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## **Welfare Effects of Protected Geographical Indications**

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## **Welfare Effects of Protected Geographical Indications**

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### *Abstract*

The recent developing interest in Geographical Indications (GIs) products are mostly related to the changes in consumer demand and governmental agricultural policy in response to rising income, increasing globalization of food supply chain which also stipulates increasing concerns about food quality and safety issues with a diverse agricultural market structures across countries. But, this rising trend observed presents a significant challenge in the trade of food products that are considered to be inherently linked to, or determined by, the nature of the geographic environment in which production takes place (e.g., climate conditions, soil composition, local knowledge, etc.). Hence, asymmetric information characterizes these markets in which the producers know more about the quality of the products than consumers and product quality attributes are unknown until after consumption, or never revealed. Whereas the trade origin of goods in private domain can be indicated by a trademark, agricultural and food products are considered to need a proof of reputation for quality and safety features in addition to their trade origin. Therefore, geographical origin which is in public domain and descriptive in nature is used to help differentiate the products among similar goods by communicating the specific qualities associated. As a result of functions they play, the geographical indications have gained recognition as a distinct form of trade related intellectual property rights. These products have one important feature in common as availability of a specific link between the place of production and the product's quality, characteristics, or reputation and this quality-origin nexus is established through legal protection under different national jurisdictions with a global framework of the Agreement on Trade Related Intellectual Property Rights (TRIPS). Notwithstanding to the different prevailing approaches of either European Union (EU)-led *sui generis* or United States (US)-led trade mark based system of legal protection that is also a subject of discussions in the Transatlantic Trade and Investment Partnership (TTIP) negotiations, GIs systems are generally introduced with an origin labelling and associated quality control as a means against the above mentioned quality uncertainty in the markets. The welfare implications of GIs for consumers and producers are mainly dependent upon the impact of the extent of the geographical differentiation on consumer demand as well as the structure of related markets. A broad literature on GIs has focused on consumers' attitudes, perceptions for and price premiums of GI labelled products. Most of the existent studies investigates the price effects of GIs which have also impact on the other parts of supply chain. The results of a meta-analysis of studies analysing the effects of GIs/origin show that studies focus on price impacts and many use hedonic approaches to give the implicit prices for GI label/distinct product origins or apply contingent valuation and other choice modelling techniques to indicate the willingness-to-pay measures. There are also few theoretical modelling studies which derive the impact of GIs, especially dynamics of transition. Other meta-analyses also show that the price impact is a key variable in empirical analyses and that the price premium consumers are willing to pay for GIs is often used as an indicator. But, extensive analytical works on implications of GIs on different parts of the related supply chain are lacking and the existing studies draw different conclusions about welfare implications of GIs with different modelling approaches and findings. Accordingly, it is the objective of this study to provide an analytical framework for the analysis of the GIs labelling program. A methodological approach is developed by combining an equilibrium displacement modelling framework and contingent valuation methodology to provide a measurement of GIs program impact in the defined market structure.

The equilibrium displacement model of a possible market structure for GIs products is developed to identify the way in which the introduction of GIs labelling with quality control will affect the prices and quantities of GIs and mass products in the related markets. The model is developed for a segmented market with differential qualities and quality control which extends the previous literature by including the factor markets in such a multi-stage structure, which is consistent with the market structure of GIs products mostly being processed foods. The framework developed also offers the use of contingent valuation based choice experiment methodology to measure a possible changes in consumer demand in response to the introduction of GIs labelling. The framework developed in this study can be applied to estimating the impacts of a variety of GIs based labelling program as well as governmental promotion and support programs as implemented at regional or national level.

*Keywords: Geographical Indications, Labelling, Equilibrium Displacement Model, Welfare Analysis.*

JEL classification: O34, Q12, Q13, Q17, Q1