

**PAGRI/IAP**

*Politica Agricola Internazionale*

Volume **1/2014**

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**Numero chiuso nel mese di dicembre 2014**



**L'Informatore Agrario Srl** - Via Bencivenga-Biondani, 16 - C.P. n. 520 - 37133 Verona  
**Direttore Responsabile:** Elena Rizzotti • **Editore:** Edizioni L'Informatore Agrario Srl - Verona  
**Stampa:** Verona Grafica srl - Registrazione Tribunale di Verona n. 46 del 19-9-1952

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# PROLOGUE. THE ROLE OF LOCALISED AGRIFOOD SYSTEMS IN A GLOBALISED EUROPE

**Dominique Barjolle<sup>a</sup>, Giovanni Belletti<sup>b</sup>, Andrea Marescotti<sup>b</sup>, François Casabianca<sup>c</sup>, Artur Cristóvão<sup>d</sup>, Marcello De Rosa<sup>e</sup>, Paulina Rytkönen<sup>f</sup>**

In recent times the importance of territorial connections between firms is a subject of growing attention, mainly in relation to the increasing globalization of the food system and the ability of large agro-industrial firms to consolidate their power on global food systems, while breaking their links to pre-determined territorial areas. At the same time, some limits of globalization have emerged, mainly in environmental terms, but also in a social and economic perspectives. “Local” is therefore subject of renewed attention both by policy makers and researchers, and the specificities of the territories are no longer perceived as obstacles to the spread of a homogeneous development model, but as a potential resource to be exploited within neo-endogenous growth models.

A growing literature is focusing on the concept of Localized Agrifood Systems, at the beginning developed in Mediterranean countries and particularly in France, where they are called *Systèmes Agro-alimentaires Localisés* (SYAL). SYALs are defined as “production and service organizations (agricultural and agrifood production units, marketing, services and gastronomic enterprises, etc.) linked by their characteristics and operational ways to a specific territory. The environment, products, people and their institutions, know-how, feeding behavior and relationship networks get together within a territory to produce a type of agricultural and food organization in a given spatial scale” (Muchnik, 1996; Muchnik and Sautier, 1998).

The SYAL approach is based on the concept of territory, here standing for a combination of natural, human, social, economic, technical, and institutional factors shaping a particular agricultural or food product both for local and external actors. On the basis of the SYAL concept, some scholars have analysed the (re)emergence of locality in restructuring food production and consumption, with a special emphasis on the capacity of SYALs to front globalization proposing, somehow, an “alternative” to the mainstream.

In 2008 a European Research Group (ERG) on SYAL was founded and gathers today 30 research and teaching institutions in eight European countries (<http://syal.agropolis.fr/>). A SYAL research and development network was also set up in America, by Universities and research centers from the U.S.A. and many Latin-American countries.

The ERG SYAL aims at clarifying the different meanings of SYAL concept and its limita-

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tions, under three different profiles: (i) as a concrete object, that is a set of activities in a given territory; (ii) as an approach, that is as a way of thinking and analyzing agricultural and food activities in their systemic and local interactions; and (iii) as an organizational category which can be supported by public policies and development projects.

Research activities of the SYAL ERG are focused to the following thematic areas and issues (Muchnik, Sanz Cañada, and Torres Salcido, 2008):

- Localized Agrifood Systems and new challenges of European agricultures: sustainable development, preservation of biodiversity, landscapes, food and cultural heritage, environmental resources, territorial public goods and multifunctionality.
- Functioning and organization of Localized Agrifood Systems: governance, diversity of entrepreneurial and organizational patterns, localization/delocalization of production activities, institutional networks related to production, learning processes for resource specificity, innovation, marketing and consumption, relationships with the market, agribusiness sectors and consumers.
- Territorial systems for training and innovation: links between the local know-how and innovation; territorial networks for research, development, innovation and training.
- Distinctive signs, territorial labels and certification processes of place-based food: protected designations of origin, geographical indications, organic agriculture, integrated production, fair trade agriculture; rules, technical standards and organizational requirements for territorial anchoring; quality innovations systems, territory and vertical coordination.
- Food and gastronomic cultures: economic and social values of the different food cultures; new relationships between rural and urban worlds; rural tourism.
- Social capital, social exclusion and territory: poverty, local employment and rural development, collective action and cooperative enterprises.
- Policy instruments suited to the Localised Agrifood Systems: European Union policies and programs, regional and local policies, comparison between EU policies and other regions of the world.

This special issue collects seven papers on these themes, published in this number and in the next one of this Journal. These papers were presented at the 11th European IFSA Symposium of the International Farming Systems Association, “Farming systems facing global challenges: Capacities and strategies”, held in Berlin, Germany, in 2014, within the workshop “The Role of Localised Agrifood Systems in a Globalised Europe”. Its objective was to promote the exchange of research frameworks, methods and results and to strengthen the European SYAL network. The European importance of this topic is justified by the specific dimension of the relations between food and local communities or territories, constitutive of their culture and recognized, for instance, through the protection of Geographical Indications and policies on rural development.

The papers in this special issue show, from different points of view, some of the many themes tackled by SYAL scholars.

The paper by Belletti, Brazzini, and Marescotti, analyzes the reasons why firms make decisions whether to use or not to use a Protected Designation of Origin (PDO), or a Protected Geographical Indication (PGI), for their business. In order to explain the different levels of use of the PDO/PGI by firms, the Authors, on the basis of two case-studies in Tuscany, show the importance of how product specifications are drawn by local actors, concluding that much of

the use of PDO/PGI relies on the coherence between firms' typology and the rules set out in the product specifications.

On the same theme, the contribution by Sidali and Scaramuzzi investigates the relationship between group heterogeneity and cooperation patterns in the consortia for geographical indications in Italy. Problems arising by growing quality standardization coupled to increasing firms' heterogeneity are analyzed in relation to the case of the Parmigiano-Reggiano PDO. The Authors found that when entropy increases within the production system, free-riding and exclusion problems may emerge, and a formal institutionalization of sub-consortia within a well-established common GI may be successful.

De Rosa, Adinolfi, Bartoli and Chiappini analyze the importance of rural development policies in the EU to promote value creation. Their paper investigates firms' access to financial opportunities and different adoption strategies used by firms to promote value creation in the food supply chain with protected geographical indication products. They show how farms working inside GI chains show a higher aptitude to create value through rural development policies.

Policies are also observed in the paper by Rytönen, with reference to the New Culinary Country program implemented in Sweden to foster rural dynamics. An evaluation of the program has been carried out through focus groups and interviews, to assess the impact and main outcomes with a number of indicators. Cooperation among firms at a local level, and between firms and institutions, have proved to be the main factors behind the most successful experiences.

Mobilizing the concept of "territorial anchorage", defined as "*a localized process of collective learning carried out in order to create resources*", Millet and Casabianca analyze the historical process that brought to the emergence of new locally-grounded dynamics in the food systems of Pyrenées Atlantiques and Corsica Island, after quite a century of milk supply for Roquefort cheese system, suddenly withdrawn. Such process led the local actors to create PDO cheeses based on the local breeds. The authors show to what extent the influence of the previous period, when both areas were under the domination of Roquefort firms, still remains in defining the cheeses' specifications and managing the local resources.

Dervillé and Wallet focus on the role of geographical proximity within short food supply chains. Sustainability and development of relocalized food chains are discussed in the light of institutional economics, showing how coordination mechanisms developed by the actors within these food chain configurations respond to both economic and political logics. The relevance of a unique qualification system of short food supply chains at the EU level is questioned and devices that could support its effectiveness are suggested.

The picture that emerges from these papers is multifaceted, and helps to highlight the complexity of the challenges that organized actors involved in local food systems are facing.

Sharing research results and co-building scientific orientations, theoretical frameworks as well as operational methods amongst these various papers allows to provide recommendations and tools to public and private actors of rural development, based on the territorial specificities of agrifood products.

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# COLLECTIVE RULES AND THE USE OF PROTECTED GEOGRAPHICAL INDICATIONS BY FIRMS\*

JEL classification: L1, Q13, Q18

Giovanni Belletti\*\*, Alessandro Brazzini\*\*\*, Andrea Marescotti\*\*

**Abstract.** *Geographical Indications (GIs) are tools adopted by firms to underline that reputation, qualities and characteristics of a product are strictly linked to its geographical origin. The protection granted to GIs by the law may exert strong effects on firms' profitability. The extent by which firms use the protected GI for marketing their products depends on many factors, among which the expected benefits and costs, the marketing strategy pursued by firms, and the characteristics of the Product specification (PS). Notwithstanding the great emphasis often put on the positive effects of the GI protection, the use firms make of the protected GI is in many cases far away from its potentiality. So far, academic literature has not handled this topic in a systematic perspective.*

*The aim the paper is to analyze, by means of*

*two case-studies related to protected GIs in Tuscany (Italy), the "Fagiolo di Sorana IGP" (Sorana Bean PGI) and the "Pecorino Toscano DOP" (Tuscan Sheep-milk cheese PDO), the strategic decisions that lead firms to decide whether and to what extent to use the protected GI for marketing of their products.*

*Results show that firms use the protected GI to attain a wide spectrum of results that are often far away from the expected ones. Besides, the way PS has been drawn greatly affects the effects generated by the GI protection. Much of the real use of protected GIs by firms relies on the coherence between firms' characteristics and strategies, and PS, while the different use of the protected GI by firms seems not to depend by entry-barriers linked to costs needed to comply with the PS.*

*Keywords: firms' strategy, PDO and PGI*

## 1. Introduction

The protection of Geographical Indications (GIs) is a tool of growing importance all over the world (Arfini, Albisu, and Giacomini, 2011). Following the TRIPS agreement (1994), that defines GIs as "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" (art. 22), all WTO member States are obliged to provide the legal means for interested parties to obtain the protection of GIs.

From an economic and social point of view, interest in GIs protection is directly related to the need to escape from increasing competition on global markets, GIs being perceived as a

\* This paper presents some results of the research "Evaluating the effects of geographical indications protection", responsables G. Belletti and A. Marescotti, and funded by the Tuscan Regional Administration (Regione Toscana). The Authors want to thank all interviewed cheese factories, the Associazione Il Ghiareto Onlus and the Consorzio del Pecorino Toscano DOP for the information given and the comments received.

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useful tool to signal specific quality characteristics and avoid competing purely on price.

The protection of GIs is advocated to offer opportunities to support local agrifood systems and sustainable development (Belletti and Marescotti, 2011b). Firms using protected GI are expected to observe a reduction of unfair competition due to abuses or misuses of the GI, and have the opportunity to differentiate their production on the market, thus gaining higher prices, higher sales volumes, and/or access to some marketing channels. Moreover, the protection of GIs is often linked to the production of public goods, such as biodiversity preservation, cultural heritage protection, sociocultural development and rural poverty reduction (Vandecandeleere et al., 2010).

Notwithstanding this growing “enthusiasm” about GIs protection, to date there is still a lack of systematic research on the effects of GI protection on firms’ profitability. Although there is some academic research that has recently revised potential methods to evaluate GI protection effects (Révillon and Paus, 2006; Barjolle, Paus, and Perret, 2009) and proposed methodological tools to capture all the possible effects of the protection of a GI (Belletti and Marescotti, 2011a), so far evidence on GI protection effects are mostly related to single aspects and/or single case-studies. Most important, the outcomes of this line of research often point out problems more than opportunities that GI protection seems to have brought (Mancini, 2013). For example, the most comprehensive study on the implementation of GI protection in EU (London Economics, 2008) – where GIs are protected by means of a “*sui generis*” system based on two kinds of signs, the Protected Designation of Origin (PDO) and the Protected Geographical Indication (PGI)<sup>1</sup> – showed how firms reported only an increase of firm’s reputation rather than value added or prices, this also due to poor knowledge and understanding by consumers. Generally speaking, there is no direct evidence that the use of PDO/PGI can lead to higher added value to firms, as a recent study commissioned by the EU (Areté, 2013), rather showing uneven and contradictory patterns. Moreover, the use firms make of the protected GI is in many cases far away from its potentiality, and this clearly affects the effects GI protection can exert.

The aim of this work is to analyze the strategic decisions that lead firms to collectively set-up the rules of the protected GI and then decide whether and to what extent to use the protected GI for producing and marketing their products.

The paper proceeds as follows. First, we provide a short analysis of the importance of PS in firms’ decisions whether to use or not to use the protected GI. Second, we detail the objectives of the study and the methodological framework. Third, we put in evidence and discuss the most significant results of the two case-studies analyzed. The paper ends with some concluding remarks.

## **2. Product Specification and use of protected GIs by firms**

The level of use of protected GI by firms depends on different factors, including the expected benefits and costs, the general strategy pursued by firms, and the characteristics of the Product Specification (PS), with particular reference to constraints established in the PS, and degree of internal quality standardization achieved (Barjolle and Sylvander, 2002).

Provided that GI protection schemes are but one of the many tools in the typical products

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<sup>1</sup> PDO and PGI are both in a general sense “protected geographical indications”. According to the European Union legislation – Reg. (EU) 1151/2012 – PDO and PGI differ for the intensity of the link between the product and the area of origin.

valorization, firms which are able to comply with the PS choose whether to use or not to use the protected GI when they find it profitable according to their global strategy, depending on the marketing channels and customers preferences and knowledge.

Therefore, much of the extent to which firms will use the protected GI to market their produce depends on the relationship between the contents of PS and firms' characteristics (economic dimension, market positioning, assortment, internal resources availability, etc.).

The PS contains a set of rules, which define the characteristics of the protected GI product and its production process. Due to its structure, this document is a fully-fledged standard. Indeed, firms which want to use the protected GI have to comply with every norm established in the PS, under the control of a third party certification body (at least according EU and many other countries rules). The PS is the result of a complex process of negotiation, which involves a great number of stakeholders, from the firms of the different stages of the supply chain to public authorities; therefore, it reflects different point of views and heterogeneous interests (Dentoni, Menozzi, and Capelli, 2012). Usually, the debate is based on the definition of three main elements: product characteristics, production process, and production area. This decision-making process influences the PS structure and its rules, as the effects on rural development trajectories (Tregear et al, 2007).

Stricter requirements guarantee high level of product reputation and recognizability among consumers, but small or poorly-equipped producers may be excluded, because unable to bear the implementation costs and comply with these rules (Galtier, Belletti, and Marescotti, 2013). Moreover, even big firms oriented to mass markets may find not interesting, or too much costly, to insert a so-specialized and different production line. Consequently, the total amount of production may not reach significant levels, relegating the protected GI product to niche markets and/or impeding appropriate collective action, which is identified by some studies as one of the key success factors of PDO/PGIs (Barjolle and Sylvander, 2002).

On the contrary, looser rules simplify the implementation process and increase firms' possibility to use the protected GI. This situation strengthens both the number of firms using the protected GI and total amount of certified product quantity, increasing the opportunity of reaching supermarket and international channels. At the same time, looser PS reduces product standardization and preserves variations of the OP (under the same protected GI many different kinds of product may co-exist), but menacing product identity and reputation and the confidence among buyers and final consumers.

For example, Barjolle and Philippe (2012) showed that firms may utilize collective rules, such as those written in the PS, to set entry barriers to competitors (raising rival's costs theory, according to Salop and Scheffman, 1983, and Scheffman and Higgins, 2003). Indeed, in the case of Cantal cheese PDO, "The implementation of the code of practices (...) impacts the production costs and excludes from the production system the milk producers adopting intensive agricultural practices" (Barjolle and Philippe, 2012, p.15), while in the case of Gruyère cheese looser rules make it possible for any new entrant to "develop a strategy based on cost leadership through rationalization of the production process, production volume expansion, shortening of the ripening duration, production facilities' expansion, or relocation of the activities" (Barjolle and Philippe, 2012, p.17). On the same aspect Bouamra-Mechemache and Chaaban (2010) also evidenced that in the case of Brie cheese PDO big firms are not interested in using the PDO as they cannot exploit scale economies, as the PS imposes restrictive rules (non-pasteurized milk, high labour-intensity in the production process, etc.).

Therefore, big firms are normally much more interested in having looser rules for their

production, as to capture the benefits from scale economies. Dentoni, Menozzi and Capelli (2012) recently explored the impact of individual group members' heterogeneous characteristics, resources and strategies on their level of cooperation on defining how to modify the PS. Higher heterogeneity negatively affects members' agreement on the future level of restrictiveness of "Prosciutto di Parma" PDO and therefore the effectiveness of the collective action.

On the other hand, reputed producers will normally try to get stricter regulations, or internal differentiation in the PS as in the case of Parmigiano di Montagna PDO cheese quoted in Sidali and Scaramuzzi (2014), otherwise they will exit from using the protected GI (Segre, 2003).

Generally speaking, firms' heterogeneity increases the possibility to have conflicts and different levels of use of the protected GI, as normally happens in collective goods management (Kanbur, 1992).

### **3. Objectives and methodology**

The main purpose of the study is to understand on what basis firms decide whether and to what extent to use the protected GI, and to analyze costs and benefits firms may obtain.

In order to accomplish the research objectives, we in-depth analyzed two specific PDO/PGI in Tuscany: "Fagiolo di Sorana IGP" (Sorana Bean PGI) and "Pecorino Toscano DOP" (Tuscan Pecorino-cheese PDO), selected because of their nearly opposite characteristics. Indeed, Sorana Bean PGI is produced in very small quantities by a few farms localized in a small area of Tuscany and sold mainly on traditional marketing channels or direct sale, while Tuscan Pecorino-cheese PDO is one of the bigger GI product of Tuscany, spread all over the regional boundaries, and most of its production is marketed through mass distribution, and partly exported.

The research methodology consisted in a first step in an analysis of the "logic" followed by local stakeholders during the process that led to the application for the PGI/PDO recognition, by examining PS contents (also in relation to similar products) and other official and informal documents.

In a second step, some semi-structured interviews were conducted with a representative group of Sorana Bean PGI producers (8 out of the 23 registered farmers) and Tuscan Pecorino-cheese PDO dairies (12 out of the 17 registered cheesemakers), in addition to the directors of both Consortia. The aim of these interviews was to understand the motivations underpinning the choice of firms of using the PDO/PGI in marketing their products. The questionnaire was divided into six main sections:

1. Firm's characteristics. History and evolution of the firm, type of products (assortment), turnover, marketing channels importance and evolution, quality certification schemes, investments, etc.;
2. Implementation of PDO/PGI standard. Quantity produced, PDO/PGI marketing channels as compared to other firm's products, geographical markets, etc.;
3. Comparison to conventional product. Identification of the main relevant differences between PDO/PGI product and a close substitute product as regards production techniques, production costs, marketing channels, etc.;
4. Costs of compliance to PS. Implementation costs (administration), raw material costs, production costs, control and certification costs, participation fee to consortium, etc.);
5. Direct benefits from PDO/PGI. Prices and incomes, turnover by marketing channel and geographical market;

6. Other benefits related to PDO/PGI use (protection from imitations and abuses, firm's reputation, assortment, access to specific marketing channels, etc.);  
These information were collected in order to capture the relative convenience to use the PDO/PGI scheme as compared to the decision to use other quality seals and certification schemes.

## **4. Results**

### **4.1. Sorana Bean PGI**

#### *The product and its production system*

Sorana Bean PGI is a niche product cultivated in a small valley in Tuscany, characterized by low level of urbanization, industrialization and infrastructures. The pedo-climatic features of this small valley affect the Sorana bean quality, giving its distinctiveness: small, pearly white with pink veins and a very thin skin. Traditionally, farmers manage directly all the phases of the production process up to the drying and packaging; very often they also sell the product directly on the final market or to groceries.

Local farmers obtained the PGI protection in 2002. The most important points stated by the PS are: a strict definition of the geographical boundaries where the production must take place, the banning of the use of chemical herbicides and a relatively low maximum yield per hectare (20 quintals). Moreover, the PS describes the exact characteristics of the product and harvesting methods.

The production area allowed by the PS is very small, and with paedological characteristics that impede the adoption of modern farming techniques. It covers around 660 hectares in Sorana valley, from the banks of the Pescia di Pontito creek, called "Ghiareto", to the upper lands, called "Poggio". Indeed, the PS allows farmers located in the Ghiareto area, more reputed on the market due to special paedo-climatic characteristics that seem to give the bean a particular texture and flavor, to add a special mention on the label, and gain higher prices than average. Professional farmers are mostly located in the Poggio area, potentially getting higher yields than the Ghiareto area, even more than the maximum yield as stated in the PS.

These specific elements, guaranteed by the PGI scheme, give a strong identity to the product and, consequently, increase Sorana bean reputation and recognizability among consumers, thus justifying the high resale price on the market.

Production is characterized by very low quantities and high sale prices (22,00 euro/kg on average, compared to 3-4 euro/kg for 'conventional' beans) and sold mainly through direct marketing. Tuscany is the prevalent consumption market, although a small share of product is sold to restaurants and agri-food shops in the North of Italy.

The production has grown, from 57 q. of certified beans in 2004 (first year of PGI implementation) up to 76 q. in 2012, following the growth of surfaces (4,78 ha in 2004, to 5,22 ha in 2012).

Most of production is carried out by small farms often managed by non-professional farmers (retired, hobby, or part-time). The number of producers has slightly grown over the years, but it still remains very small: from 15 producers of 2004, the PGI is used by 22 farmers in 2012.

Farmers produce on average 378 kg of dry bean (that means approximately an average turnover of 8.000 euro, value at final consumption), ranging from a maximum of 2.822 kg to a minimum of 25 kg (2012), signaling a high heterogeneity of producers. Indeed, the production system is composed by a few big (relatively speaking) professional farms, where the production of

Sorana Bean PGI accounts for a high percentage of total farmer's income, flanked by many small farmers, often non professional ones, who keep on producing the bean for income integration or just for the pleasure to have this special production.

#### *Strategic use of the PGI*

PS has been drawn following the traditional production techniques (banning the use of chemical herbicides, low maximum yield), common to non-professional farmers with less productive land in the area of Ghiareto, that historically gave the reputation of the product.

Interviewed farmers reported a high interest to produce Sorana Bean PGI, essentially due to the fact that market price is quite high as compared to conventional beans, while additional production costs (included inspection and certification costs) are rather low. The morphological characteristics of the production area (in particular the cultivation carried out on the torrent banks in the Ghiareto area) and the limited extension of available fields, coupled to the fact that most farmers are pensioners, hobby or part-time farmers, do not allow the use of less expensive production methods. Therefore, producing a different bean variety (with higher yields) with ordinary cultivation practices costs as much as producing Sorana Bean PGI, but the sale price is undoubtedly lower.

Producers underlined that Sorana Bean PGI plays an important role in the economy of the area, allowing the survival of agriculture, which otherwise would have been abandoned due to difficult growing conditions. The protection as PGI, also thanks to peer control between local producers operating in such a small area which supports the formal control system by third party certification body and national public institutions, succeeded in reducing imitations on the market and supported their promotion and marketing activities, allowing to capture new customers, especially on intermediate markets and distant consumers. Furthermore, the PGI helps selling other farmers' products.

Some conflicts emerge between "Poggio" and "Ghiareto" producers, due to the higher average production per hectare in Poggio and consequently different production costs, allowing producers from "Poggio" to sell their product at lower prices.

The extension of the production area to the less traditional area (Poggio), while it helped to strengthen the system by increasing the quantity produced, the visibility in the market, and the possibility to carry out collective promotional initiatives, on the other hand introduced tensions among producers: the professional farmers, who are located outside the more traditional production area, ask for increasing the maximum yield. On the other hand Ghiareto farmers, underlining the higher quality of their products, complain about both the lower prices and the sales to supermarkets by Poggio farmers, that are likely to confuse consumers and to reduce the reputation of the Sorana Bean IGP on the market. Despite this, farmers from both areas make use of the PGI, with a small price premium for Ghiareto beans paid by more expert consumers.

## **4.2. Tuscan Pecorino-cheese PDO**

### *The product and its production system*

Tuscan Pecorino-cheese is a processed product, which obtained the PDO protection in 1996. Due to the ancient origins which link this product to all Tuscany region, a wide range of different typologies were sold as Tuscan Pecorino-cheese, these reflecting some specificities in production methods in different areas of Tuscany, although linked by some common characteristics, such as a milder taste as compared to other reputed Italian Pecorino-cheeses (i.e. Pecorino Romano, Pecorino Sardo).

Due to the high value of the brand “Tuscany” on the market, the option that was preferred in the application for the GI registration was that of a single regional denomination, coupled to a PS that included different types of Pecorino coming from the sub-regional production areas and local traditions. This asked for a PS not highly detailed. For instance, the final product characteristics are defined in a very flexible way indeed: shape diameter is between 15 and 22 cm, overall height between 7 and 11 cm and weight between 1 and 3,5 kg. Moreover, the color of the rind can vary in shades of yellow, but it may even be black or reddish. Despite that, two elements distinguish this product: the provenance of the sheep-milk (only milk coming from sheep breeding in the allowed production geographical area) and the use of only native lactic ferments approved by the Consorzio, the inter-professional body charged of managing the PDO (internal control, marketing, information).

After a significant drop at the end of the nineties, from 4.696 tons in 1997 to 2.356 tons in 2000, Tuscan Pecorino-cheese PDO production has gradually grown, reaching 3.067 tons in 2012. In 2012, the 17 registered dairies produced on average 162 tons (92 tons of mature pecorino-cheese and 70 tons of fresh pecorino-cheese), ranging from a maximum of 857 tons to a minimum of 0,77 tons (2012), signaling a high heterogeneity of processing firms and especially a diversity in the importance of PDO production for each firm.

#### *Strategic use of the PDO*

The high product variability of Tuscan Pecorino-cheese PDO, which from one side reduces the possibility to reach a strong characterization of the product to consumers, on the other side allows for a relevant number of Tuscan firms to produce a PDO cheese. Various motivations support the choice of using PDO, but most of them are linked to firms’ marketing strategies. Indeed, an uneven situation can be depicted as regards the importance of PDO product for each cheesemaker. Two main groups can be highlighted.

The first group, which can be named as ‘the big PDO users’, is composed by a few firms with high cheese production volumes, where a big share of the total cheese production is PDO (roughly, 4 out of 17 registered cheesemakers produce 90% of the total amount of Tuscan Pecorino-cheese PDO). Tuscan Pecorino-cheese PDO is the most important product for their business, the opportunity of reaching supermarket channels being the most important benefit from the use of the PDO scheme. Moreover, the high reputation achieved by this cheese and the name of Tuscany, coupled to the distinction offered by PDO certification, opened the possibility of establishing international trading channels (USA, UE, United Arabian Emirates and Australia).

A second group, ‘the low users’, declares that PDO production is not so important for their business. This group is composed by small-medium cheese factories that cannot reach equal scale economies as the big firms. Therefore, they only produce small amounts of certified Tuscan Pecorino-cheese PDO both to enhance supply in their own direct sale shops (to have a complete assortment) and to fulfill buyers and consumers’ specific requests. The low users therefore focus their business strategy on high-quality market segments of non-PDO certified cheeses, using small amounts of PDO products both to qualify the assortment and as a ticket-to-trade to access some distribution channels. In the low user group a few firms positioned on low-quality market segment operate, too, producing low quantities of PDO Pecorino-cheese to qualify their assortments.

Consequently, a few big cheese factories supply the bulk of Tuscan Pecorino-cheese PDO, and their cheese production is concentrated on PDO production (roughly 60-70% of their busi-

ness), while the others use the PDO only to a very limited extent, preferring in some cases to focus on high-quality non-PDO productions and in other to lower costs, and complete their assortment with some quantities of PDO production.

The result is that average quality level of PDO production is lower than potential, and overall the use of the PDO by firms is quite low as compared to its potential, too. The 'generic' identity of Tuscan Pecorino-cheese PDO explains some recent attempts to differentiate and qualify other Pecorino-cheeses made in Tuscany with more territorial-specific quality hallmarks. On the one hand, there have been some applications for a PDO related to pecorino cheeses produced in smaller areas of Tuscany ("Pecorino delle Balze Volterrane PDO" and "Pecorino a Latte Crudo della Montagna Pistoiese PDO"). On the other hand, some reputed pecorino-cheese productions of Tuscany decided not to apply for a PDO because of the many limits they might face with a certified production (Pecorino di Pienza).

## **5. Concluding remarks**

This paper attempted to highlight some reasons why firms decide if and to what extent to use PDO/PGI in EU, and why in many cases PDO/PGI are under-utilized as compared to their potential. Apart from the trivial consideration that the use of a PDO or a PGI depends on the reputation of the GI associated to the product and therefore to market and consumers' recognition, much of the real use of PDO/PGI by firms relies on the coherence between firms' characteristics and strategies, and the contents of PS (Carbone, 2003; Arfini et al., 2010).

In the case of the Sorana Bean PGI the aim of the protection was first of all to preserve a very specific, well defined identity of a product bearing a strong reputation with a very high price. Owing to the high price the PGI product gets on the market in front of relatively low cost of compliance to the PS, all farmers find it convenient to use the PGI. Some of the norms contained in the PS (maximum yield, small territorial area with sub-zones) can be perceived as an attempt to reduce the "milking" of GI reputation by bigger (relatively speaking) farmers, allowing all interested farmers to use the PGI, although limiting further expansion of quantity produced as PGI, that is already limited by the low availability of land in the area that acts as an entry-barrier to the system.

As regards the Tuscan Pecorino-cheese PDO, the looser PS can be explained by the need to protect the name "Tuscany" against usurpations and regulate its use; this led to a set of specifications based on the identification of a few simple elements common to cheesemaking traditions in the different areas of Tuscany. This choice generated a double sub-system where big cheese factories - similarly to what happens in some PDOs characterized by sectoral governance models, as reported by Barjolle and Philippe (2012) - are able to capture product reputation but menacing long-term average quality of the product (Belletti, 2000), while some high-quality productions, mainly produced by small-medium dairies, do not use the PDO as it is not able to effectively signal their higher quality, or use it as a guarantee seal about the origin and authenticity of the raw material. Consequently, the potential of the PDO is under-utilized on niche channels and used mainly on the mass distribution ones. As a result, the average quality of the PDO production risks to lower (Akerlof, 1970) and other collective quality signs (collective trademarks, new more specific PDOs, or other) have been (or are on the way to be) created.

It is to note that differences in the level of use of PDO/PGI by firms does not depend in the two analyzed cases by entry-barriers linked to costs needed to implementing the PS, as in both

cases firms declared that these costs were not significant: inspection costs are quite low, as well as dedicated investments and firm's organization adaptations to comply with the norms. This happens because the PS have been tailored on the existing techniques and production process, rather than aimed at increasing product quality.

In order to build effective PDO/PGIs, the ex-ante phase, where the contents of the PS are discussed and written, is therefore of paramount importance. The rules should be designed in order to allow all potentially interested stakeholders to express their opinions and concerns and to tailor the PS to the strategic needs of firms, without loosening the link with the territory and its traditions. Participatory processes and an ex-ante evaluation of all the possible effects of the rules on firms' activity can help achieving this outcome.

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# GROUP HETEROGENEITY AND COOPERATION IN THE GOVERNANCE OF GEOGRAPHICAL INDICATIONS. THE CASE OF PARMIGIANO REGGIANO “MOUNTAIN PRODUCT”<sup>1</sup>

JEL classification: Q13, Q18

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**Abstract.** *This study contributes to the call of many scholars to investigate the relationship between group heterogeneity and cooperation patterns in GI consortia. In particular we focus on the solution of the problems of quality standardization derived by an increasing heterogeneity and free-riding behaviour among members.*

*A framework adapted from Lee and Wall (2012) and Forster and Metcalfe (2012) is employed to identify the resources (inputs), conditions (facilitators) and innovation process (outputs) required for the formation of a new internal institution in the Consortium, as a tool for safeguarding “higher quality” within the common (outcome).*

*This work uses a case-study approach and analyses the Parmigiano Reggiano (PR) Consortium in Italy. Specifically, we applied a ground-theory approach and conducted 24 semi-structured inter-*

*views to stakeholders at different levels (consortium, politicians, large-sized dairy farms, small-sized dairy farms, NGOs, members of PR route, PR museum) in the time frame May 2012-August 2013.*

*The governance patterns highlighted in this study give evidence of a high internal dynamism within GI Consortia. Our study confirms how governance strategies to reduce free riding in GI schemes and to re-establish cooperation can be implemented even through the creation of formal endogenous or exogenous institutions. However, cooperation can stem among homogenous sub-groups as a resilience strategy showing how a formal institutionalization of sub-consortia within a well established GI common may be successful.*

**Keywords:** *Geographical indications, Consortia, Free-riding, Food Clusters, Parmigiano Reggiano*

## 1. Introduction

The legal foundation for Geographical Indications (GIs) for food products (e.g. PDO, PGI) was drawn up in 1992, with Council Regulation (EEC) No. 2081/92 for the protection of Geographical Indications and Designations of Origin for Agricultural Products and Foodstuffs.

<sup>1</sup> We wish to thank the interviewees for responding to our questions and hope that the present publication does not in any way violate the trust, which was extended to the authors.

Furthermore, the authors acknowledge the financial support from the DFG for the project „The Constitution of Cultural Property: Actors, Discourses, Contexts, Rules“ Interdisciplinary DFG Research Unit 772 (<http://cultural-property.uni-goettingen.de/?lang=de>).

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A Geographical Indication (GI) is the name of a place or country that identifies a product to which quality, reputation or other characteristics are attributable. A GI signals to consumers that the goods have special characteristics as a result of their geographical origin (Vandecastelaere et alii, 2010).

Both at institutional and political level GIs are often protected for the several roles they play:

- GIs are a means to escape from growing competition and permit a diversification of production costs and a differentiation of quality levels (the “market” justification);
- GIs may exert positive effects on rural development, keeping traditions and culture, economic and social viability, and showing spillover effects on local economy. They reproduce and improve local specific resources (the “rural development” justification);
- GIs are more and more demanded by consumers as they are perceived as safer than “nowhere” products, of higher quality with respect to conventional ones, authentic and genuine compared to mass food. Besides, GIs allow consumers to participate to local cultures and show their own identities (the “demand” justification);
- GIs are an important flag/symbol of culture and identities all over the world, and they must be protected from abuse and misuse to save the “fairness” of transactions and prevent an economic loss to honest producers (the “abuse” justification). In other words they can help producers to protect their products from counterfeiting and reduce information asymmetries to the benefits of consumers.

Akin to strong brands in an information economics sense, Geographical Indications are credence attributes, as they are not verifiable by the end user (Nelson, 1970). They assure product standards for food brands and avoid the problem of adverse selection, which can lead to market failure (Akerlof, 1970). From a marketing perspective, a label is therefore necessary to safeguard the credibility of the information given to the consumer.

Although studies investigating label preference by consumers and focusing on indications of origin are relatively few (Dimara and Skuras, 2003, Menapace et al. 2009, Profeta and Balling, 2007), current literature agrees on the growing importance of product reputation as displayed by labels. However, in the case of geographical indications, a product’s reputation depends not only on the quality attributes directly related to the producers, but also on those derived by the association or common to which the producer belongs. Thus, as voiced by Bravo (2003), whereas the label reputation (LR) is directly managed by producers, the reputation of the denomination (DR), either PDO or PGI, derives from the totality of goods produced by the GI association, as well as by the actions implemented by its members.

The “dispute” between actors may also become a “crisis” when the actors refer to different or even contradictory conventions. In such a case, the establishment of a compromise, or a combined convention, is a mean to escape from the crisis. Regarding specific quality products (Allaire & Sylvander, 1997), these compromises may be expressed through micro-conventions among homogeneous producers (Sylvander et alii, 2006).

The collective character of a GI means that the issue of ‘commons’ is highly relevant in analysing the reputation of the denomination and its consequences on quality. For instance, the issue of quality standardization is often mentioned in reference to regulatory norms. If not satisfactorily addressed, the problem of free-riding within the common often increases, which in turn can lead to a situation where the producers of higher quality goods (e.g., with a high LR) leave the commons (Bravo, 2003) as a consequence of a (feared or real) decrease of DR. At times, a desire for innovation is also cited as partly responsible for initiating mechanisms for adapting regulatory norms (Josling, 2006).

According to Bravo (2003), two tools essentially exist which producers of a GI common can use to solve the problem of free-riding, thus remaining in the common: 1) finding an arrangement among participants which leads to the creation of formal endogenous or exogenous institutions tasked with monitoring and sanctioning transgressors; or 2) establishing motivational factors among the members of the common while, at the same time, creating self-control mechanisms.

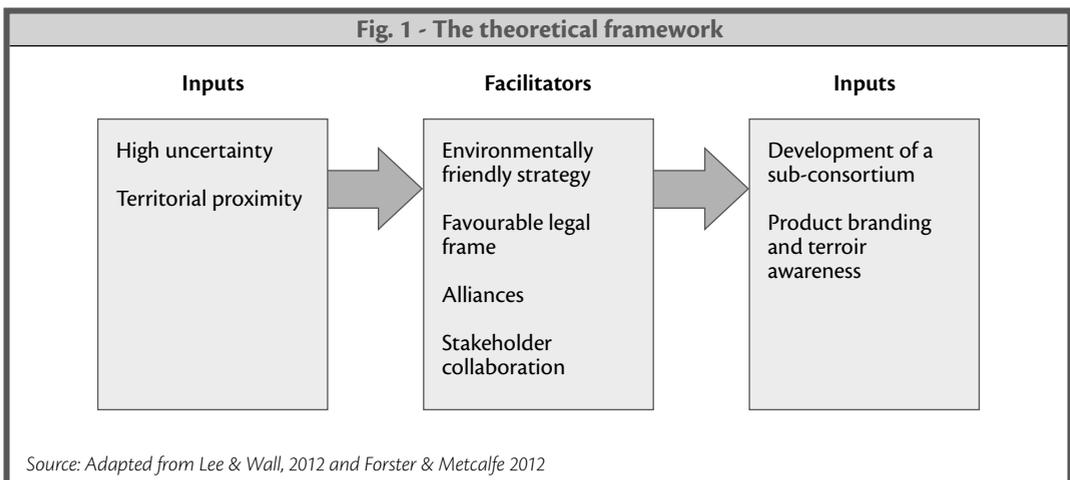
In this paper, we will focus on the first mechanism and adapt the theoretical framework of Lee and Wall (2012) and Forster and Metcalfe (2012) to show how some members of the Parmigiano Reggiano cheese consortium establish a formal institution, the Consorzio Terre di Montagna, to solve the problem of quality standardization derived by an increasing heterogeneity among members within the consortium.

The research questions faced are twofold:

- 1) Are there governance strategies to reduce internal free riding in GI schemes and to re-establish cooperation? Specifically, can the creation of formal endogenous or exogenous institutions tasked with monitoring and sanctioning transgressors be a successful strategy?
- 2) Which factors may have a positive impact on internal GIs governance? Specifically can informal networks be beneficial for the (re)establishment of trust? Can institutionalization of sub-consortia increase cooperation within a well established GI common?

## 2. Theoretical framework

As mentioned before, Lee and Wall's model is the departure point for conceptualizing the main steps that may lead to the creation of a sub-consortium. Basically, this model describes in a clear and concise way the main phases that small farm operators undergo to re-territorialize (Kneafsey, 2010) their resources in a creative way. The authors explain that the inputs phase is characterized by the juxtaposition of local production with consumption, which leads to the awareness of the place as a competitive advantage. However, it is only after the intervention of the so-called facilitators, either key stakeholders of the product chain, the legislator, or NGOs, that meaningful synergies take effectively place. In this way, new cultural food products such as creative farms or food trails are created (outcomes) (see Fig. 1).



*Inputs:*

We assume that the generalized feeling of high insecurity is the pre-requisite for the establishment of a sub-consortium. This radical situation of uncertainty is defined by Forster and Metcalfe (2012) as a situation where the “totality of possible outcomes is unknown”.

Further, we narrow the scope to the second input of the model, namely the territorial proximity. Essentially the GI system is designed for small groups of producers who create a cultural and locally specific repertoire. These small-scale facilities are often scattered in rural territories that are difficult to reach. Yet, for local consumers and gourmet tourists, this ‘territorial drawback’ acts as a major source of attraction, since such localized products are perceived as territory’s icons, providing identity-markers (Cohen, 2002). Hence, territorial proximity allows small-scale producers to adopt practices that Eden and Bear (2010) identify as the “spatialization of certification”.

*Facilitators:*

Recent studies point out that consumers tend to associate origin-based products with environmental protection, animal welfare (Fonte, 2008; Sidali et al, 2013a) and other sustainability issues. In this regard, Lee and Wall (2012) demonstrate that environmentally friendly strategies attract consumers searching for authentic products.

Furthermore, a favourable legal framework facilitates the creation of a formal institution that allows the legitimization of the process (Sylvander et alii, 2006). In our case, this is represented by the EU policy on mountain products. The EU has recently approved a legal framework (EU Reg. 1151/2012 on Quality Schemes for Agricultural Products and Foodstuffs, modified by EU Reg. 665/2014) for the protection of the optional quality term “mountain product” (Art. 31). This term shall only be used to describe products intended for human consumption in respect of which: (a) both the raw materials and feedstuffs for farm animals essentially originate from mountain areas; (b) in the case of processed products, the processing also takes place in mountain areas.

Alliances (NGOs, universities, etc.) are the third facilitator identified by Lee and Wall (2012). The development of alliances with ‘third party actors’ such as NGOs is an important factor in legitimization processes. Due to their ability to nurture and legitimate alternative knowledge, Eden and Bear (2010) identify NGOs as already established players in science-policy communities (p. 84). Other actors, such as experts employed by third-party certifiers or universities, are equally important partners for legitimizing certification from a scientific viewpoint (Eden and Bear, 2010) and therefore legitimating it.

Finally, the creative processes set in motion by innovative entrepreneurs can lead to a “knowledge gradient” (Forster and Metcalfe, 2012) that facilitates the creation of a niche, which is impossible for competitors to emulate. However, according to Forster and Metcalfe (2012), this is possible only if the operator is embedded within a cooperative network.

*Outcomes:*

Lee and Wall (2012) demonstrate the effectiveness of iconic food products in forging the identity of a location. The food tourism literature is rich of such examples, for instance, Urry (2009) states that “iconic” products build a “brand” that can be used to distinguish a region, or delimited area from its competitors.

### 3. Case study selection

Parmigiano Reggiano is a GI with a strong reputation in the international market. It is an important economic reality in northern-central Italy, taking into account the 400 active dairies, the 3,279,156 wheels produced in 2013, and the turnover of 23 ml € in 2013.

The main function of the consortium is to protect the PDO 'Parmigiano Reggiano' promoting its brand. The OCQPR (Organismo Controllo Qualità Produzioni Regolamentate) is the inspection body in charge for controlling the quality of the Parmigiano Reggiano production which verifies the origin and traceability requirement perform ex-ante sensory tests on the sensory ripeness of the cheese, etc.

In recent years, however, the consortium has experienced an extended crisis due to over-production, with falling prices having forced many small dairies to close. As a result, many stakeholders from outside the GI area have entered the organization through the acquisition of local processing plants. The new entrants lobbied for a change in the GI regulation of Parmigiano Reggiano (Dentoni et alii, 2012: 208). In the past, small-scaled operators of the Consortium had reacted to such pressures by creating the sub-consortia of "Parmigiano Vacche Rosse" and "Parmigiano Vacca Bianca Modenese". This resilience strategy has been thoroughly analyzed within the framework of the emergence-approach (Sidali et alii, 2013b).

In 2008 the producers of dairy products of the Appennino Mountains grounded the Consortium of Mountain Regions (Consorzio Terre di Montagna). Among them, all the ten dairies producing the Parmigiano Reggiano cheese in the area adhered to the Consortium. Because of the particular setting of the mountain, they have been trying for years to differentiate their cheese from the Parmigiano Reggiano producers of the plain. Despite the initial opposition, in 2013 the Parmigiano Reggiano Consortium agreed to produce the additional green mark, which reads "Product of the mountain" for the producers set in the mountain region that request it. Following the approval all the nine existing Parmigiano Reggiano dairies asked for the use of the additional label.

Our goal is to outline the strategies that members of a GI common use to avoid the problem of quality standardization and free-riding. Against this background, the choice of the case Parmigiano Reggiano is coherent for two main reasons. Firstly the Consortium is suffering from fierce price competition that has been exacerbated by the entrance on the market of some large dairies that are considered internal free riders by (above all) small-size dairies. As it will be shown in the remainder of this paper especially the small-size producers settled on the mountains -who are the focus of this work- tend to consider the new comers as opportunistic actors rather than peer members, since they are suspected to lower quality complying with minimum standards in order to reduce costs, though enjoying the halo effect of the GI reputation. Secondly within the timeframe of the current project, the authors have witnessed the creation *in fieri* of a parallel consortium, namely the "Consorzio Terre di Montagna" (CMR) to which both Parmigiano Reggiano and other mountain cheese producers belong. Whilst not all mountain cheese producers settled in the area belong to the CMR, at the time of the interview all ten mountain producers of Parmigiano Reggiano were members of the CMR. Thus, the latter belong both to the main Parmigiano Reggiano (PR) consortium and to the newly grown CMR. Our analysis shows the path they followed in order to constitute this new cultural property.

## 4. Methodology

In order to follow our purpose, we chose a ground-theory approach focusing on actors belonging to different governance-cultures both within the GI consortium and outside it.

Thus, in our analysis, we used documentation related to the PR consortium from the scientific and popular literature, as well as from the e-content of various online associations of experts and practitioners dedicated to the study of GIs. In a first phase of the study secondary literature was collected and analysed in order to highlight characteristics, evolution, strengths and weaknesses of the Parmigiano Reggiano (PR) consortium. In a second phase we triangulated these results with 24 qualitative, in-depth interviews, conducted between early 2012 and end of 2013 with members of the GI consortium. Our face-to-face interviews were carried out both with members of the GI consortium and their critics. Specifically, outside the consortium we managed to interview actors belonging to the public domain, such as civil servants of the regional government and members of the control and certification body, NGOs and consumer associations, as well as experts both within and outside the Parmigiano Reggiano supply chain. The qualitative approach has allowed us to investigate which meta-cultural certification practices and scientific discourses were used to achieve the sub-consortium's institutionalization.

## 5. Findings

The theoretical framework conceptualized has been applied to the case study in order to compare it with the findings of our empirical research. *In the inputs phase* we found out how the crisis that characterized the market in the period prior to the establishment of the Consortium of Mountain Regions (CMR) caused a radical uncertainty that producers voiced as strongly due to two factors: falling prices for cheese production which were mainly due to overproduction within the time frame 2005-2010, and 2) the entrance of new producers - which further exacerbated the situation, since even 'old barns were re-opened'. The crisis reached a peak in 2009 and the situation was even more severe in the mountainous territory.

*"Some producers of Grana Padano {the main competitor of Parmigiano Reggiano} have bought dairies {in the plain} in order to add it {the Parmigiano Reggiano} to their product portfolio" (interview with a member of the certification body).*

A crisis situation such as this is expanded by the geophysical morphology of a mountainous territory, since the existing infrastructure tends to be less efficient than on flat land, leading to a dispersion of added value along the chain. In the case of Parmigiano Reggiano dairies located in mountainous territory, the interviews reported:

*"the crisis was so acute that producers were hardly managing to cover production costs" (interview with a member of the CMR).*

There were ten Parmigiano Reggiano dairy producers at the time in the area. Most of them saw their territorial proximity as an asset in creating a collective mountain brand, a strategy that would signal a specific quality next to the PDO label and Consortium brand (Dentoni et alii, 2012), allow to elude intermediaries and directly market the mountain Parmigiano Reggiano cheese abroad by reaching a higher mass of production. The creation of the CMR is explained by one of the members as follows:

*"Our dairies here in the area.... we met, we analysed the situation and we said let's try to do something to try to valorise the mountain product (...) because individually our dairies have produ-*

*ctions which are very small (...), so {we cannot} propose them to distribution chains and supermarkets, whereas by joining together we can achieve... reach a much greater production mass” (interview with a member of the CMR).*

*Facilitators:*

Environmental friendliness is in line with the Zeitgeist of a new environmental awareness because it “unites the interests of certain types of producers and consumers” (Lee and Wall, 2012, p. 6). In the case of mountain Parmigiano Reggiano, the ten producers chose this positioning strategy not only to meet the cultural trends of consumers, but also as a way to mitigate conflicts with other members of the main Parmigiano Reggiano consortium, perceiving, though this may be disputable, to be more environmentally friendly:

*“We don’t want factions (...), the mountain product accounts (productively) for only 20% of total production (...) but we are certainly more environmentally friendly” (interview with a member of the CMR).*

Furthermore, the ten producers of the mountain Parmigiano Reggiano felt they were supported by a favourable legal framework, which allowed them to emancipate from the Parmigiano Reggiano consortium.

*“Thanks to the EU policy on mountain products, the {Parmigiano Reggiano} consortium has a label for mountain products (...) an internal commission regarding mountain Parmigiano Reggiano dairies has been established with the task of identifying the criteria for marketing this mountain product, although the {Parmigiano Reggiano} consortium does not have any power, ...because it is a European law”.*

One of the actors in the NGO-sector, which has significantly influenced food policy making, is without a doubt the Slow Food Movement. This association was founded in Italy in 1989, with several aims, including that of opposing itself to fast food and fast life, and fighting against the disappearance of local food traditions, while raising awareness on food issues by creating interest in the origin, taste, and impact of food on the world’s economy ([www.slowfood.com](http://www.slowfood.com)). The close interdependency of the Slow Food Movement with the GI sector is documented by several studies. According to MacDonald (2013), the Italian government has passively profited from the halo-effects of the reputation of Slow Food to promote Italian nationalism and improve local development around the concept of eco-gastronomy. Furthermore, a quality study conducted by Sidali et al. (2012) has shown that the Slow Food/GI relationship is characterized by ‘love-hate dynamics’.

As we mentioned before, the mountain Parmigiano Reggiano producers founded an association in 2007 for the marketing of mountain Parmigiano Reggiano and other types of cheese. During this period, the association organized several meetings to attempt to trace a path for further development. Eventually, in 2008 the association legally adopted the form of a consortium, namely the CMR. To cope with the opposition of the Parmigiano Reggiano consortium, which was vehemently rejecting a further differentiation within Parmigiano Reggiano producers, the CMR recruited experts to scientifically test the quality of mountain Parmigiano Reggiano from a sensory perspective, though no specific quality attribute is required by the EU regulation on Mountain Products. Specifically, in 2009 the CMR enrolled scientists from a private university with a strong affinity to the Slow Food Movement, in order to create a sensory profile of its mountain cheese, whilst in 2012 a market research institute was paid to test consumer reactions, revealing (by means of tasting) a preference for mountain Parmigiano Reggiano. Although the authors could not access the findings of the mentioned studies, it

is plausible to imagine that the results of the sensory analysis supported the mountain Parmigiano Reggiano, since the only publicity leaflet on the cheese the authors managed to get included the label of the university recruited for the study. This was certainly a way to increase the legitimisation of the product itself. By commenting the results, the members of the CMR displayed a cautious rhetoric:

*Interviewer: Does mountain Parmigiano Reggiano differ from conventional Parmigiano Reggiano from a sensory point of view?*

*Reply: yes, they {the University experts} do not say it openly (...) the study says that the mountain product tends to develop sensory characteristics that are more ... evident ... (...) while the product from the plain has a more neutral flavour, and the mountain one at the same ageing time has more highly developed sensory characteristics. It is more complex, with other sensory sensations, such as perhaps fruity or spicy features which develop earlier in comparison to the cheese from the plain... let's say this was essentially the outcome (interview with a member of the CMR).*

Interestingly, the Parmigiano Reggiano is certified by a third-party certification body which is responsible for the sensory analysis of Parmigiano Reggiano samples to confirm the sensory ripeness of cheese prior to its certification.

*Interviewer: Why didn't you recruit the third-party certification body which is responsible for the sensory analysis of Parmigiano Reggiano to create the sensory profile of the mountain product?*

*Reply: in this case we wanted a third party...even the Department {the certification body} is a third party but less of a third party... (interview with a member of the CMR).*

Finally, when asked to compare which institution was less dependent on the PRC, the determinant role was attributed directly to the Slow Food Movement (the university was named after the Slow Food Movement).

*Interviewer: Is the University of (...) more independent?*

*Reply: Yes, yes, we think it is more independent.. Slow Food provides ... more protection for the typicality of products, therefore ... it was the right way to get a certificate .. a real one .. (interview with a member of the CMR).*

Overall, it would appear that the efforts set in motion by the mountain Parmigiano Reggiano producers were successful in eliciting the initial opposition of the Parmigiano Reggiano consortium. Either the scientific practices attesting to a higher consumer preference for the taste of mountain Parmigiano Reggiano, or a change in the direction of the Parmigiano Reggiano consortium, or as is more likely the case, a combination of both these factors, finally led to the creation of an internal commission (within the Parmigiano Reggiano consortium) to study the case of mountain Parmigiano Reggiano cheese.

*"In 2007 during the first meetings with the president of the consortium (of Parmigiano Reggiano) there was no support, then .. now the commission, the arrival in the Consortium of (name of the person), who previously worked at the Ministry {of Agriculture} with the Minister de Castro, now there is a lot of openness .." (interview with a member of the CMR).*

#### *Outcomes:*

The steps mentioned above eventually led to the introduction of a more highly regulated level of label differentiation between the current PDO and a "higher quality" version of the PDO.

*"{the label of mountain product} is a green badge placed next to the one identifying Parmigiano Reggiano (...) it is now produced by the Parmigiano Reggiano consortium for those Parmigiano Reggiano mountain dairies that formally request it and that, at the time of the interview, constituted the totality of Parmigiano Reggiano in that mountain region." (interview with PRC Director)*

Furthermore, the establishment of a collective brand helps the Parmigiano Reggiano mountain producers to tailor the image of Parmigiano Reggiano by combining it with the mountain setting. Though by law no vertical differentiation in the quality is required, the label was meant as being used for this goal.

*“the mountain product brand is effectively a preferential brand of origin, as well as denoting quality ... in essence, it doesn’t just identify a geographical area of production – perhaps more restricted compared to Parmigiano Reggiano – but also represents a quality that must be superior” (interview with PRC Director)*

## **6. Discussion**

The establishment of the new institution affiliated to the Parmigiano Reggiano Consortium has reduced the asymmetric relationship of the Parmigiano Reggiano mountain producers with the PRC. Mountain Parmigiano Reggiano producers feel they have the same or a similar status as the large scale Parmigiano Reggiano producers from the plain, thus reinforcing and improving governance among all actors within the Parmigiano Reggiano Consortium. At the same time, the independence gained by the mountain producers has helped them safeguarding quality within the newly established institution of CMR. A similar goal was reached in the past by the sub-consortium of “Parmigiano Vacche Rosse” that links the production of Parmigiano Reggiano with the milk of endangered cattle. Also in that case the Slow Food movement helped the producers to organize themselves as a sub-consortium (see Sidali et al., 2013). The differentiation was based in the latter case on genetic specificities and not only on the localisation of the production like in the Parmigiano Reggiano mountain product. Generally speaking, it seems that the institutionalization of such sub-groups is an effective strategy to increase cooperation among homogenous producers, and smoothen contrasts within the governance framework of the broader denomination.

The motivations of the mountain dairies were and still are tied on the one side to the necessity of differentiation from the “standard”, product, owing to higher production costs and price competition, and on the other side to the need of reaching higher market accessibility through concentration. As a result all the mountain Parmigiano Reggiano producers reached a micro-convention, helped by some alliances with the University and on some issues with the Slow Food movement. The authorization to use the label was required by all the mountain Parmigiano Reggiano dairies.

Finally, this improved governance reinforces also the PRC that acts as a “third party body” (Giacomini et alii, 2010) protecting the overall interests of all actors belonging to the PRC. Despite the initial opposition, the PR Consortium has negotiated with the sub-groups of producers thus reaching eventually a win-win situation.

## **7. Conclusions**

In recent years, the number of papers in the field of economics focussing on geographical indications has increased considerably. More and more countries worldwide are displaying interest in these certification instruments (Joguet, 2010; Thual and Lossy, 2011). With the exception of the seminal paper of Dentoni et alii (2012) there are, however, remarkably few studies that

investigate the internal barriers within a GI common due to high member heterogeneity and the strategies adopted by its members to counteract this phenomenon.

Our study confirms prior findings on new-comers' efforts to loose strictness in the code of practice. Governance strategies to reduce free riding in GI schemes and to re-establish cooperation can be implemented even through the creation of formal endogenous or exogenous institutions. The case study analysis shows how some Parmigiano Reggiano members organized themselves in sub-consortia to better provide resilience to such strategies. Hence heterogeneity does display a negative effect on the sense of trust towards the consortium as an institution. However, cooperation can stem among homogenous sub-groups as a resilience strategy showing how a formal institutionalization of sub-consortia within a well established GI common may be successful.

This heterogeneity of producers' structure and characterisation of their production practices is even wider when we deal with mountain products. In the framework of the recent approval of Regulation 665/2014, that introduces fundamental derogations to the implementation of Regulation 1151/2012 on the use of the optional quality term "mountain product", we think that a higher impact of the legislation will be possible. A limit might be represented by the flexibility left to the member states in its implementation, which implies the necessity of coordination at institutional level in order to protect producers and consumers from free-riding behaviours.

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# THE APTITUDE TO PROMOTE VALUE CREATION IN GI AREAS THROUGH THE ADOPTION OF RURAL DEVELOPMENT POLICIES

JEL classification: Q13, Q18

Marcello De Rosa\*, Felice Adinolfi\*\*, Luca Bartoli\*, Silvia Chiappini\*

**Abstract.** *The search for financial opportunities to promote value creation has been a key topic in the literature concerning geographical indications. In this framework, a relevant set of opportunities is provided by the rural development policy (Rdp) of the European Union. However, access to Rdp is not easy: therefore, value creation through consumption of Rdp is the result of an individual and collective entrepreneurial process within a GI area. This paper intends to look into different adoption strategies of*

*Rdp to promote value creation in a GI food supply chain. Our results confirm, on the one hand, a higher aptitude to create value through Rdp on behalf of farms working inside GI circuits; on the other hand, empirical analysis evidences a limited set of consumed measures by the farms. This reflects a lost opportunities in terms of value creation.*

*Keywords: value creation, rural development policies, geographical indication*

## 1. Introduction

The recent approaches of rural development policies provide a new version of agricultural competitiveness: the consequences of the modernization paradigm filter the way of supporting competitiveness of agriculture in rural areas: in the European agricultural model different types of agriculture should be selectively supported, and ‘farm persistency needs to be enhanced in a well-targeted rather than generic way (van der Ploeg, 2010). Accordingly, sustainable rural development should be rooted on high-added-value and high-quality agricultural products. To this end, Rdp pays higher attention on endogenous rural development, through a territorial approach, which provides for either a diversified set of tools for rural development or various opportunities for farms in rural areas. However, the access to Rdp is conditioned by the respect of commitments on behalf of farmers: therefore, in a principal-agent perspective, a new contractual approach is arranged between the policy makers (principal) and the users/consumers of policies (the agent). Against this framework, farmers play an active role: they must choose among various strategic options to develop their farm with a long-term perspective.

The topic of our paper is the “consumption” (what means in this particular context: the

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capability to obtain funds) of rural development policies for value creation. More precisely, the paper aims to test value creation through the access to Rdp by farms working within an area with a geographical indication (GI). To this end the paper presents a methodological approach to infer the aptitude to value creation through Rdp on behalf of buffalo farms localized in a GI area. After a brief theoretical background, an empirical analysis is presented: we investigate buffalo farms working in the production area of “Mozzarella di Bufala” PDO, a very famous Italian cheese.

### **1.2. Consumption of rural policies and value creation: theoretical background**

The research of financial opportunities to promote value creation is a key topic in the literature concerning geographical indications. Barjolle (2006) stresses the importance of the capability to gain access to financial support in order to promote value creation of quality products and to promote integrated rural development. In a multidimensional view of entrepreneurship (Yamada, 2003) access to Rdp could be assimilated to an entrepreneurial activity aiming at expanding the rural business (Pyysiainen *et al.*, 2006; Gray, 2002). Like for other entrepreneurial activities, three essential dimensions of entrepreneurship need to be underlined (McElwee, 2005):

- the first one concerns risk-taking: access to rural development policies is costly and implies transaction costs<sup>1</sup>; as a matter of fact, the risks of failure of the application rise the total costs of accessing to Rdp measures;
- the second entrepreneurial aspect is related to growth orientation: the demand for Rdp is motivated by the idea of promoting farm’s growth in the broad sense. That stimulates the farmers towards external funds to support their strategies.
- finally, innovativeness: access to Rdp support innovative processes of boundary shift (van der Ploeg *et al.*, 2002), aiming at producing new quality products, diversifying farming activity, developing new niche products, etc<sup>2</sup>.

The analysis of farm’s innovation and value creation through the access to Rdp can be read from a double Austrian School perspective: the first one is a classical Shumpeterian vision (Shumpeter, 1911), strictly jointed to the farmer’s willingness to introduce changes in the farm. The second one is related to the concept of entrepreneurial alertness developed in the neo-Austrian perspective (Kirzner, 1973): the aptitude to discover the opportunities offered by the second pillar of the CAP is the exit of the entrepreneurial alertness to financially support his decision of investments. According to the literature on rural entrepreneurship, the identification and the exploitation of opportunities (entrepreneurial alertness) are recognized as key competencies in entrepreneurship (Man *et al.*, 2002). Therefore, the entrepreneur is engaged in active, dynamic and competitive economic striving, in a continuing pursuit of opportunity (McElwee, Bosworth, 2010).

To grasp value creation processes Prahalad (1993) suggests that either a performance gap (based on restructuring processes) or an opportunity gap (based on revitalization processes) have

<sup>1</sup> According to the regulation 1305/201 (article 2): “transaction cost” means an additional cost linked to fulfilling a commitment, but not directly attributable to its implementation or not included in the costs or income foregone that are compensated directly; and which can be calculated on a standard cost basis.

<sup>2</sup> “Innovation involves much more than technology; more and more it relates to strategy, marketing, organization, management and design. Farmers looking for alternatives to industrial agriculture don’t necessarily apply “new” technology. Their novelties emerge as the outcome of different ways of thinking and different ways of doing things” Knickel *et al.* (2009, 94).

to be taken into account. The actual offer of Rdp addresses farm strategies towards the two strategies described above, with special provisions for the second, by encouraging processes of farm boundary shift (van der Ploeg *et al.*, 2002; Pacciani *et al.*, 2001). Moreover, Porter and Kramer's concept of shared value (Porter, Kramer, 2011) fits well in the new rural paradigm of multifunctional agriculture (OECD, 2006) where a societal value overlaps with the economic value provided for farms<sup>3</sup>.

The case of "value creation through Rdp access" is provided by farms producing a Geographical Indication (GI). Adding value through the protection and labelling a product as "geographical indication" is a key strategy in this framework (Fay, 2011) and should raise economic benefits for farmers producing the GI. As a consequence, farm strategies are sustained by specific investments aiming at value creation, which should distinguish farms producing the GI product from farms not producing it.

One relevant factor in the use of a GI is the collective dimension of the governance. This dimension is evident in the definition of the strategies to develop GI products and to support the persistency of localized food systems based on typical products. According to Barjolle and Sylvander (2002), the effectiveness of the collective strategy depends on the capability of each local actor to "appropriate the collective process". Moreover, collective action raises economic power along the food chain, thus fostering higher capabilities to increase the farmers' economic performance (Jeanneaux Blasquiet-Revol, 2012). On the other hand, the protection process of a GI is a starting point that should be supported along the time by the local producers. To this end, farmers working inside a GI area could benefit from a set of measures of political economy to adopt either supply chain strategies or integrated territorial strategies (Belletti *et al.*, 2002). This strategic behaviour should be the result of shared strategies linking both geographical and organizational proximities (Torre, Wallet, 2012; Rallet, Torre, 2004).

## **2. Rural development policies for value creation: an analytical framework**

As Schmitz (2005) points out, a relevant task for policy makers lies in the identification and support of more profitable activities aiming at increasing the added value at farmers' stage in the agrifood value chain. Recent rural development policies surely accomplish this objective by providing farmers with a set of opportunities (EC, 2008). As a matter of fact, the supply of Rdp makes funds available to sustain value creation along the agrifood chain through measures either for farm structural adjustment or for increasing the quality of agricultural products and, finally, for diversifying on-farm activities.

In the actual programming period (2007-2013) the measures available for farmers are included in the four axes of the regional development rural plan<sup>4</sup> presented in the appendix 1.

Supply of Rdp makes funds available to sustain value creation through measures either for farm structural adjustment (ex. 121) or for increasing the quality of agricultural products (ex. 132) and, finally, to diversify farming activity (ex. 311). Moreover, specific measures can be

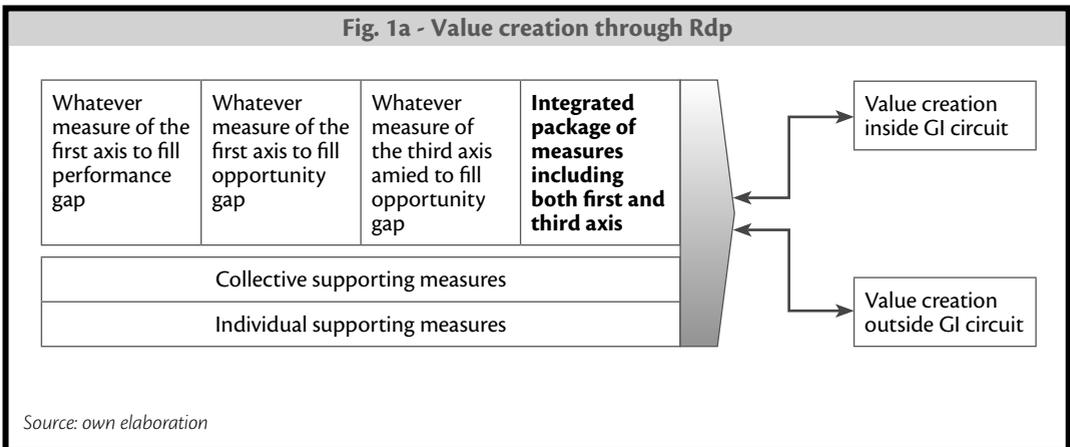
<sup>3</sup> *The concept of shared value can be defined as policies and operating practices that enhance the competitiveness of a company while simultaneously advancing the economic and social conditions in the communities in which it operates. Shared value creation focuses on identifying and expanding the connections between societal and economic progress (p.6).*

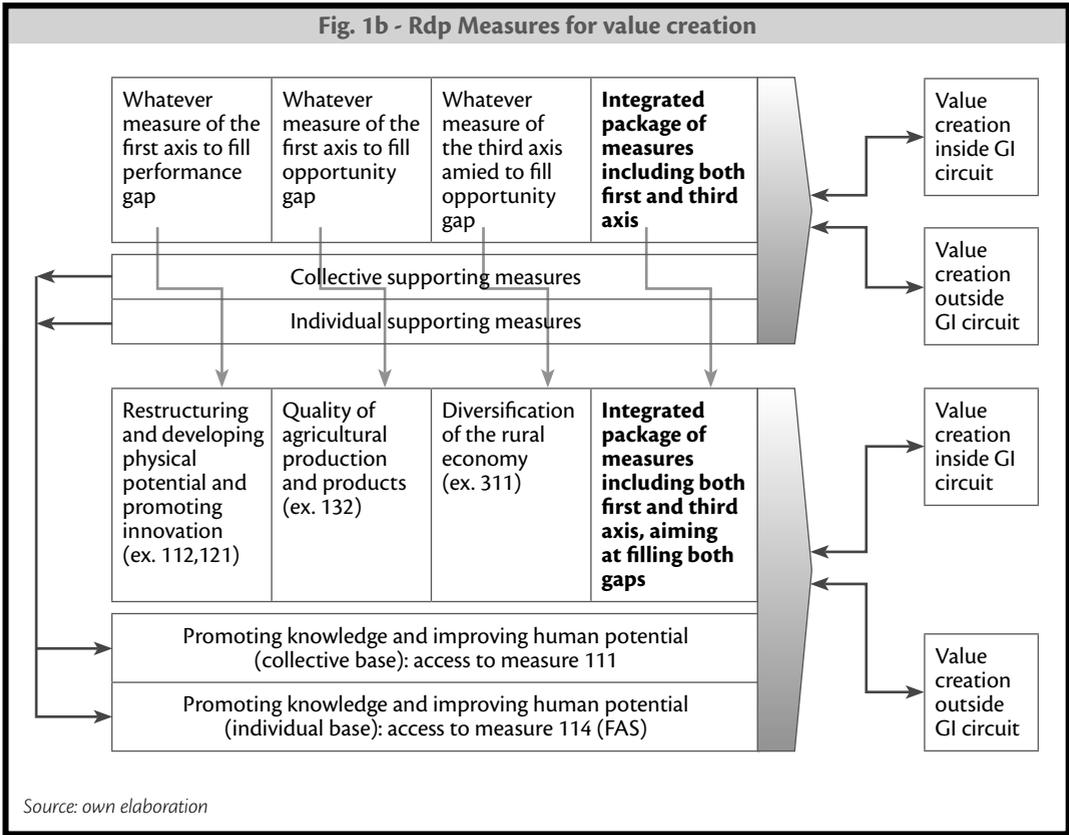
<sup>4</sup> See the European network for rural development (ENRD).

“consumed” to raise added value of agricultural products (for example, 123). Our paper is set against this background and makes reference to the basic concept of Porter’s value creation (Porter, 1991; 1985). As explained in the theoretical background, he defines value creation as a process of adding value to a product through processes of qualification, valorization and addition of subsidiary services. Moreover, in the Porter and Kramer’s (2011) scheme, value creation is strictly linked to societal wellbeing. Similarly, consumption of policies for multifunctional agriculture adds value at farm and social levels. Therefore, by adapting Porter’s perspective, we consider in this paper as “value creation” a process of access to Rdp with the object of raising the value of agricultural products at farmers’ level. By discriminating between farms working within a GI and those outside GI area, we put forward an approach for giving account of value creation through consumption of Rdp. Following Prahalad’s (1993, p.41) analysis, value creation is realized by filling up two gaps:

1. “Performance gap, i.e improving performance across a wide variety of dimensions such as quality, cost, cycle time, productivity and profitability;
2. *Opportunity gap, profitably deploying resources to create new markets, new businesses and a sense of broad strategic direction”.*

Measures for farm competitiveness (first axis) and farm diversification (third axis) will be analyzed: more precisely, the first axis will be the main focus in order to consider measures for value creation of the first type (performance gap); the second type of value creation (opportunity gap) will be analyzed through measures of both the first and the third axis. Furthermore, with the purpose of fully taking into consideration Porter’s scheme, thus taking into account support services, measures for farms advising, training and information (111+114) will equally be considered. Figure 1a and 1b evidence a possible pattern of analysis: figure 1a illustrates value creation through access to whatever axis of Rdp; in figure 1b, possible measures of each axis are associated to each step of value creation.





### 3. Materials and method

In order to look into the farm’s aptitude for accessing RDP funds related to “value creation strategy by GI”, our empirical analysis will follow a two-stage methodology. The first stage features in the context of impact analysis of a GI and refers to objective methods and, more precisely, to synchronic evaluation (Paus and Reviron, 2010). To this end, we analyse the consumption of Rdp measures, that is to say the farms’ capability to obtain funds, paying special attention to measures aimed at promoting value creation. By comparing buffalo farms working under the GI protection and outside GI protection, we will test the access to Rdp for value creation and we will try to infer the capability of creating value by gaining access to Rdp. Therefore, the database containing the total application to Rdp on behalf of buffalo farms has been processed. Moreover, according to Prahalad’s scheme, a second stage concerns the distinction between value creation, aimed at filling a performance gap and value creation aimed at filling an opportunity gap. To this end, a qualitative analysis of the application forms and direct interviews with a sample of farmers and with key respondents have been carried out. This has permitted to check the type of investments realized by farmers: our analysis focuses on the first and the third axes, including measures of investments through which an authentic entrepreneurial activity is achieved.

The area under study is the Amaseno Valley, in the region Latium (Italy)<sup>5</sup>. The database, mainly from the region Latium, comes from both secondary and primary sources and it concerns the amount of farms funded within the Rdp between 2007-2013. It provides useful feedback on measures funded subdivided into axis and actions of intervention.

## 4. Results

### 4.1. Buffalo sector in the Amaseno Valley

In the Amaseno Valley, 323 farms work in the buffalo sector; 70% of them works inside the PDO circuit, while the remaining percentage acts outside of it. For thirty years, the farms in the Amaseno Valley have been undergoing a considerable process of restructuring, with a reduction in the number of farms, counterbalanced by the increase in the number of heads (table 1).

**Tab. 1 - Evolution of buffalo farms in Amaseno Valley**

Region	Var.% 2010-1982		Var.% 2010-1990		Var.% 2010-2000	
	farms	heads	farms	heads	farms	heads
Italy	13,9	607,2	14,1	321,0	8,4	98,0
Latium	-12,7	765,3	-23,6	318,9	-8,5	87,6
Amaseno Valley	-42,7	366,8	-46,4	137,0	-18,4	43,0

*Source: data processed from ISTAT*

With respect to Italy, in Amaseno Valley buffalo breeding represents currently 13,3% of Italian farms and 5,8% of heads (table 2); in relation to the region Latium, the percentage raises respectively to 54,6% and 33,4%, in sensible reduction with respect to 2000. As a consequence buffalo breeding is characterised by small dimension of the farm; however in the last years a restructuring process is evident, with the average herd rising from 37 to 65.

**Tab. 2 - Regional and national incidence of buffalo farms and average dimension**

	2000		2010	
	farms	heads	farms	heads
% / Italy	17,6	8,1	13,3	5,8
% / Latium	61,2	43,8	54,6	33,4
	Heads/farm		Heads/farm	
Italy	81,0		148,0	
Latium	51,8		106,2	
Amaseno Valley	37,0		65,0	

*Source: own elaboration on ISTAT data*

<sup>5</sup> Municipalities taken into account are: Maenza, Priverno, Prossedi, Roccasecca dei Volsci (province of Latina); Amaseno, Castro dei Volsci, Giuliano di Roma, Vallecorsa, Villa Santo Stefano (province of Frosinone).

#### 4.2. The consumption of Rdp

As regards the consumption of rural development policies, table 3 shows that three out of nine municipalities of the Valley have not consumed policies. The percentage of access to Rdp among GI and non-GI farms reflects the percentage of GI/non GI farm distribution: if 70% of farms work within GI circuits, 66% adopt Rdp. The highest access percentage and concentration of funds has been found in the municipality of Amaseno, where the most relevant part of buffalo breeding is concentrated. However, against the 50% of farms concentrating in this municipality, the share of funds obtained here reaches the 88%. As a consequence, there is a sort of asymmetric distribution of investments in the Valley, as shown by the average amount of funds obtained.

**Tab. 3 - Consumption of Rdp in Amaseno Valley**

Municipalities	Consumption of policy	Average investment (€)	
		GI	Not GI
Maenza	No		
Priverno	No		
Prossedi	Yes	55.727	
Roccasecca dei Volsci	Yes	35.750	
Amaseno	Yes	68.605	161.595
Castro dei Volsci	Yes	1.500	
Giuliano di Roma	No		
Vallecorsa	Yes		1.500
Villa Santo Stefano	Yes	1.500	1.500

*Source: data processed database of Latium region*

On the whole, 31 farms have been funded. As a matter of fact, a restricted number of measures have been funded, being limited to 4 relevant types of investment:

1. the first one is the integrated package for the first settlement of the young entrepreneurs;
2. the second one concerns funds to stimulate farm's structural adjustment;
3. a third type of measures makes reference to the use of farm advisory services, to encourage cross compliance;
4. finally, measures for farm diversification are used, even if on a limited base.

The measure for farm adjustment (121) funds essentially interventions either for the optimization of agricultural processes, for the improvement of farm efficiency and for the upgrading of product quality. Few differences have been found between GI and not GI circuits: in one case investments to improve animal welfare have been adopted by a GI buffalo farm; in another case, investments for farm structural adjustment are linked to strategies of farm diversification (121+311). This happens even in cases of generational renewal, where the purchase of equipment is preferred to any other structural investment aiming at improving added value of agricultural products. No specific measures have been found devoted to the value creation (for example, 132). Measures aiming at supporting agricultural processes (114) have been consumed, within the framework of cross compliance.

The second step of our analysis is the articulation of farms on the basis of value creation, divided up into GI and not GI farms. The results are presented in a synthetic way in figure 3.

The figure shows higher aptitude towards value creation by GI farms: as a matter of fact, the opportunity gap (through which higher added value is created) is filled up by 56,5% of farms, while 25% of farms fill it outside the GI circuit.

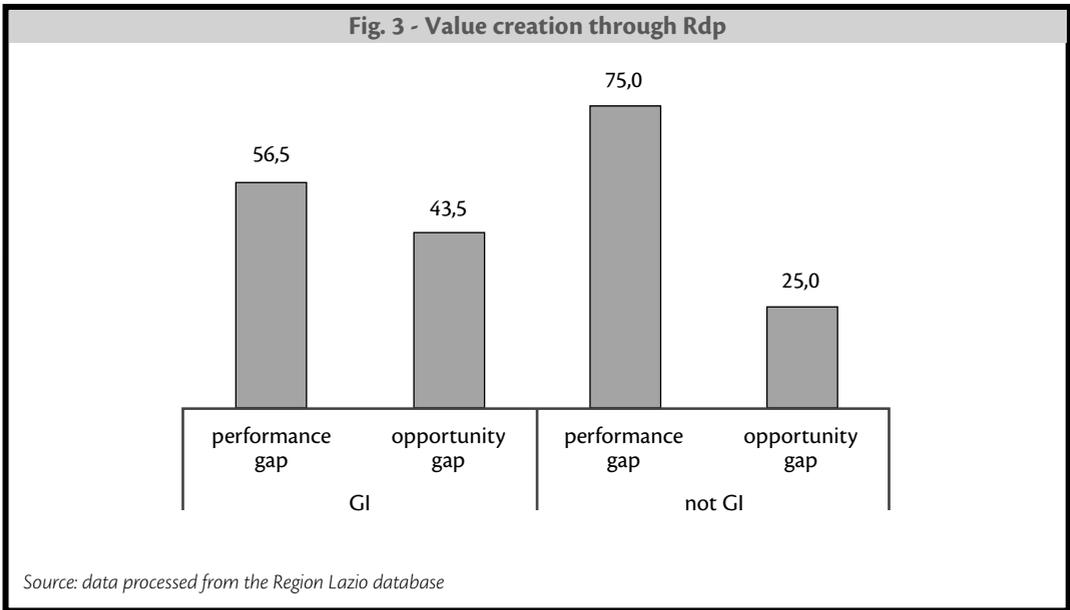


Table 4 gives more detailed information by distributing the farms according to the type of value creation and to the adhesion to the GI.

- A first interesting result concerns young entrepreneurs starting agricultural activity: the large majority of them (7 out of 8) work inside the GI circuits, that is, act along a quality strategy based on typical products of their territory. In 4 out of 5 cases, the entry strategy aims at filling a performance gap, which is to rationalize the agricultural process, while the remaining 3 create value through revitalizing the farm (opportunity gap).
- Other cases of consumption of integrated measures stimulate value creation through the opportunity gap: in this context, 71% of funded farms work inside GI circuit; just 3 out of 14 show similar strategies of farm development.
- 2 farms, equally distributed between GI and not GI circuits, have obtained funds from single measures of investment, within either the first or the third axis.
- Finally, non-dedicated measures for value creation have been exploited by farms (for example, 132).

Tab. 4 - Value creation through Rdp in the Amaseno Valley

Type of measure		Type of filled gap	Performance gap		Opportunity gap	
			GI	Not GI	GI	Not GI
Multiple measures of investment (integrated farm package or else)	For generational renewal or first settlement (112+114 (or 111)+121)	4	1	3	–	
	I axis (ex. 114+121) I + III axis (ex. 121+311)	1	–	10	3	
Single measures of investment	I or III axis (121 or 311)	–	–	1	1	
Specific measures for value creation	Ex. 132	–	–	–	–	
Single support measures	Training courses*	3	1	5	1	
	Farm advisory system	4	3	–	–	

\* farms having attended training course among the 31 funded farms.  
Source: data processed from ISTAT

## 5. Not to conclude

This paper has tried to put forward a methodological proposal to investigate processes of value creation through the access to Rdp. In order to adopt a rigorous approach, Porter’s scheme of value creation has been borrowed. Moreover, by distinguishing between farms in GI circuits and farms outside, we have classified this special type of consumption on the basis of the farm’s strategy to fill a performance gap or an opportunity gap. Even though further empirical analyses are needed, the preliminary results seem supporting and encouraging us to continue along this path.

The empirical test has confirmed higher aptitudes towards value creation (through Rdp) by farms inside the GI circuit. As a matter of fact, GI farms show higher proclivity to fill the opportunity gap, by creating value through paths of processing and qualification of their products. Therefore, the adhesion to a GI fosters higher levels of involvement for buffalo farms and, due to stronger connection with the institutional framework and higher opportunities to obtain funds provided by Rdp.

On the other hand, further elements of reflection, which should be investigated in future research stem from our analysis. A first element points to the asymmetric distribution of the funds in the Valley: almost 90% of funds are concentrated in 1 municipality, where 50% of buffalo farms are located. That means that in this area, geographical proximity engenders organizational proximity and the possibility to benefit from a relational institutional context supportive of the processes of value creation through policy.

Moreover, few farms are able to pursue these strategies and, most important, they do not fully exploit the opportunity available from the regional plans for rural development. The complete absence of demand for specific measures of value creation raises serious doubts about the farms’ real capability of activating paths of boundary shift. However, it could be of help, and it will be the object of future researches, to understand the motivation for concentrating the demand for Rdp on a restricted set of determined measures. In our opinion, the question has to be addressed from a double perspective, which involves both the demand and the supply side. In the first case, the choice of filling an opportunity gap sets up an innovation with a functional repositioning

of the farm. This strategy is resource-demanding and requires, on the one hand, an evaluation of the farm's socioeconomic characteristics; on the other, it requires the farmer to be "familiar" with innovation processes (Gow *et al.*, 2002). However, it is not only a demand problem, but a bias could also be generated on the "supply" side. McElwee (2006) is very convincing on this point when he underlines the scarcity of advice to support farmers' strategies. This explanation is confirmed by socio-psychology models applied to understand farmers' conservation behaviour (Beedell, Rehman, 2000). Therefore, we agree with McElwee's definition of "constrained entrepreneurship", which impedes a full and conscious consumption of Rdp. In this framework it is not surprising that *support is more likely to be sought from family and friend networks before public sector agencies. Poor and inconsistent advice prevents many farmers from attempting to expand their business* (McElwee, 2005). As Knickel *et al.* (2009) point out: *there is a gap between the need for change and farmers' willingness to adjust, and the insufficient capacities of innovation agencies and advisory services to effectively support changes.*

Hence, processes of value creation within GI areas could be constrained and limited by an institutional context, where support services do not act as a stimulus but as a bond against higher levels of competitiveness of farms working within GI circuits. The evaluation of this aspect could be the object of future researches, in order to clarify if it impedes a wider diffusion of practices and strategies coherent with the multifunctional paradigm of agriculture and, according to Porter and Kramer's perspective, to distribute higher societal value.

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## APPENDIX 1 – MEASURES PROVIDED BY THE RDP

Axis 1: measure for competitiveness of agricultural and forestry sector: the menu of measures is the following.

Promoting knowledge and improving human potential	111	Vocational training and information actions
	112	Setting up of young farmers
	113	Early retirement
	114	Use of advisory services
	115	Setting up of management, relief and advisory services
Restructuring and developing physical potential and promoting innovation	121	Modernisation of agricultural holdings
	122	Improvement of the economic value of forests
	123	Adding value to agricultural and forestry products
	124	Cooperation for the development of new products, processes and technologies in the agriculture and food sector and in the forestry sector
	125	Infrastructure related to the development and adaptation of agriculture and forestry
	126	Restoring agricultural production potential
Quality of agricultural production and products	131	Meeting standards based on Community legislation
	132	Participation of farmers in food quality schemes
	133	Information and promotion activities
Transitional measures	141	Semi-subsistence farming
	142	Producer groups
	143	Providing farm advisory and extension services
	144	Holdings undergoing restructuring due to a reform of a common market organization

Axis 2: measures to protect environment and the countryside

Sustainable use of agricultural land	211	Natural handicap payments to farmers in mountain areas
	212	Payments to farmers in areas with handicaps, other than mountain areas
	213	Natura 2000 payments and payments linked to Directive 2000/60/EC
	214	Agri-environment payments
	215	Animal welfare payments
	216	Non-productive investments
Sustainable use of forestry land	221	First afforestation of agricultural land
	222	First establishment of agro-forestry systems on agricultural land
	223	First afforestation of non-agricultural land
	224	Natura 2000 payments
	225	Forest-environment payments
	226	Restoring forestry potential and introducing prevention actions
	227	Non-productive investments

Axis 3: measures to improve quality of life and to promote economic diversification in rural areas

Diversify the rural economy	311	Diversification into non-agricultural activities
	312	Support for business creation and development
	313	Encouragement of tourism activities
Improve the quality of life in rural areas	321	Basic services for the economy and rural population
	322	Village renewal and development
	323	Conservation and upgrading of the rural heritage
	331	Training and information
	341	Skills-acquisition and animation measure with a view to preparing and implementing a local development strategy

Axis 4: LEADER

Implementing local development strategies	411	Competitiveness
	412	Environment/land management
	413	Quality of life/diversification
	421	Implementing cooperation projects
	431	Running the local action group, skills acquisition, animation

Source: ENRD



# TERRITORIAL ANCHORAGE IN THE FRENCH DAIRY EWE SECTOR: HISTORICAL ANALYSIS OF THE CONSTRUCTION OF INTERDEPENDENT LOCALIZED AGRIFOOD SYSTEMS

JEL classification: Q13, Q18

Morgane Millet\*, François Casabianca\*\*

**Abstract.** *In the eighties, the dairy ewe producers of Pyrénées Atlantiques (PA) and Corsica (CS) faced a crisis: most of the Roquefort (RF) industrial cheesemakers that had collected their milk for nearly a century withdrew from both areas. A new dynamic had to be created: the rebirth of on-farm processing (involving local technical and cultural memory) and the emergence of new processing firms. Local stakeholders created PDO (Protected Designation of Origin) products: “Ossau Iraty” in PA and “Brocciu” in CS. These PDOs are still having some difficulty in building consensus within their local stakeholder systems. The shared history of producing milk for RF cheesemakers (the Roquefort Era) and the period that followed their withdrawal conditioned the situation for both the PA and the CS systems: the last 40 years have been a period of re-appropriation of the production system by local stakeholders (with varying degrees of success and completeness). To analyze this period and the current situation of the PA and CS systems, we have adopted the concept of “territorial anchorage”. This concept implies two things: (i) A geographical area and a system of stakeholders can interact in a dynamic way. A long-term*

*analysis provides an overview of how a local system has changed over time. Such an analysis may make the current situation more understandable and shed some light on how it could evolve; (ii) For activities to be linked to an area, there must be a set of links of different intensities and past durations (social cohesion, economic value-added, a recognized terroir). As these links have been recently reactivated or re-created, some elements (e.g. certified cheeses) are becoming territorial resources. These mechanisms are also subject to external forces (co-existence of different processing methods, use of the territory’s image). With the territorial anchorage concept we can compare two territories, the study of each being enriched by examining the other’s trajectory and pattern of links with its area. It may help us to understand the constraints faced in building coherence and autonomy in a cheese production system at different institutional levels (local economy, social and economic organization, policy).*

**Keywords:** SYAL, territorial anchorage, trajectory, interdependence, Pyrénées-Atlantiques, Corsica Island, Roquefort

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## 1. Introduction

Much has been written about food products and their links with their territory (Bérard et al., 2008; Casabianca et al., 2005; Praly, 2010). The literature tends to show that factors connected with a local area (“territorial resources”) can provide leverage for local development as they enable stakeholders in a given food sector to remain competitive and even to take advantage of difficult production conditions.

These studies draw on the school of thought on localized agrifood systems (Fourcade et al., 2010; Muchnik, 2009). A localized agrifood system (SYAL in French) is defined as “*production and service organizations (agricultural and agrifood units, marketing, services and gastronomic enterprises, etc.) linked by their characteristics and operational ways to a specific territory. The environment, products, people and their institutions, know-how, feeding behavior and relationship networks come together within a territory to produce a type of agricultural and food organization in a given spatial scale*” (Muchnik, 2009). The SYAL is a construct that has its roots in a permanent interaction between men and the space in which they live and work. The concept of “territorial anchorage” allows us to analyze such interactions.

However, most studies involved short term analysis. Our goal is to consider the construction of a SYAL from a historical perspective. Our empirical work focuses on three SYALs devoted to producing ewe cheeses: the Roquefort (RF), Pyrénées-Atlantiques<sup>1</sup> (PA) and Corsica (CS) systems. These three SYALs are interconnected by a shared history. From the late nineteenth century until 1980, a period we call the “Roquefort Era”, RF needed more milk than could be produced locally and used PA and CS as raw material providers. When RF withdrew, PA and CS followed different paths, so their situations today differ (Champion et al., 2013). To explain their current successes and difficulties, we set out here to trace their trajectories back and so understand better (i) how the PA and CS SYALS have been constructed, and (ii) to what extent their present is rooted in those historical elements (local history and impact of the “Roquefort Era”).

To do this we gathered information from the literature and from exploratory interviews<sup>2</sup>. These were conducted during the summer of 2013, in order to better understand the situations in PA and CS and to define the research topic. We interviewed current and former stakeholders in both areas (extension services, institutions, producers and dairy firms). Below, we first spell out our “territorial anchorage” concept. We then analyze the history of the local cheeses in PA and CS that have acquired PDO status. Finally we discuss our main findings.

## 2. Theoretical keys: Territorial Anchorage and how it fits with SYALS

Territorial anchorage is a concept developed in France to analyze relationships between an object and a territory (Frayssignes, 2005). We will set out the main properties of the approach (1.1) and how we have used it for our analysis (1.2).

<sup>1</sup> Department in southwest France, divided between two strong cultural regions, Béarn and Pays Basque, with no institutional acknowledgment.

<sup>2</sup> Exploratory interviews conducted as part of thesis work (2013-2016).

### **2.1. Territorial anchorage**

Territorial anchorage is defined as “a localized process of collective learning carried out in order to create resources” (Zimmermann, 1998). We think this definition is incomplete: it makes territorial anchorage a purely intentional process driven by economics, the strategic choice of a firm looking for a long-term localization solution. Although it implies that a territory is not a homogenous, inert space, and that economic activities are localized for reasons other than economic, it still treats a territory as relatively passive, a potential set of resources. It also implies that territorial anchorage is not a reality until stakeholders have consciously decided to create collective value-added from it.

To complete the definition, we use the proposal of Debarbieux (2014) to consider territorial anchorage as an interaction between two processes:

- An active one implemented by stakeholders according to their strategies. This matches Zimmermann’s definition (1998). This type of stakeholder/territory relationship is contextual and intentional: an anchoring action is involved.
- A passive (unintentional) one by which a stakeholder is anchored in a given space. A “territory” is a web that conditions the stakeholder’s reasoning, practices and representations (Crevoisier & Gigon, 2000). This type of relationship is structural. Bérard et al. (2008) develop the idea in connection with traditional food products: beyond rational economics, there is a set of inherited and selected practices which make sense in a given territory. This resource enables local producers to resist environmental change or to enhance social and economic dynamics, but can also become an obstacle to change management.

These are two distinct processes, but they coexist in time and space, conducting a constant dialogue (Frayssignes, 2005). A group of people in a location are permeated by the space they occupy; in return, they influence it by constructing common rules to manage the space and by mobilising its resources. This constant interaction between a group and a territory tightens their bond, makes it irreversible and constitutes territorial anchorage.

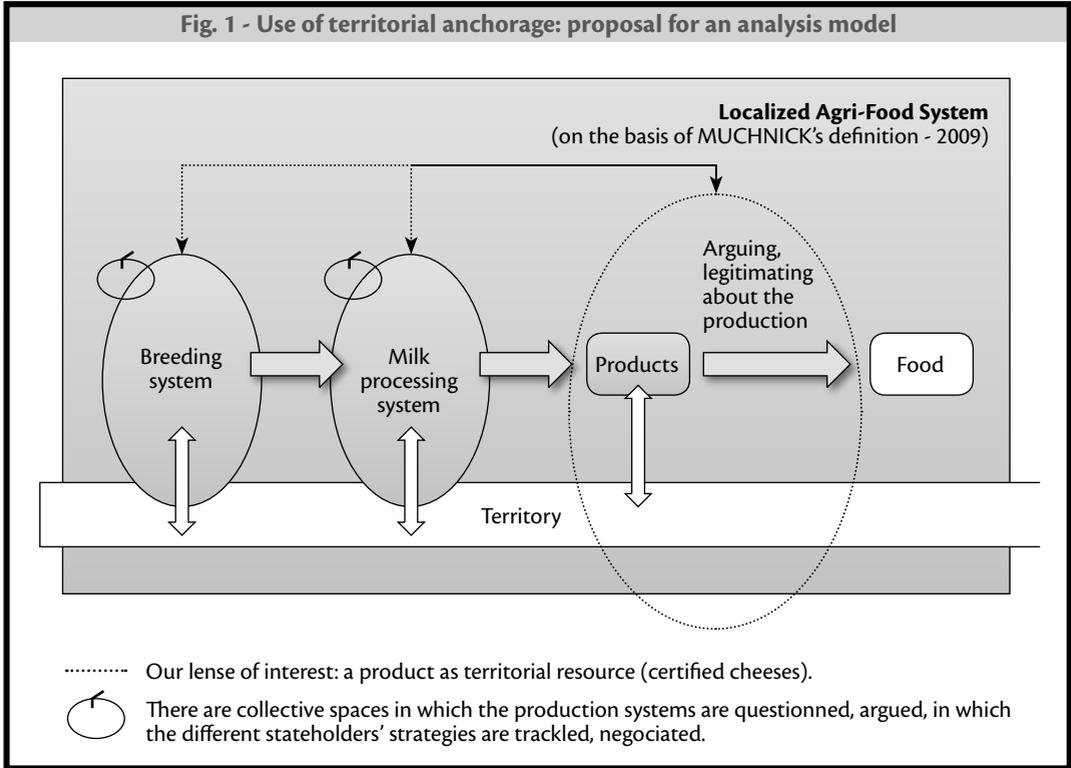
### **2.2. Dealing with the concept’s systemic complexity: a necessary focus on resources**

According to Frayssignes (2005) who used this concept to analyze the interactions between certified cheese systems (specific SYALs) and their territories, territorial anchorage is one of the processes revealed when a group tries to ensure the longevity of its economic activity. In his model, achieving this goal depends on autonomy: “A system is autonomous if it has the ability to govern itself according to its own principles” (Frayssignes, 2001). For this to work, collective rules must be constructed or generated to prevent contradictions arising within the SYAL’s various dimensions: unless its coherence is ensured, the longevity of a SYAL is in jeopardy.

Therefore, we need to characterize the different ways a SYAL relates to its territory (Muchnick, 2009; Di Meo, 1998). There are cultural dimensions (how the area is incorporated in local people’s histories, how it is shared with others), social ones (how collective rules affecting day-to-day practices are built), economic ones (how a territory is harnessed and used to create wealth) and institutional ones (how organizations appropriate a territory or an element (a territorial resource) within it. These dimensions come together to stabilize the joint construction of a SYAL and a territory.

Another feature of territorial anchorage adds to its complexity: the various elements that make up a SYAL constitute a system. Therefore, rather than regarding a SYAL as a black box, we break it down into the main territorial resources the stakeholders are dealing with. Cerdan and Fournier (2007), studying different SYALs and their trajectories, found that a SYAL takes

shape around a technical object combined with a strong organization capable of managing it. A SYAL is a triptych comprised of {man / product (and methods) / territory}. The coherence of the SYAL is to be observed at the level of its main organization. We have adapted this model to our examination of cheese systems (Figure 1).



Working on this basis, we have taken two objects (the certified cheeses currently produced in PA and CS) and analyzed to what extent the object has been activated and appropriated by stakeholders, how the stakeholders have constructed and standardized the practices necessary for its production, how they regulated it (organization), and how the triptych has evolved over a 30-years period.

### **3. Trajectories of the localized agrifood systems: historical background and analysis of local cheese certification**

For many years the particularity of RF cheese was its ripening in the caves of Combalou, (Roquefort-sur-Soulzon, south-western France). Thus it was the cave owners who controlled the particular character of RF cheese. In the nineteenth century, as RF cheese became very popular and demand grew, the cave owners expanded production by extending milk collection southwards from the traditional area (the *rayon*) to CS (in 1892) and PA (in 1903). This form of organization remained for nearly a century: the “Roquefort Era”. Below we set out the main

characteristics of that era (3.1), then the subsequent developments leading to the PA and CS SYALs, particularly the context in which their certified cheeses were created and developed (3.2).

### **3.1. Background: the “Roquefort Era”**

The RF firms have always operated in the same way, using dairies that collect the milk and process it into curd loaves, which are then sent to the Roquefort area for ripening (Delfosse, 2007).

#### *The impact of the RF companies’ activities*

In CS and PA, RF firms favored the plains and hills – areas well suited to dairy sheep farming – and made little use of the mountainous areas. Thus the impact of RF activity varied from area to area in CA and PA, in terms of cheese processing systems (abandonment of cheese making) (Arnos, 1934), sheep farming systems (specialization, end of double transhumance) and the organization of the farmers’ work (the introduction of a wage system, with the Roquefort firms employing farmers to produce milk, eroded traditional collective practices) (Renucci, 1970).

For example, in PA, there is a contrast between the Béarn mountains where RF had little impact, so that sheep farming methods and on-farm cheese production continued, and the Pays Basque with its more favorable landforms, where cheese traditions gradually declined in favor of specialized dairy ewe farming for RF firms. Similarly, in CS sheep farmers in hard-to-reach areas kept more strongly their cheese-making traditions (Rieutort, 1995).

#### *The RF system’s structure: maintaining PA and CS as marginal areas*

Sheep farmers in PA and CS were not treated as part of the RF system and did not have the same rights as farmers in the traditional *rayon* (Delfosse & Prost, 1998). Since 1925, RF cheese has been protected by law. In 1930 a joint organization of producers and processors, the Roquefort Confederation, was created to implement the law and oversee the RF system’s functioning.

But producers in CS and PA were not represented in this organization; it dealt only with the *rayon* producers (Rieutort, 1995). PA and CS were thus “annexes” – *associats* in French, defined as “spaces tightly dependant or more precisely dominated by an external centre, but which do not entirely lose their personality and whose borders are clearly established” (Delfosse, 2007).

With the “silent” revolution in the French dairy ewe sector that occurred between 1960 and 1980, the “annexes” were no longer needed for RF cheese production (Rieutort, 1995). The RF system was reconfigured: most of the firms quit the “annexes” to focus on the *rayon*. The main RF cheese processor that remained in PA and CS, though on a reduced scale, was Société des Caves (which we shall call RS). That marked the end of the “Roquefort Era” and caused the re-emergence of territorial anchorage in PA and CS, as the Roquefort firms no longer acted as drivers of the production system.

### **3.2. Trajectories of Protected Designation of Origin (PDO) cheeses in PA and CS**

#### *Choosing cheese certification to protect stakeholders’ heritage*

RS began a strategy of diversification in the “annexes”. It took an interest in local know-how and local cheeses, tending to appropriate local cheese recipes, at least to reinvent them, introducing technology and appropriating the regional cheeses’ image of authenticity. In CS, RS notably decided to process Brocciu, a Corsican cheese made from whey. “Considering the importance the islanders attached to the production and consumption of this cheese, their frustration was surely not only economic but also cultural: this was like a form of appropriation of an element of Corsican identity” (Delfosse & Prost, 1998: p12). In PA, the diversification strategy started earlier, in 1964,

when RS started up a local firm, Pyrenefrom, to process local cheeses; most of them originating from Béarn (Delfosse, 2007).

In order to protect their heritage, CS and PA sheep farmers created their own AOCs (*Appellations d'origine contrôlée*): Ossau-Iraty in PA (1980) and Brocciu in CS (1983). That process was initially driven by farmers who made their own cheeses and who decided to lay down the AOC's specifications in order to exclude RS (Ricard, 1997). Local stakeholders had a reference in mind: the RF stakeholders had ensured strong institutional protection for Roquefort. "*The Pyrenees Producers have been able to make good use of the Roquefort lesson and in 1980 obtained a protected designation of origin for their dairy ewe cheese*" (Delfosse, 2007). Initially, compliance with the dynamic was widespread: most stakeholders in both territories joined in, from the farmers to the newly-created firms.

Initially, the AOCs' specifications and production areas were defined strictly in response to RS strategy. Stakeholders of both territories decided to include all the former RF collection areas even though this might lead to inconsistency or conflict. For instance, despite traditional differences in cheese making and a cultural contrast between Béarn and Pays Basque, the PA stakeholders decided to group them together around the same certification. The name of the AOC reflects this strategy: it is completely made up, putting together iconic areas of Béarn (Ossau Valley) and the Pays Basque (Iraty Forest). This has been controversial, many farmers thinking that it could not reflect the local heritage. In both PA and CS, the core technical specifications are strongly focused on processing recipes. This is because the producers were in a hurry to protect their know-how from appropriation by RS (Sainte-Marie et al., 1995), and also – a less direct reason – because there are no rules on breeding or farming methods in the RF specifications.

#### *Step by step: how Ossau-Iraty and Brocciu evolved*

Never having been part of such an institution, local farmers lacked experience of AOCs (legal protection, organization, management). In the eighties, the AOC stakeholders had to face disappointments: the big firms were weakening AOCs in both territories. In PA, the main firm, a newly settled one which had strongly encouraged the creation of Ossau-Iraty, decided to withdraw from the AOC: its managers did not want to comply with the cheese processing rules (which forbade ultra filtration). In CS, some rules were missing from the Brocciu specifications and some local firms and RS took advantage of this, using methods that altered the cheese's traditional characteristics (use of powdered milk, non-traditional heating methods).

The nineties marked a shift for both AOCs. In 1992 the EU introduced PDO legislation; the early nineties also saw changes in France as a whole and in CS and PA (Sainte Marie et al., 1995). In PA there was a production crisis in 1991 with a worrying drop in milk prices. So the stakeholders did more work on their PDO specifications and introduced rules that had been lacking (e.g. named local breeds in PA, recognition of farm-made Brocciu in CS). This involved a long period of hard work to structure the PDOs organizations: they were brought into line with local realities (widespread practice of on-farm processing; rotation of presidency between processors, farmers delivering milk and farmers processing on-farm) and their operating rules were drawn up.

Over the past decade the PDOs' trajectories have differed. In CS, the PDO organization was jeopardized when Brocciu's collective and institutional activity ceased owing to management issues. Stakeholders deserted until 2010 when INAO (French national institute for PDOs)

threatened to abolish it. Currently, the main firms comply with it, as do their milk supplying farmers (at the firms' demand), while most farmers who process on-farm have lost interest in it. More recently, numerous local cheese certification projects have emerged (e.g. Niolu and Bastellicciu). These projects are set up explicitly in opposition to the Brocciu example (Linck et al., 2009) and they are addressing the issue of defining their areas of production, an issue that was evaded for the Brocciu PDO.

In PA, this last decade has seen major changes in Ossau-Iraty specifications regarding the milk, dairy processing and cheese ripening. Obviously, this has not all gone smoothly. There was a crisis in 2005, a conflict between farmers who wanted to quickly add to the rules (restricting dairy production, ending the use of silage) and others who feared such rapid change and the risk of exclusion (silage is quite widespread in the area, and the restriction on dairy volume was not understood as there was no overproduction). A consensus finally emerged: the volume limit has been raised and most of the contentious elements will be implemented in 2017 (ten years after their adoption as future mandatory rules). More recently, stakeholders have clarified Ossau-Iraty's specifications: distinctions are to be brought in concerning cheese from mountain summer pastures and have already been introduced for cheeses processed on-farm.

#### **4. Discussion: territorial anchorage, for how long?**

##### ***4.1. The dialectic between structural and contextual territorial anchorage***

As soon as stakeholders became aware of what their territory had to offer and integrated those elements into the reproduction of their systems, that marked the change from passive to active anchorage, a change reflected in the creation of the two PDOs. However, such a transition needed a path proper to each territory. Some patterns are common to both territories: initially, the cheese certifications were based on the territories' strong identities and the stakeholders' attachment to their heritage. "*Being Corsican, they had recognized each other as co-owners of the Certification, without feeling the need to spell out what that meant [notably] in terms of access to the value-added*" (Sainte-Marie et al, 1995). However, they had to give substance to the specifications. This meant first reifying their heritage, making it possible for action to begin. Then the stakeholders learnt to organize themselves and to draw up rules for mobilizing the resources and managing them over the long term.

Active territorial anchorage also involves making choices. In CS and PA, to mobilize the cheese resources the decision was taken to institutionalize them through PDO certification. Choosing certification based on a single product resulted in eroding a rich local heritage. While everyone acknowledged that there were various types of product in the territory, the stakeholders were in a hurry and this led them to select just one predominant type of product. Stakeholder strategy (both PDO and brands) was to merge Béarn with Pays Basque, and no certification was considered for cow's milk cheese (Cazenave-Piarrot, 1985), which became a lower-value product. Similar erosion occurred in CS. Focusing on Brocciu and making no distinction between goat Brocciu and ewe Brocciu resulted in the minority goat Brocciu receiving no professional attention. In both territories these choices changed the resource base, either in terms of characteristics (mixed goat and ewe cheese giving way to pure ewe cheese and the range of local cheeses becoming much reduced) or in their relationship to the territory (certification based on the traditional RF area instead of the traditional production areas of the local cheeses).

#### **4.2. Construction of autonomy**

Structural anchorage is based not only on the shared feeling of owning a collective heritage. It also depends on the existence and building up of common identity references for a particular community living in a particular space. These references emanate from a historical process and selective memory. In our cases, local stakeholders defined “identity markers” (Muchnik, 2009) based both on their representations of RF and on their shared identity. In both CS and PA, RF is a part of local history, an important factor in the collective memory that has influenced stakeholders’ choices and behaviors. The influence of the RF Era can be easily identified in the way the specifications were constructed (external tools, references used).

In both territories, the choice of PDO led to tensions and conflicts. The decisions made regarding the PDO areas and specifications were disputed. As stakeholders attempted to re-appropriate their heritage by basing their action on the tools used by RF (legal protection of RF cheese, and the Confederation), they sought to achieve consistency across the whole sector and unify the different stakeholder strategies. Though this institutionalization seemed unanimous at first, it soon became clear that there were many different representations and practices within one territory. Within each SYAL the negotiations over the PDO were unequal; which is one of the reasons why the place of each PDO is different in each territory.

#### **4.3. Coherence**

In CS, it took 20 years of joint work by researchers and cheese professionals to transform Brocciu from heritage to “*a process of social construction and the product of such a process*” (Sainte-Marie et al., 1995). However, this has not been enough. During this last decade, Brocciu seem to have gone back to the reification stage, most of the on-farm processors having quit. The case of Ossau-Iraty is perhaps more nuanced: the PDO specification has been narrowed, and producers have continued to comply with it. However, only one third of the dairy output that meets the specification is processed under the Ossau-Iraty label (Champion et al., 2013).

PDOs like these, based on strong identities, are of interest to dairy firms. In each of these territories they constitute a high-quality product that can help to introduce consumers to the brand’s other cheeses. However, most firms do not need to get much involved in the organization or to concern themselves with tightening the specifications. In fact, most firms have chosen brand strategies other than the PDO approach, building on the powerful public images of Corsica (e.g. Fium’orbu and Corsica brands) and the Pays Basque within PA (e.g. Etorcki, Capitoul and Petit Basque brands) (Ricard, 1997).

PDOs are weakened from both sides: opportunists avoiding restrictive rules take advantage of the PDO’s reputation, while purists do not join the PDO because it falls short of their representation of territorial anchorage. In both territories, other ways of creating value-added have emerged in the last decades. To what extent can all these dynamics coexist within each territory, and what types of territorial anchorage do they refer to?

So territorial anchorage is not necessarily an effective lever for development, despite what some researchers think. While it can boost local dynamics, notably in the face of crisis, the longevity of such actions is uncertain. Finally, as Cerdan and Fournier (2007) wrote, the longevity of a productive system is closely tied to the ability of local stakeholders to maintain the particularity of their product and makes sure it is managed in a manner consistent with the realities of production.

## 5. Conclusion

The literature argues that a SYAL analysis cannot be done without laying importance on the historical factors that led its construction (Cañada & Muchnik, 2011; Frayssignes, 2001). Our historical study of the French dairy ewe sector confirms the relevance of that. SYAL theorization needs to consider the dynamics of the system and to adopt a more long-term approach in order to better understand current phenomena. Moreover, our comparative analysis of PA and CS helps us to understand the constraints faced in building autonomy and coherence in both areas.

However, under the influence of economics, the SYAL approach often focuses more on consumption trends and their role in the valorization of local products. While we do not deny the importance of such factors, this approach underplays the historical dimension of a SYAL's territorial anchorage. We have shown that local stakeholders' arrangements are not directly determined by market and consumption trends but are evolving under their own power with representations, networks of firms, professional identities and institution building. Taking a systemic view we have highlighted the construction of territorial resources (such as cheese products) and territorial devices (such as PDO syndicates) as forces that can enhance territorial anchorage in their SYALs. The appropriation of these particularities has great potential for strengthening an identity shared by local actors.

This assertion also has policy implications: territorial resources were first considered as a way to ensure social peace in troubled areas (Pays Basque, Corsica), before being understood as a lever for development. Nowadays the Region authorities are keen to subsidize local breeds (in PA and CS) and geographical indications (Ossau-Iraty in PA and new PDO applications in CS).

Thus a food sector becomes a SYAL when territorial factors make a system of it. "*All systems are unstable; their evolution (consolidation/disaggregation) depends on the interaction (forces of cohesion or repulsion) between elements in the systems*" (Muchnik, 2009). We have shown the value of an analysis in terms of territorial anchorage, embedding SYALs as objects in time, following their own trajectory, and in space, involved in interdependencies and searching for relative autonomy.

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