties of the products, they make, quality in particular, consumers don't. Three categories of goods are distinguished depending on how information is conveyed to the consumer: "search goods", whose quality can be ascertained before purchase; "experience goods", whose quality is ascertained only after consumption; and "credence goods", whose quality can not be fully determined, even after consumption. Normally, goods share characteristics falling into the three categories.

Under asymmetrical information non-uniform products, with the true quality known only by the producer, are finally sold at the same price. This has consequences on producers, consumers and the performance of markets. From the producer perspective, those who make goods of higher quality will have an incentive to abandon the activity (adverse selection) and those who remain will have an incentive to keep the same price while diminishing quality (moral hazard). Consumers can not optimise their choices: the chosen

product might not meet their expectations. In order to weaken this risk, they can behave developing loyalties to a small number of brands and sales outlets that enhance oligopsony power. The performance of the market is damaged: the quality of total supply drops, some consumers will no longer be able to satisfy their preferences; and producers of quality products suffer from unfair competition.

## *2. Shapiro's model of reputation*

The market imperfection derived from asymmetric information can be mitigated through the building up of reputation. There is a dynamic process that involves firm reputation, consumer learning and the seller's choice of product quality. Consumers have expectations about the product quality based on past experience on the purchasing of products by the same firm. Thus, there is a learning process in the formation of quality expectations that finally build the firm's reputation. The firm will invest in building this reputation only if that learning process exists. And only in the long run, when reputation is finally established, the investment will have a return, in the form of a price premium (over marginal cost). Therefore the price premium is an extra cost due to the need of building reputation what in turn is consequence of lack of information. The sooner the consumer learns the true quality of the product, the smaller the over-price will be.

### ***The role of PDO/PGI in relation to the theory of information and the model of reputation:***

To solve the problem of market failure, to provide information to the consumer is crucial. And the ways of transmitting this information are labelling and communication tools. In this sense, the PDOs and PGIs (Protected Designation of Origin) and Protected Geographical Indication) can be regarded as a distinctive sign, similar to a trademark. In this respect, they play the same role as any other instrument of product differentiation.

From the research on the link between consumers/citizens and territorial products, we get that, despite the low awareness of the PDO/PGI legislation, the attribute "Origin" has got a remarkable influence on attitudes, motivations and purchasing behaviour of agro-food products in Europe. The territoriality of a product is perceived as a multi-attribute concept, associated to human and natural factors. The product properties are viewed as narrowly linked to the territory, and in some cases consumers are willing to pay a premium for the origin (or PDO/PGI label). That makes the legislation on PDO/PGI an essential tool to protect the consumer expectations and preventing market failure derived from fraudulent information.

The vast majority of agrofood products can be viewed as experience goods, given that most of their characteristics can not be ascertained before consumption. Hence, the consumer needs cues, intrinsic and extrinsic, to infer quality. The PDO/PGI provides intrinsic and extrinsic quality cues, and symbolic signals. It is an intrinsic cue provided the technical specifications on raw materials, methods of production, quality controls, etc.. imposed by the Regulatory Council (body?); an extrinsic cue, given their linkage to territory/origin; and symbolic, due to the human factors (historical, cultural, social implication..) involved by that specific geographic area. Therefore, the PDO/PGI label provides information to the consumer, reducing the asymmetry of information and its pernicious consequences.

Likewise, the PDO/PGI scheme warrants a standard of objective quality, facilitating the homogeneity of the product. The quality expectations that the consumer makes, contribute to build up the reputation of the label, and help again to reduce the lack of information.

The PDO/PGI labelling influences the three categories of characteristics possessed by products according to the theory of information (Bello and Gómez, 1996): search, experience and credence characteristics. First, the PDO/PGI label is strongly linked to some search characteristics, reducing the need for getting information about them (e.g. the fat contents is an attribute valuable at the moment of purchase; if the consumer knows that only a set of brands/designations possess the desired amount of fat, the search for information reduces to that choice set). Second, the PDO/PGI is also associated to specific values of experience attributes (e.g. flavour) and, therefore, it reduces the risk at the time of evaluation of the product properties. Finally, the PDO/PGI confers a guarantee on credence attributes (e.g. nutritional effects, methods of production, ...).

Therefore, the PDO/PGI in its role as signal of quality, reduces the need for search of information by consumer, reducing as a result the pernicious consequences of the asymmetric information on the consumers grounds.

From the producers' perspective, the PDO/PGI mitigates the adverse selection and moral hazard consequences of asymmetric information. The production under this scheme not only enhances quality, but also imposes some standards, granting fair competition amongst firms.