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Abstract

The paper lays out the economic arguments in favor of the establishment of farmer-owned brands in midwestern agriculture and presents four case studies based on successful efforts in this area in the United States and European Union. The case studies involve Parma Ham, Brunello di Montalcino wine, Vidalia onions, and a third-party verification organization. The studies show that these brands can be profitable for farmers and emphasize the importance of restricting the supply of any successful brand. One of the case studies shows that this type of supply control can conflict with antitrust regulations.

Keywords

antitrust, brands, farm profitability, farmer-owned brands, origin control, value-added agriculture

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Executive Summary

The paper lays out the economic arguments in favor of the establishment of farmer-owned brands in midwestern agriculture and presents four case studies based on successful efforts in this area in the United States and European Union. The case studies involve Parma Ham, Brunello di Montalcino wine, Vidalia onions, and a third-party verification organization. The studies show that these brands can be profitable for farmers and emphasize the importance of restricting the supply of any successful brand. One of the case studies shows that this type of supply control can conflict with antitrust regulations.

Keywords: antitrust, brands, farm profitability, farmer-owned brands, origin control, value-added agriculture.

FARMER-OWNED BRANDS?

Commodity agriculture as currently practiced in the U.S. Midwest is an extremely efficient way of organizing the production and distribution of agricultural goods. It allows for inexpensive production and bulk transfer of enormous quantities of meat and grain and has resulted in massive cost savings to U.S. and international consumers. This system has evolved in accordance with market forces, and we expect that these same forces will allow the current system to survive for decades.

There are aspects of the system, however, that create opportunities for profitable niche markets that could operate in conjunction with the bulk system. For example, the commingling that occurs to take advantage of bulk handling may prevent price signals from being sent from consumers to producers. Consumers might desire food products that are different from the commodity standard and they might be willing to pay a premium, but the farmer does not get this signal. For instance, pork consumers would obviously prefer that the parasite trichina be eliminated so that they do not have to overcook the product. This change could easily be implemented either by eliminating garbage feeding or by testing for trichina at the plant level as is done in the European Union. But this change would add slightly to production costs, and this product would therefore be at a cost disadvantage at the wholesale level.

Another aspect of the commodity system is that competitive pressures force a continuous emphasis on cost reduction, which has led to somewhat homogenous products and to increases in the optimal size of farm operations. As farms have grown larger, governments throughout the world have attempted to slow the process in order to ease the transition for those who are forced out of farming and to prop up rural communities. These government interventions distort markets and can lead to international tensions, as each country defends its own interventions.

Farm groups also have attempted to address these issues by working together to build value-added processing facilities such as ethanol plants and to create niche products to

satisfy the desire of some consumers for variety. However, whenever these efforts are successful, they are quickly imitated, and profit margins are eliminated in the same manner as with commodity production.

A third possible solution has recently begun to emerge that meets consumers' desire for variety and quality and allows farmers to retain profit margins for long periods. This solution would allow some smaller operations to remain in business. The solution does require cooperation between producers and government, but it relies upon market forces. In essence, the solution involves the creation of a set of institutions that allows farmers to own their own brands and to control production of branded quantities, much as already occurs in other sectors of the economy. The phrase used in the European Union to describe this concept usually refers to either a "guarantee of origin" or a "guarantee of production process." Because these phrases are used in several E.U. languages and often are referred to by the initials in each of these languages, the simple concept can result in a bewildering array of acronyms. In the United States, the description will include a reference to a federal marketing order. Also related are the "ISO" standards issued by the International Organization for Standardization. Neither of these phrases really captures the essence of the concept. Instead, we refer to this solution as a "farmer-owned brand" (FOB).

Price Taker or Price Maker?

Consider the difference between the marketing decisions made by a breakfast cereal manufacturer and an agricultural producer. The breakfast cereal company has absolute control over the amount released on the market and must decide on the price to charge for the product. The company will typically choose a price that covers costs and provides a reasonable return on capital. In contrast, agricultural producers cannot influence the price they are offered, because no single producer can influence the market. Instead, producers must accept the price that is available in the market and will do so even if this does not cover costs. The key difference between these two situations is that the breakfast cereal manufacturer has somehow differentiated its product so that consumers view it as unique, whereas a farmer sells a product not differentiated from the product of any other farmer.

So long as consumers are offered a commodity product, they will make decisions based solely on price.

There are three main reasons why farmers typically find it difficult to differentiate their products:

- In a commodity-based system, farmers may not receive price incentives because of commingling.
- Even when wholesale buyers provide farmers with price incentives to produce higher-quality products, competition from other farmers quickly eliminates the profitability of doing so.
- The scale of any individual farmer's output is too small to justify the costs of "creating" and "maintaining" a brand that is recognizable by consumers and that cannot be easily imitated.

These points indicate that, to be successful, any mechanism designed to generate differentiated agricultural products must meet at least the following criteria:

- Transmit price signals from consumers to producers.
- Achieve a scale of production sufficiently large to justify the costs of "creating" and "maintaining" the differentiated image among consumers.
- Prevent imitation of the differentiated product.

Furthermore, if most of the profits associated with the differentiated product are to be captured by the farmers rather than by somebody else in the marketing channel, the farmers themselves must own the rights to the differentiated product.

Differentiation might occur because farmers follow traditional production practices or because they produce the brand in a selected region. An obvious solution to the imitation problem is to limit production of the differentiated product to a specific area and to limit production within this area. The key factor is that farmers who own the brand limit supply of the product to obtain reasonable profits. A low level of production coupled with high prices will provide incentives to farmers inside and outside of the group to expand production. But increased output will result in lower prices and reduced profits for all producers. Therefore, for an FOB to succeed, it is crucial that expansion be curtailed by the appropriate regulations. Thus, support from state and federal authorities is needed to establish a legal framework allowing groups of farmers (*a*) to obtain property

rights on their differentiated products or brands, and (b) to manage such brands in a profitable manner.

The purpose of this report is to describe and analyze the simple economics that lie behind these brands and then to describe some regulations the European Union has put in place to promote an expansion of the concept. We then provide four case studies involving two successful Italian FOBs, one Italian third-party certification organization, and one successful U.S. FOB. We finish with some suggestions for ways in which the FOB concept could be applied to midwestern agriculture.

What Determines the Economic Success of Farmer-Owned Brands?

Some consumers are willing to pay premium prices for differentiated products, and these premiums occasionally can result in niche markets such as those that exist for organic products and local farmers markets. These consumers are essential for a successful FOB. But producers in these traditional niche markets do not attempt to control supply (that is, prevent imitation); therefore, profits for producers of organic and local products will follow the pattern described for commodity products. To be successful, FOBs require producer control over the quantity supplied, and this is the key difference between FOBs and organic products or farmers markets.

In order to assert supply control without violating price-fixing rules, FOBs must be based on some fixed attribute. For example, a particular FOB might specify that the branded product can only come from a select area and justify this restriction based on the specific attributes of the region. Another legal way to control supply would be to limit membership in the producer group to a relatively small number of high-quality producers (or to severely restrict admission into the group). However, the selection of producers would need to be based on some quality criteria or location.

A third way would be to impose strict (for example, environmentally friendly) production and/or quality standards, possibly allowing for some flexibility over time to accommodate changes in market circumstances.

A fourth way is to require the FOB product to use some ingredient or process for which the producer group can control access, either through intellectual property rights or through trade secrets.

In all instances, a successful product will bring forth imitators from outside the original group and will generate attempts by members of the group to expand their individual output. If these pressures do result in an expansion of supply, the brand will fail. The most obvious way to restrict this type of supply expansion is to use regulations to protect the property rights of those who own the brand. These regulations might be the same as those used to protect branded products in other sectors, with the crucial exception that they must also have the power to restrict additional production from within the group—an issue that is not faced by corporate brand owners. With this ability to restrict production comes freedom from the boom-bust price cycles associated with commodity markets.

Farmers who own these brands will capture the benefit associated with product improvements and can be expected to pay close attention to quality. Notice how the incentive structure of an FOB would differ from that of a commodity system. The success of a brand would depend in part on satisfying a consumer need, and there could be as many brands as there are consumer needs. Farmers who own the brands would value the brand name and would not be inclined to minimize on quality or to allow others in the association to do so. Further, farmers would be rewarded for innovation both in production and in marketing.

The Situation in Europe

The concerns raised about the commodity system described earlier are in many ways of greater relevance in the European Union because Europeans tend to live closer to farm areas and they are therefore more concerned about rural vitality. Also, there is a long tradition of regional production methods, and the most successful of these are liable to be copied (see European Commission 2002 for more detailed information about the E.U. designation protection system). Finally, the European Union is currently transitioning from an agriculture based on price supports to one based on income support. This change has put enormous cost pressure on farms, which, if left unattended, would result in a rapid commodification of many food products.

All of the above has created a great amount of interest in the process of branding in the European Union and has led to several hundred new brands each year, with a proportionate amount of academic interest. For example, the proceedings of the 52nd Seminar of the

European Association of Agricultural Economists, titled “Typical and Traditional Products: Rural Effect and Agro-Industrial Problems,” contains 35 academic papers on this topic (Arfini and Mora 1998). Also, the web site <http://www.origin-food.org/index.htm> contains an extensive list of the individual E.U. centers currently working on this topic. A reading of this literature shows that these programs are targeted toward consumers who want to protect traditional and regional food sources as well as traditional production practices. For instance, the coordinating group is called DOLPHINS, an acronym for Development of Origin Labelled Products: Humanity, Innovation and Sustainability. Note that there is little mention of farm profitability. This shows how far back in the chain the marketing must start. This emphasis on selling the concept to consumers and policymakers is key to finding ways around E.U. price-fixing laws, and any positive impact on farm profitability is therefore viewed as a by-product of the more important goal of protecting the food supply. Nevertheless, the programs work and operate exactly as they might be expected to if they were set up to maximize farm profitability.

The role of the public regulator in establishing a legal framework for FOBs is of major relevance. In Europe, the protection of geographical designations dates back to the mid-1800s when Napoleon III established the Grand Crus of the Bordeaux area.¹ In France and in other European countries, the system progressively evolved for wines into the “registered designations of origin” (AOC in France, DOC in Italy), and was in time extended to other products that associated a specific brand name to a traditional area of production, such as Prosciutto di Parma (Parma Ham) and Parmigiano Reggiano (Parmesan Cheese).

In 1992, in the framework of the Common Agricultural Policy, the European Union introduced regulations aimed at defining a general harmonized framework for protecting designations of origin in all member countries. In protecting product names from misuse and imitation, the objectives of the E.U. regulator were explicitly directed at supporting the rural economy by encouraging diversification of agricultural production, improving farmers’ incomes, and retaining population in rural areas. The protected designation scheme would also help consumers by giving them information concerning the specific character of the products.

In the European Union, Protected Designation of Origin (PDO) and Protected Geographical Indication (PGI) labels were established in 1992 by Regulation no. 2081/92 of

the Council of the European Commission. PDO names are assigned to products that are traditionally produced, processed, and prepared in a specific geographical area; PGI names are given to products that are traditionally produced and/or processed and/or prepared in a specific geographical area.² If prescribed standards are met, Regulation no. 2081/92 may also apply to products from countries outside of the European Union. However, PDO and PGI do not apply to wine designations, as they are regulated by different legislation.

The E.U. origin protection system is structured around three groups of participants: producers/processors, regulators, and inspection agencies (Figure 1). The group of producers or processors that want to obtain protection for a specific brand name file an application to the respective national regulator. Upon verifying that the necessary requisites are met, the national regulator transmits the request to the European Commission, which is responsible for approving or rejecting it. The application must specify the geographical limits of the area of the designation, the rules of production/processing, and evidence of the traditional connection between the brand name and the area for which it is being requested.

Some designations have a very strong tradition dating far back in history. An example is the proof of origin presented by producers of the “Garda” olive oil designation:

The olive is known to have been grown in the area since Antiquity. Fossil finds in southern Alpine zones from the Cretaceous period show its presence. Kernels found among pieces of terracotta at Pacengo show that the Bronze Age inhabitants of the lakeside pile-dwelling settlements used the olive and the lakeside remains of Roman oil mills confirm production on an industrial scale. Numerous documents from the Middle Ages to the present bear witness to the importance of the olive in the area around Lake Garda. D’Annunzio and Goethe are among the Italian and foreign writers who have left references.

Another significant example of proof of origin is the “Cinta Senese,” a black boar with a pink stripe around the shoulders whose presence in the region for over eight centuries seems to be affirmed by the 1333 fresco “Effetti del Buon Governo” by Ambrogio Lorenzetti in the Municipal palace of Siena (see panels A and B in Figure 2).

The group requesting the designation protection must also nominate a private or public inspective body that will certify the existence of the requisites and will carry out

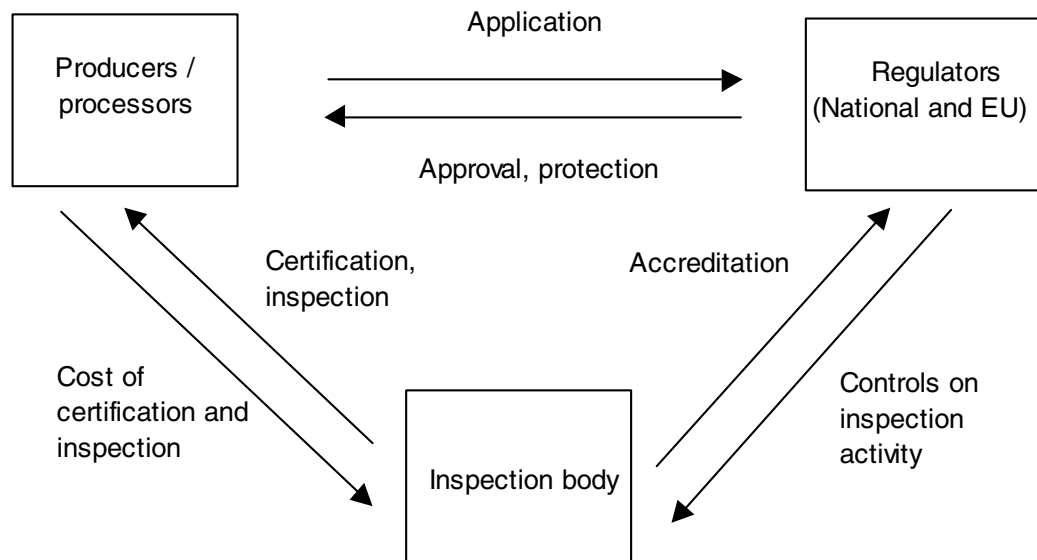


FIGURE 1. E.U. Protected Designation of Origin and Protected Geographical Indication system



A. Detail from the 1333 fresco “Effetti del Buon Governo” by Ambrogio Lorenzetti illustrating a “Cinta Senese” boar.



B. Photo of a Cinta Senese boar

FIGURE 2. Cinta Senese boars

appropriate inspections to ensure that the requirements of the registered specifications are met. The cost of certification and inspection is borne by the producers. The inspectors must be registered and authorized by national and E.U. regulators that maintain responsibility for verifying these activities.

Once the request of a designation protection is accepted, producers can label the products and benefit from the legal framework established by the European Union to protect the designation in all member states. A summary of protected designations assigned by the European Union as of August 2002 is presented in Tables 1 and 2.

Case Study 1: Parma Ham

A prominent example of a successful E.U. FOB is “Prosciutto di Parma” or “Parma Ham,” a dry-cured ham produced in the Parma region of Italy. The European Union awarded PDO status to Prosciutto di Parma in 1996, making it among the first products to achieve such a designation. This brand is owned by a group of ham processors rather than by hog farmers. The processors maintain control over production using a regulation that specifies that all ham bearing this brand be cured in a very small area just south of the city of Parma. The argument used to justify this restriction is that this region has been used to dry-cure ham since at least the times of the Roman Empire, because its weather is ideally suited for that process.

The wind blows into this region from the nearby mountains and these climatic conditions are said to give the ham a unique flavor. This is the rationale for requiring that processing facilities have windows facing the mountains to allow this “special” air through the units. With modern climate control, though, these windows are seldom (if ever) used. Still, the official description of the ham as provided by the Parma Ham Consortium (Consortio del Prosciutto di Parma) emphasizes the region’s natural endowments:

The production of genuine Parma ham is the story of a special relationship between man and nature. Since Roman times, the unique conditions of the Parma region have made it possible to produce the highest quality hams which have been appreciated by gourmets for centuries.

The implication of the description above is that the ham can be cured only in the climate that prevails in the region. Hams cured outside the region would presumably be of lower quality, and in order to protect the consumer from this low-quality product, the consor-

TABLE 1. Approved Protected Designation of Origin (PDO) and Protected Geographical Indication (PGI) brand names in the European Union by country (as of August 2002)

E.U. Country	PDO	PGI	Total	%
Austria	8	4	12	2
Belgium	2	2	4	1
Denmark	0	3	3	1
Finland	1	0	1	0
France	63	67	130	22
Germany	37	26	63	11
Greece	59	19	78	13
Ireland	1	2	3	1
Italy	79	39	118	20
Luxembourg	2	2	4	1
Portugal	51	29	80	13
Spain	42	25	67	11
Sweden	0	2	2	0
The Netherlands	5	0	5	1
United Kingdom	13	12	25	4
Total	363	232	595	100

Note: There are 13 Traditional Speciality Guaranteed names assigned to date, 7 of which correspond to beers.

TABLE 2. Protected Designation of Origin and Protected Geographical Indication brand names in the European Union by product class (as of August 2002)

Product Type	Number	%
Cheese	148	25
Meat products	147	25
Fruits, vegetables, and cereals	130	22
Fats and olive oils	72	12
Mineral waters	31	5
Beer	15	3
Breads	12	2
Fish	6	1
Other products	34	6
Total	595	100

tium justifies a geographic restriction on production. No mention is made in any of the information packets provided by the consortium to any economic argument in favor of this restriction on production.

Debate about whether the production restrictions imposed on Parma Ham were driven by quality concerns or for purposes of increasing profitability came to a head in 1994 and 1995. The Italian Antitrust Authority noted that the consortium was proposing a 30 to 50 percent reduction in individual quotas for the purchase of pork legs (the raw ingredient for Parma Ham). Similar quota reductions had been implemented in the Modena province by the producers of the competing San Daniele Ham. The trigger for these quota reductions was determined by the price behavior of these pork legs as quoted on the Modena board of trade (Esposito 1998). If prices paid for legs increased, quotas automatically would be reduced.

The similarity in quota reductions in two competing regions, as well as the use of price triggers without any mention of quality problems, caused the antitrust minister to declare the quota setting for individual processors as a violation of Article 2 of the Italian Antitrust Act (Esposito 1998). The Parma Ham Consortium responded that the law provided it with the power to restrict production in case of “situations upsetting market equilibrium.” The consortium further argued that the quota restrictions were a form of “affirmative defense,” in that it had data that predicted a lower rate of ham consumption in 1995 which would result in “excess supply, lower prices, and less profits,” that is, an upset of market equilibrium. It also contended that unless they restricted production, the price of the raw input would be high, leading to an increase in costs to consumers. Furthermore, the consortium argued that the supply restriction allowed Parma Ham producers to pick only the best legs and this in turn ensured quality.

The argument pertaining to quality control was partially accepted and both the Parma Ham Consortium and the San Daniele Ham Consortium were given a two-year exemption from antitrust regulations in order to avoid the quality problems that might be associated with purchase of inferior legs. However, this exemption has since expired, as apparently have any efforts to restrict the number of legs purchased. As a result, Italian pork leg prices have increased and Italian pork producers now appear to be in a position to capture benefits from the brand.

The “Prosciutto di Parma” brand requires that the ham be produced from a pig raised in certain regions in the north of Italy. Further, only traditional Italian breeds such as Italian Landrace or Italian Large White are allowed. Figure 3 compares hog prices for several countries. Italian hog prices have averaged \$7.44 per hundred pounds higher than German hogs over this period. In this case, there is no evidence that Italian hog producers can maintain excessive profit from the existence of the “Prosciutto di Parma” brand, because there is no restriction on the number of hogs that are grown in Italy. However, the higher prices observed in Italian hog production probably have allowed the Italian hog industry to survive in the absence of trade protections from E.U. producers of less expensive hogs in the Netherlands, Ireland, and Denmark.

One lesson that can be gained from the aforementioned interaction between the anti-trust ministry and the two ham consortia is that the latter probably overstepped their bounds when they created rules that clearly went against the interests of hog producers. Another lesson is that to avoid the attention of antitrust authorities, FOBs should be operated in a way that benefits the primary producer. In addition, the willingness of the antitrust authorities to grant a two-year exemption indicates that any behavior that is justified based on

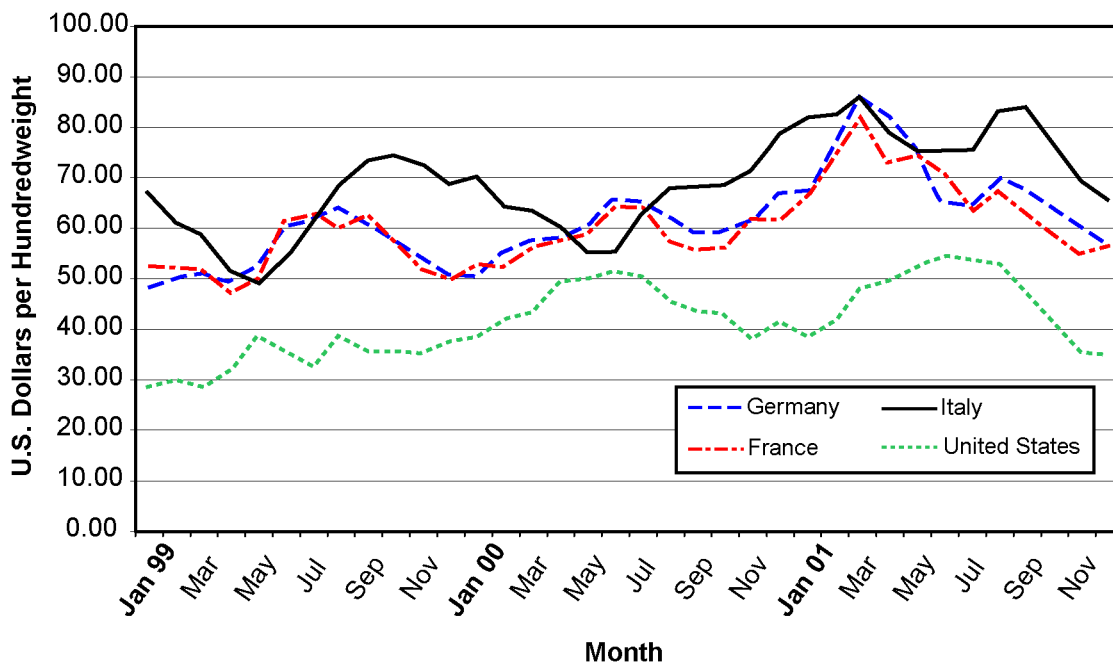


FIGURE 3. Hog price comparison, 1999-2001 (E.U. prices are deadweight basis; U.S. prices are national base for 51-52 percent lean barrows and gilts)

quality improvement is also an appealing argument. Clearly, any product that manages to both benefit the primary producers and improve quality for consumers will be viewed less skeptically than products that achieve none or only one of such goals.

An additional question that arises with respect to very old brands such as Parma Ham is whether the brand has value because consumers have been familiar with the name for hundreds of years or because the value lies in the more recent E.U. attempts to restrict production of these traditional goods to their traditional production areas. This question is important because in the United States, producers can replicate the quality control and area-based restrictions, but they cannot replicate the genuine tradition associated with some of these very old brands. Arfini (1999) proposed and implemented a method for teasing out these separate brand effects in the case of Parma Ham. He used a contingent valuation method to survey a sample of 325 Italian consumers on their willingness to pay for (1) an undifferentiated (that is, commodity) dry-cured ham, (2) a dry-cured ham bearing the recently created E.U. PDO label guaranteeing the origin of a dry-cured ham from the Parma region, and, finally, (3) a dry-cured ham bearing the label of the Parma Ham Consortium.

The contingent valuation revealed that ham with the consortium label was reported to be worth 50,000 lira per kg, the highest estimated value. Ham with an E.U. PDO origin guarantee was reported to be worth 42,772 lira per kg, and the undifferentiated product was valued at 39,031 lira per kg. These results indicate that much of the brand value is due to the long history of the product. However, the results also suggest that there is some value to the more recent PDO label, as its premium is worth 9.8 percent when compared to the commodity product. The lesson here is that new regulations such as the E.U. PDO can add some value and that this value can be expected to grow over time.

Case Study 2: Brunello di Montalcino

A second example of a successful E.U. FOB is “Brunello di Montalcino” wine. Montalcino is a small, saucer-shaped valley in Tuscany that is said to be an ideal location for growing Sangiovese grapes (called “Brunello” in Montalcino). The territory of Montalcino covers 59,000 acres. Although agriculture is a major economic activity, only half of the area is cultivated. Olive groves account for about 5,900 acres; vineyards for 4,750 acres; and pastures, grains, and other crops take the remaining 19,000 acres of cultivated land.

More than half of the vineyards (2,600 acres) consist of Brunello grapevines registered to produce the top brand wine, Brunello di Montalcino.³ The registry is maintained by the Brunello Consortium (Consorzio del Vino Brunello di Montalcino), an association that brings together about 98 percent of the producers of Brunello di Montalcino wine.⁴ The Brunello Consortium “owns” the Brunello di Montalcino brand, in the sense that it is legally empowered to maintain the registry of vineyards entitled to produce such wine; enforce production and quality standards; prevent illegal imitation; and provide in general for the care, improvement, and promotion of the brand. The strict rules underlying this brand are enforced with support from federal and state authorities. The European Union would oppose, through international regulatory groups such as the World Trade Association, any attempts to use the brand name outside of its membership borders.

Brunello wine is a relatively recent product, created in the late 1800s. For example, the following excerpt is from Castello Banfi’s web site (www.castellobanfi.com/montal.html):

A breakthrough came in the late 1800s, when attention was focused on the Brunello grape (it was actually Sangiovese Grosso, a clone of Chianti’s Sangiovese). This superior variety, carefully handled and extra-aged, yielded superior wine, but news spread slowly because Italy’s reputation in the wine world was held down by overproduction and lack of regulation.

Therefore, in a sense, the case of Brunello wine is more applicable to the U.S. situation.

As pointed out earlier, the E.U.’s PDO and PGI regulations do not apply to wines. Instead, the legal powers granted to the Brunello Consortium stem from Italy’s Law 164 of 1992 (Italian Parliament 1992). This law is critical for wine FOBs in Italy. Succinctly, Law 164 is aimed at legislating the production and trade of quality wines produced in a specific geographic region. Law 164 establishes requirements for production and sale of wines classified as “designation of controlled and guaranteed origin” (DOCG), “designation of controlled origin” (DOC), and “typical geographical indication” (IGT). For each DOCG, DOC, and IGT wine, Law 164 stipulates that there must be one organization with the legal power to organize and coordinate its production and commercialization. In the case of Montalcino, the Brunello Consortium is such an organization for the DOCG wine

Brunello di Montalcino, as well as for the DOC wines Rosso di Montalcino, Moscadello di Montalcino, and Sant' Antimo.⁵

There are approximately 30 DOCGs, 250 DOCs, and 100 IGTs in Italy. Figure 4 provides a schematic representation of the relationships among these classifications. At the top of the triangle are the DOCG wines, which are subject to the strictest norms of production and the most stringent controls and which exhibit the highest quality. DOCG wines can only be produced from grapes grown in registered vineyards. In addition, the quality of DOCG wines must be tested and certified before bottling. Further, each bottle of a DOCG wine sold must bear a government stamp with an individual number. Second to DOCG wines in terms of quality, output restrictions, and controls are the DOC wines. DOC wines also must be produced from registered vineyards and require testing and quality certification before bottling. Unlike DOCGs, however, DOC bottles do not bear individualized numbers. IGT wines are the lowest-quality wines covered by Law 164. Italian wines that do not fall under the jurisdiction of Law 164 are generically called "table wines." Table wines are not regulated by Law 164 and are typically of lower quality than DOCG, DOC, and IGT wines. Also, because table wines can be produced more easily, they tend to be in higher supply.

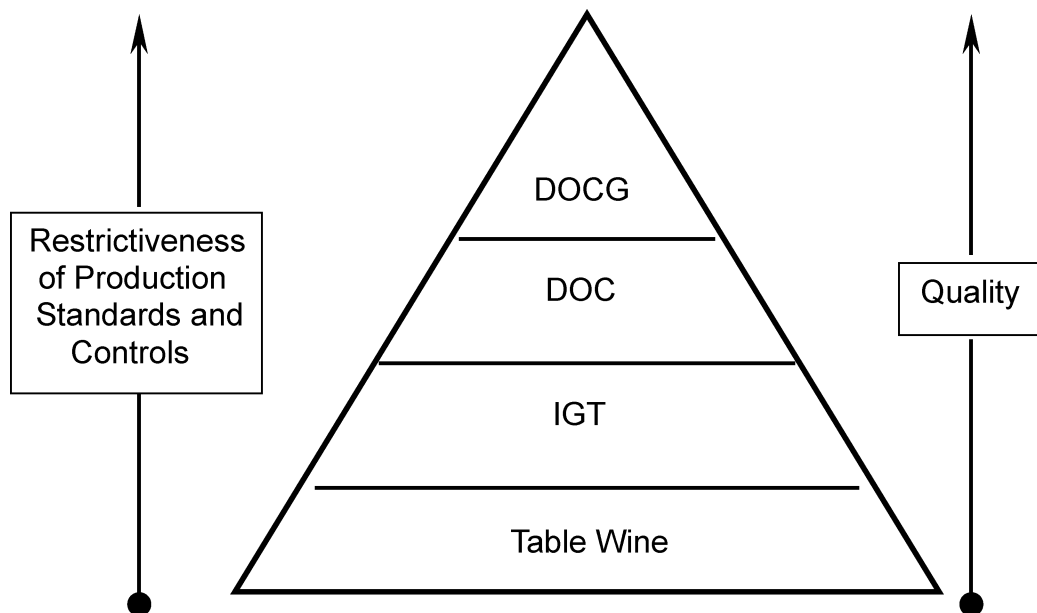


FIGURE 4. Schematic representation of wine classifications in Italy

The differences in production norms between DOCGs and DOCs are best illustrated by comparing the two main Montalcino wine brands, namely, the DOCG Brunello di Montalcino and the DOC Rosso di Montalcino.⁶ Table 3 lists some of the major legal output requirements for the two brands. Even though both wines must be produced and bottled inside the communal territory of Montalcino, the standards for producing Brunello di Montalcino are significantly more stringent. For example, Brunello must be aged for at least two years in oak casks and for at least four months in bottles, whereas no analogous requirements exist for Rosso. Furthermore, Brunello cannot be sold until almost five years after harvest, whereas Rosso can be put on sale one year after harvest (Italian Parliament 1996c, 1998).

TABLE 3. Comparison of major production requirements for Brunello di Montalcino and Rosso di Montalcino wines

	Brunello di Montalcino (DOCG)	Rosso di Montalcino (DOC)
Production area	Communal territory of Montalcino	Communal territory of Montalcino
Grape variety	Sangiovese	Sangiovese
Maximum grape yield	7,130 lb/acre	8,022 lb/acre (7,130 lb/acre if it comes from Brunello di Montalcino vineyards)
Maximum wine yield from grapes	68%	70%
Aging in wood	At least 2 years in oak casks	No minimum time
Aging in bottles	At least 4 months	No minimum time
Place of bottling	Communal territory of Montalcino	Communal territory of Montalcino
Type of bottles	Only Bordeaux-type	Only Bordeaux-type
Available for sale	Not before January 1 of the sixth year after harvest ^a	Not before September 1 of the year after harvest ^b

^aFor example, the year 2002 will be sold after January 1, 2007.

^bFor example, the year 2002 will be sold after September 1, 2003.

The Brunello Consortium manages its brands to extract maximum rents for producers. For example, the area planted with registered Brunello grapevines is set by the consortium and is rarely changed. Production of Brunello di Montalcino is further restricted by other means, such as prohibiting irrigation and limiting the yield of grapes and the yield of wine from grapes (see, for example, Table 3).⁷

The differences in production standards across the brands administered by the Brunello Consortium are also designed to enhance producers' managerial flexibility. For example, the norms of production for Brunello and Rosso di Montalcino wines ensure that the former can be turned into the latter—but not vice versa—at any time during the production process (Italian Parliament 1996c, 1998). This is very important from a financial standpoint because it allows producers to cash in before the five years prescribed for Brunello di Montalcino are up (see Table 3). Similarly, Sant' Antimo Rosso can also be produced from Brunello or Rosso di Montalcino, thus giving producers a host of choices at harvest or in the winery (Italian Parliament 1996b).

Individual wineries in Montalcino have their own labels, but most of the marketing and promotion of the brands is done by the producer-owned consortium. About 60 percent of the consortium's \$1.1 million annual budget⁸ is spent on promotional activities. This makes a lot of economic sense, as some of the surviving vineyards harvest fewer than two acres. The consortium also suggests a minimum price for wine bearing the Brunello di Montalcino brand name. Individual vineyards are free to charge more than this suggested minimum, and virtually all of them do.

Vineyards that are eligible to use the DOCG Brunello di Montalcino brand are enormously profitable, so much so that eligible vineyards sell for about \$120,000 per acre when they change hands, whereas identical vineyards not eligible for this program but allowed to grow "Super Tuscan" IGT wines sell for only \$20,000 to \$24,000 per acre. This enormous premium has been a source of tension within the producer-owned consortium because each member would obviously like permission to add production. One innovative way that the consortium has found around this problem is to design the aforementioned second-tier brand Rosso di Montalcino and the DOC Moscadello di Montalcino (Italian Parliament 1996a), as well as to experiment by introducing the new DOC Sant' Antimo brand. The consortium is using the same marketing skills to build

these other brands, and the younger producers who might otherwise be lobbying to expand the production of Brunello di Montalcino have put their energies into them.

Case Study 3: The Business of Third-Party Certification

The introduction of an independent third party for certification and inspection activities is a particular feature of the 1992 E.U. regulation.⁹ The European Union developed such a scheme to structure a lean and efficient system of certification and inspection that probably would have been cumbersome for the regulators to manage directly.

One interesting example of a certification and inspection body is the company 3A PTA (3A Parco Tecnologico Agroalimentare), located near Todi in the Umbria region in Central Italy. A semi-public research and extension structure, 3A PTA developed specific expertise in certification and quality controls, in order to provide inspection services for E.U. designations of origin and for other voluntary certification of FOBs. The 3A PTA company is the elected body for various E.U. protected-designation products, including the PGI “Vitellone Bianco dell’Appennino Centrale” (Central Mountain Range White Calf), the PGI “Lenticchia di Castelluccio di Norcia” (Castelluccio di Norcia Lentils), the PGI “Prosciutto di Norcia” (Norcia Ham), and two extra-virgin olive oil PDOs, “Umbria” and “Bruzio.”

In the E.U. scheme for designation protection, the activities of the inspection agencies begin as soon as regulators assign the designation to the group of producers or processors requesting it. At first, the inspection agency must certify that members of the group are prepared to comply with the approved specifications. Once the product is certified, the agency activates inspection procedures to ensure that the producers conform to such specifications.

Certification and inspection activities are quite different for different kinds of protected designations. In the case of a crop product, certification and inspection is focused mainly on the growing cycle of the crop and on the packaging of the product. For Castelluccio di Norcia Lentils, for example, the inspection agency verifies that the labeled lentils are marketed only by registered producers; that, in growing the lentils, these producers do not make use of pesticides and herbicides of any kind; that the harvested crop is dried on the field; and that the product is sorted before packing to eliminate impurities.

In the case of a meat product, certification and inspection activity is more complex and concerns the process of raising the animals, the slaughtering phase, and the marketing of the product. For the Central Mountain Range White Calf designation, for example, the inspection agency certifies that the labeled meat originates from animals that belong to one of three specific Italian white-coat breeds (Chianina, Marchigiana, and Romagnola). It also certifies that the animals are raised in a specified area, fed according to specific prescribed rules, and slaughtered in the production area when they are between twelve and twenty-four months old. Once available in stores, the meat must satisfy prescribed standards with respect to pH, protein content, cholesterol limits, the ratio of saturated and unsaturated fatty-acids, and tenderness.

In addition to E.U. protected designations, 3A PTA also is active in voluntary certification for products that may lack a specific traditional character but for which the certification label may add market value. One example of a non-E.U. protected, voluntarily certified product is “Chianino,” a beef burger made of Chianina ground meat. By selling a certified burger, producers can leverage on the high-quality reputation of Chianina meat, from both an organoleptic and sanitary point of view, while consumers have specific assurances on the content of the product they are purchasing.¹⁰

The 3A PTA estimates that the cost of certification and inspection for an FOB is 1 percent of the value of the product. In contrast, Central Mountain Range White Calf reaches a market value ranging from two to four times the price of standard beef, and Castelluccio di Norcia Lentils get between six and ten times the price of regular lentils.

Some PDO and PGI products have long-standing reputations and could win a premium even without the 1992 E.U. regulation (Arfini 1999). What the E.U. scheme does for these products is to reinforce official protection of the brand name, consolidating the possibility of extracting a premium from the market. The E.U. regulatory framework also presents opportunities for new and less-renowned designations to benefit from entering the protection system and, in addition, provides information and quality assurance to consumers willing to buy high-quality, guaranteed traditional products.

Case Study 4: Vidalia Onions

FOBs are relatively rare in the United States. One successful brand involves Vidalia onions, a registered trademark of the Georgia Department of Agriculture. Vidalia onions are grown by a group of authorized farmers in the region around Vidalia in the south of Georgia. Clemens (2002) describes this brand and its attributes; a key segment of her report states the following:

Economic Impact of Vidalia Onions. The Georgia Extension Service estimated the farmgate value of the onions in 2000 at \$94.5 million, or roughly \$5,833/acre. Approximately 87 percent of all Vidalia onions are produced on family owned and operated farms of 15 acres or less. In 2000, there were an estimated 133 growers and 91 handlers. Under the Small Business Administration definition, most producers and handlers are considered small entities (having annual receipts of less than \$500,000). Vidalia onions sold for \$27.10/cwt compared with \$5.53/cwt to \$24.40/cwt for the same type of onions in other states in 1999 (Boyhan and Torrance).

Other possible successful U.S. FOBs would include Sunkist orange juice and California almonds and prunes.

In all of the U.S. cases cited above, supply is restricted by means of federal marketing orders. These laws are also described in Clemens 2000. But the California marketing orders are not a suitable example for our purposes because the California products tend to take several years before production can be expanded, and this allows for a more careful monitoring and control of production. In addition, supply is controlled by destroying fruits and nuts that do not meet annual quality standards, and this can involve waste and controversy.

Can the U.S. Midwest Use the Farmer-Owned Brand Concept?

It seems highly unlikely that U.S. producers will ever create a brand of “extra virgin soybean oil” or “extra virgin corn oil” given current consumer preferences and production practices. Nevertheless, there seem to be some possibilities for FOBs in the United States. For example, the Japanese beef consumer has discovered that beef originating from packing plants located along Interstate 80 has a better flavor than other U.S. beef. This is probably because midwestern beef is typically produced from calves that are grain

fed for as long as six months. Beef from other U.S. regions is typically older and less tender than the midwestern product and comes from calves fed for much shorter periods. As a result, Japanese consumers have now begun to request “I-80 beef,” a brand that does not yet exist. It should be possible for a group of cattle feeders to find a suitable location for the production of this type of beef and justify why beef from this location has some special characteristics. For instance, a group of producers might argue that the weather patterns in a small group of southwestern Iowa counties are ideal for the production of a particular kind of beef. This beef could then be custom slaughtered and sent to Japan as “Pottawattamie County Beef.”

Producers of this brand would agree to feed calves for at least 180 days on a diet of corn and roughage and to apply the brand to beef from traditional beef breeds and with certain quality characteristics. A key element in this brand would be that state and federal regulators would agree to step in to protect this brand from overproduction from within the group and from outside competition. This latter feature has not been evident in the attempts seen with this type of product to date.

From the U.S. perspective, one very interesting E.U. FOB is the “Cinta Senese” breed of pig. These animals are characterized by the pink stripe around their shoulders. A boar of this breed appears in a famous fourteenth century fresco, which has been used to document the long tradition of the breed. The Cinta Senese breed has now been re-established, and its ham commands a super premium. The example of this fourteenth century pink-striped boar is of particular relevance because the brand had no product history but was successfully created from scratch based on a painting.

The commodification of U.S. meat and dairy markets that occurred in the latter part of the twentieth century eliminated thousands of traditional or regional production practices. But these methods are documented or could be documented from those who remember the practices. Producers in each U.S. county probably could identify a unique way to make ice cream, cheese, sausage, or ham, or unique ways to feed pigs, cattle, chickens, or turkeys. These products are more likely to succeed if there is a genuine flavor difference such as might exist with range-fed poultry. But as the example with the pink-striped boar suggests, the products also might succeed if they serve to bring back memories of an earlier era for some consumers.

Other possible brands might be based on production practices that truly do improve flavor and tenderness. For example, there is some evidence that adding certain vitamins to food animals' diets can improve the eating quality of the meat produced. These brand owners would not need to advertise exactly what was done to improve the flavor, and, in fact, they might be better off by describing the process as a secret recipe.

Endnotes

1. *Cru* is an untranslatable French word that indicates a specific vineyard, or a portion of it, that has been recognized as having a unique combination of characteristics such as grape variety, soil, and exposure to sunlight.
2. Regulation no. 2082/92 of the Council of the European Commission introduced another protected designation, “Traditional Speciality Guaranteed” (TSG), which does not refer to the area of origin but highlights a traditional character, either in the composition or means of production. Thus far, TSG names have had limited diffusion.
3. Only registered Brunello vineyards may be used to produce Brunello wine.
4. A little over 200 producers are members of the consortium.
5. As exemplified by the Brunello Consortium, the same association may administer more than one DOCG, DOC, or IGT, even though there can be only one association for each DOCG, DOC, or IGT.
6. Only wines that have been recognized as DOCs and have retained that privilege for at least five years may be approved for DOCG status. Brunello di Montalcino was the first DOCG (it became DOCG in 1980, after being approved as DOC in 1966). Rosso di Montalcino gained DOC status in 1984.
7. It is also worth noting that Law 164 specifically allows for tighter yield restrictions for DOCG and DOC wines for specific years, if necessary to achieve “market equilibrium.”
8. The consortium obtains most of its revenues by charging \$0.0045 per pound of grapes, \$0.038 per gallon of wine, and \$0.07 per bottle of wine.
9. See Arfini 1999 for a discussion on the effects of the new regulation in well-established designations, such as Parmigiano Reggiano and Prosciutto di Parma.
10. The Chianina breed is considered the largest bovine in the world; its renowned meat is used for the celebrated “fiorentina” T-bone steak.

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