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6. konferenca DAES

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Orodja za podporo  
odločanju v kmetijstvu  
in razvoju podeželja

Krško, 2013

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# Študije potrošnih navad

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## **SUPPORT IN DECISION-MAKING FOR PROTECTION OF GEOGRAPHICAL INDICATIONS OF MACEDONIAN AGRO-FOOD PRODUCTS**

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### **ABSTRACT**

The aim of this paper is to emphasise the importance of the institutional support in the process of application and registration of Macedonian agro-food products for PDO/PGI protection. The research was supported with the results of pilot project that study eleven potential agro-food products proposed as eligible for PDO/PGI protection in Macedonia. The field research included a survey of 46 entities and was conducted as a technical support of the Macedonian Ministry of Agriculture, Forestry and Water Economy. The Ministry was at the same time adopting by-laws and rulebooks for establishment of a well defined PDO/PGI protection system. In this respect, we consider this system of protection as a tool for improving the competitive position of the producers, by understanding the current situation in agricultural sector, the problems and constrains and the institutional inefficiencies that appear in the process. The results show that in order to achieve an effective PDO/PGI system, there is a need for strong coordination among the Governmental institutions (Ministry, advisory system, regional offices, etc), the scientific researchers and the producers. This cooperation is crucial in order to provide support in the producers' decision making process in the registration of products with PDO and PGI protection.

Key words: PDO/PGI protection, Macedonian agro-food products, Institutional inefficiencies

## **PODPORA ODLOČANJU PRI UVAJANJU GEOGRAFSKO ZAŠČITENIH KMETIJSKIH PROIZVODOV V MAKEDONIJI**

### **IZVLEČEK**

Namen prispevka je je poudariti pomen inštitucionalne podpore v procesu prijave in registracije ZOP/ZGO zaščite makedonskih kmetijskih proizvodov. Raziskava je bila izvedena kot pilotni projekt na analize enajstih potencialnih makedonskih kmetijskih proizvodov primernih za ZOP/ZGD zaščito. Terenska raziskava je vključevala anketiranje 46 subjektov in je bila izvedena kot pomoč makedonskemu Ministrstvu za

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kmetijstvo, gozdarstvo in upravljanje z vodami. Ministrstvo je istočasno sprejemalo zakonodajo za oblikovanje dobrega Sistema ZOP/ZGD zaščite. V tem pogledu razumemo sistem za zaščito kot orodje za izboljšanje konkurenčnih možnosti proizvajalcev s pomočjo razumevanja trenutnih razmer v kmetijstvu, njegovih težav in omejitev ter inštitucionalne neučinkovitosti, ki se pojavi v procesu. Rezultati kažejo, da je za doseg učinkovitega sistema ZOP/ZGP zaščite potrebno sodelovanje med vladnimi inštitucijami (Ministrstvo, svetovalna služba, regijske pisarne, itd), raziskovalci in proizvajalci. Sodelovanje je odločilno pri zagotavljanju podpore v procesu proizvajalčevega odločanju za uvedbo ZOP/ZGD zaščite.

Ključne besede: ZOP/ZGO zaščita, makedonski kmetijski proizvodi, inštitucionalna neučinkovitost

## 1 Introduction

Protected Designation of Origin (PDO) and Protected Geographical Indication (PGI) are part of the Geographical Indications (GIs) that are collective rights which protect agri-food products. Those are products whose production and specific attributes are determined by the geographical region in which they are produced, under the influence of natural conditions, climate factors and local knowledge. In general, GIs is an umbrella term, but when GIs rights are legally registered, they take different forms such as: Appellation of Origin, Denomination of Origin, PDO, PGI, certification and collective marks (Giovannucci *et al.*, 2009).

In 1992, the European Union approved two categories (PDO and PGI) of protection of geographical indications (GIs), in order to promote food quality and rural development. These collective rights can be used as a tool for producers to maintain their competitiveness, in a way that guarantees certain standards of the products. Here, quality, reputation or other characteristics are attributed to their particular geographic origin. Herrmann (2011) indicates that GIs have the potential to contribute to the economic policy objectives by reducing quality uncertainty and increasing income in rural areas.

Macedonia is a small country with many challenges in the agricultural sector in terms of low level of industrialization, low income, small farms, low educational level of the farmers, *etc.* At the same time, farmers have problems overcoming the concept of cooperation which characterized the previous system in the country. This is seriously affecting the enforcement of the GIs system, having in mind that it is an un-mandatory and costly procedure which in turn requires motivation and education of the farmers. From farm' perspective, the system does not require large changes in the production techniques, which is significant for those farmers with lower incomes. They get an equal opportunity to protect the autochthonous varieties and to produce value added products, which can generate price premiums, market access and differentiation. In this regard, becoming aware of the economic benefits from this system of protection is of great importance for the Macedonian farmers.

When seen from marketing point of view, this is expressed through the need for institutional support in the producers' decision making and in term of application and registration of their products for GIs protection.

In 2010, the Macedonian State Office of Industrial Property protected four products with appellations of origin, in compliance with the Lisbon Agreement

(Macedonian "ajvar", "Krivoralanecki honey", "Disan" – wine region, "Kocanski rice"). In 2011, the Ministry of Agriculture, Forestry and Water Economy (MAFWE) took the responsibility for adopting the legal framework for PDO and PGI protection on national level. Technical support was provided to the Ministry for additional protection of other potential products, in order to increase the competitiveness of domestic products. These legal and institutional changes require restarting of the process from its beginning, but now taking into consideration the PDO and PGI protection on national level. Registration under these schemes gives producers exclusive rights to use the registered name for their products and to use the relevant designations and logos on their packaging.

In this respect, the aim of this research is to emphasise the importance of the institutional support in the process of application and registration of Macedonian agro-food products for PDO/PGI protection. The research was supported with the results of pilot project that study eleven potential agro-food products proposed as eligible for PDO/PGI protection in Macedonia. We consider this system of protection as a tool for improving the competitive position of the producers, by understanding the current situation in agricultural sector, the problems and constrains and the institutional inefficiencies that appear in the process.

## 2 Concept and theory

The basic theoretical ground behind the research is the theory for competitiveness, where the system of GIs protection relies on the factor conditions of as portrayed by the Porter's diamond (Porter, 1998). With regard to the competitiveness, the Hecksher-Ohlin theory explains that international and regional differences do not arise from the level of productivity, but from the difference in the supply of certain factors of production such as land, labor, natural resources and capital. The countries obtain a competitive advantage with specialization for that production which possesses abundant or sufficient quantities of the required factors of production. In fact, Porter (1998) presents the factors of production as part of the determinants of national advantage. GIs could create a competitive advantage of the products in a way that their protection is based on specific factor conditions, with emphasize on the natural conditions and favorable characteristics of certain regions (Nacka, 2011). GIs protection relies on the concepts of typicality and reputation that confirm the uniqueness of the products (WIPO, 2012). Bagal and Vittori (2011) indicate that GIs enable producers of commodities to export *i.e.* high-quality agricultural and handicraft products.

As a competitive tool, GIs could lead to higher differentiation of the products and positioning on niche markets. GIs are considered as powerful tool for rural development that encompasses economic, social and ecological aspects. Idris (2004) pointed out that as collective producers right, GIs could directly influence the increased competitiveness and reputation of the products, originated from the region.

As a part of the model of reputation, Menapace and Moschini (2011) explain that GIs presents information about the origin of the product and indirectly the quality, by constraining the moral hazard behavior of the producers, reducing the costs of building reputation and leading to lower equilibrium prices and welfare gains. On the other hand, Touber (2011), states that economic literature on GIs does not provide



clear guidance in terms of policy implications and the task of policy makers in deciding the appropriate regulation of GIs is not easy.

The New Institutional Economics (NIE) emphasizes the importance of the institutional environment and institutional arrangements for efficient realization of transactions. The institutional environment is seen as set of rules which regulate the way production and exchange are conducted, while the institutional arrangement represents the governance structure in which actors join/cooperate for mutual benefit or bargaining power (Rao, 2003). In this case, this involves developing a well specified law framework for GIs protection of agricultural products.

In the framework of this particular research, we create a scheme that presents the GIs system in Macedonia, based on the main factors for developing a successful GIs system defined by Giovannucci *et al.*, (2009). It starts with the strong organizational and institutional structures that specified the legal framework. The institutions have the first position because they should raise the awareness of the farmers for the benefits of the protection and to “force” them to apply for protection. A well-known concept of GIs system by Vandekandeler *et al.*, (2007), emphasizes the role of the institutions and identifies the following phases that the GIs concept trough: identification, qualification, viability and renewable of the resources. Therefore, Institutions should (i) inform decision-makers about the nature of the product geographical indications and their potential for rural development; (ii) support recognition of the potentials; (iii) provide legal mechanisms and institutional framework that will protect the reputation of such products; (iv) support the necessary research and sustainable development; as well as (v) provide information for the applicable procedures for formally recognizing the protection of geographical indications. The dotted line in picture 1 presents the level of implementation of GIs procedure for protection of the potential products in Macedonia.

### **3 Data and Method**

Before the research begins, eleven products were proposed by experts in different fields. All of these products were identified as potential agro-food products and autochthones varieties from Macedonia that possess specific attributes and could be protected with PDO or PGI. The research covers only fruits and vegetables, and involvement of primary and processed livestock products was not considered at this stage. The survey includes 46 entities, including producers, exporters and processing companies of the suggested products. It was conducted trough several phases: *preparation work* – collecting existing data on suggested fruit and vegetable products and wine; *desk research* – collection of information from the Farmers Federation RM (FFRM), Faculty of Agricultural Sciences and Food, Wine Institute, Institute for Agriculture, Wine laboratory, Institute for Public Health and MAFWE regional offices; *field research* – development of questionnaire and field visits to selected growers and wine producers of suggested products; *data research* – analysis of the collected data.

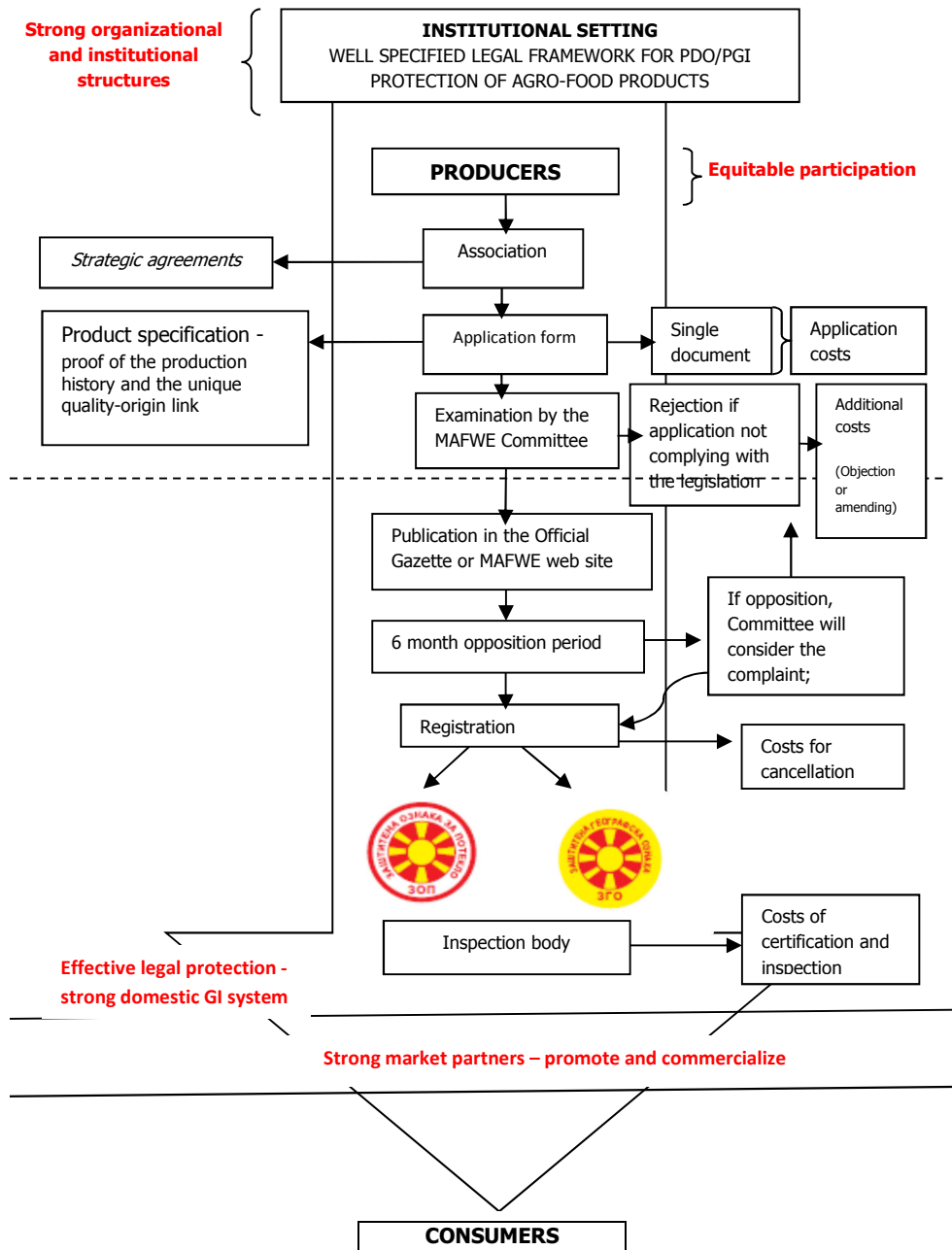


Figure 1.: Macedonian concept of PDO/PGI protection

On site meetings were conducted with 11 groups of producers which produce these products. Meeting all relevant producers of each type of these 11 products helped in understanding the current situation, their vision for the future but also pointed out the obstacles and problems they are facing in their production and the economic benefit from it.

After the meetings, detailed assessment was conducted in coordination with MAFWE and private entities in order to determine the potential products and entities that will further represent the Guidelines and product specification.

Table 1 Products proposed for PDO and PGI protection

| <b>Table grapes</b> | <b>Fruits</b> | <b>Vegetables</b>     | <b>Wines produced from autochthonous vine varieties</b> |
|---------------------|---------------|-----------------------|---|
| Valandovo           | Ohrid black   | Pelagonia<br>Tomatoes | Stanushina<br>Ohrid black grapes wine                   |
| Monastery           | Tetovo        | Jabuchar              |   |
| Winter white        |               | Kocani rice           |   |
|                     |               | Tetovo bean           |   |

The analysis of the data was conducted in the following steps: (i) identification of entities interested to apply for PDO/PGI registration; (ii) selection of most appropriate products for registration in coordination with MAFWE; (iii) definition of the problems and constrains; (iv) recommendations for improvements and solutions for overcoming the obstacles.

## **4 Results and discussion:**

### **Macedonian legal framework**

In 2002, the Republic of Macedonia regulated GIs as industrial property right and certification marks were introduced. Until 2011, these rights were protected under the Law of industrial property under the State Office for Industrial Property as the authorized body. By adopting the Law on quality of agricultural products in 2010, MAFWE became the responsible institution for managing the process for registration of PDO and PGI. With the Law on quality of agricultural products, MAFWE took the responsibility for the protection of agricultural products; those which are listed on the official decision for protection with PDO and PGI on national level adapted according to the EU regulations.

The Law defines "designation of origin" as a name of the region, a specific place or, in exceptional cases, a country - used to indicate the agricultural or food products whose quality or characteristics are produced under specific natural or human factors in the specified geographical area. "Geographical indication" is the name of the region, a specific place or, in exceptional cases, a country used to

indicate the agricultural or food products for which the production and/or processing and/or preparation take place in this geographical area.

According to the suggestions from the European Commission, and in regards to the Law on quality of agricultural products (related to protection of quality), MAFWE adopted a number of by-laws and rulebooks that define the overall procedure in compliance with EU Commission Regulations No. 509/2006, 510/2006, 1898/2006, 1216/2007 and 628/2008.

In December 2011, MAFWE carried out a procedure for selection of national symbols for agricultural farm products and foodstuffs with protected designation of origin and protected geographical indication. The symbols were legalized and published in 2012 (Picture 2 & 3). By adopting all by-laws in 2012, the national system of PDO and PGI protection was established.



Picture 1 Macedonian logo for PDO

Source: MAFWE, 2012



Picture 2 Macedonian logo for PGI

#### *Policy measures for support and promotion*

GIs protection is supported by financial support to the interested groups willing to apply for registration and by publishing all necessary regulations/guides to enable them to reach this goal. In 2012, MAFWE allocated financial support in total amount of €260.000 for implementation of higher quality standards consisting of several targeted measures:

- Additional financial support per unit for raw material used in the production of products with protected designation of origin, protected geographical indication and traditional speciality guaranteed (in total value of MKD 0.5/kg/l),
- Financial support of MKD 300.000 per product with protected designation of origin, protected geographical indication and traditional speciality guaranteed in the first year after the registration, for covering the costs for implementation of quality sign,
- Financial support of 0.5% of the value (MKD) of the product sold, but no more than MKD 150.000 per product registered as geographical indication in the State Office of Industrial Property.

The Program for Rural Development 2013, offers indirect financial support through (i) the measures for training and providing information to the farmers, (ii) advisory services in agriculture, (iii) investments for processing and marketing, (iv) establishment of cooperatives (v) support in preserving rural areas and their traditional characteristics and (vi) support in preserving genetic diversity of autochthons plants and breeds.

It has been discussed that in case policy makers allow more control, it is vital to put emphasis on competitiveness in terms of quality instead of relying on governmental intervention to secure producers' income (Touber, 2011). But in the Macedonian case, the PDO/PGI system is relatively new and no products were

protected so far. Furthermore, there is still lack of producers' awareness of the benefits from the system. In this regard, this support is currently fully necessary for Macedonian producers.

### **Field research**

The objective of this survey was to provide technical support to the Ministry of Agriculture, Forestry and Water Economy (MAFWE) in order to identify the potential products and potential applicants that will be proposed for guidelines and application for registration. Two of the proposed products, "Tetovo bean" and "Kocani rice", are already protected by the State Office for Industrial Property, and could not be taken in to consideration for the initiative for protection by MAFWE.

#### *Existence of entities as potential applicants*

In general, the first requirement of the procedure is not fulfilled since majority of the farmers are not members of any farmers associations or other entities, and approach this issues as individual farmers. There are only two existing associations and one potential that could be an applicant. All other products are produced by individual farmers who are selling products on the open markets or to middlemen. The existent situation makes the application process difficult, due to the lack of organized application bodies. Only "Ohrid black cherry" growers expressed interest to form an association that will be responsible for further submission of the registration application (IQS, 2012).


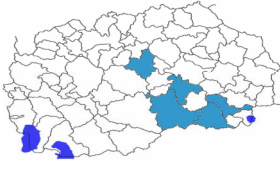
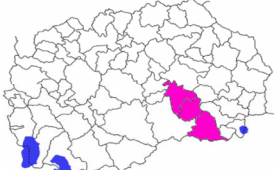
Seven of the analyzed products, are produced in sufficient quantities. Table grape from the type "Monastery White", "Tetovo apple" and "Tomatoes jabuchar" are produced in very limited quantities and those varieties are in danger of extinction. "Ohrid black grape wine" is not produced at all, due to the deficiency of Ohrid black grape production and as variety is also in danger of extinction. The main reasons for extinction of those types of products are: lack of market demand and lack of plant material (IQS, 2012).

During the field visits and survey, the PDO/PGI concept was presented to the 46 entities and it was evident that there was a lack of information related to this question. However, most of them expressed interest to participate, except for the products and varieties that are in danger of extinction (IQS, 2012).

The application of PDO/PGI logos is possible only on packed products, with proper labeling on which they can be applied. Most of the suggested products are fresh products, not packed and sold on wholesale market as bulk. The registration process will require defining of appropriate package and label (IQS, 2012).

So far, the process of registration continues for two of the proposed products. The first is "Ohrid black cherry", where producers created an association and submitted an application, but procedure is in process of examination by the MAFWE Committee. The second product is "Winter white grape", where the entity is a company that purchase the grape from the producers. Unfortunately, no evidence for association of producers was submitted and therefore the process will be postponed.

Table 2.: Short preview of the field results

| <i>Product</i>   | <i>Advantages/disadvantages</i>  | <i>Producer interest</i>   | <i>Association</i>   |
|--|--|--|--|
| <b>Ohrid black cherry</b><br> | <ul style="list-style-type: none"> <li>Lack of plant material – in danger of extinction</li> </ul>   | Not informed for PDO and PGI program, but they showed a big interest to register   | They create a new association of cherry producers that submit an application for PDO |
| <b>Winter white grape</b><br> | <ul style="list-style-type: none"> <li>Good transportation abilities, good and long refrigerated storage (up to 6 months) and late harvesting period (till first half of December)</li> </ul>  | Not familiar with benefits of PDO and PGI and application process, but they show high interest to apply for registration   | No evidence for producers association  |
| <b>Stanusina wine</b><br>     | <ul style="list-style-type: none"> <li>Local ingenious grape variety</li> <li>Whole production of 5000 bottles is sold as bottled wine</li> </ul>  | Expressed high interest for PDO/PGI registration   | Existing entity  |
| <b>Monastery white grape</b>   | <ul style="list-style-type: none"> <li>On the edge of extinction</li> </ul>  | No interest for future activities  | /  |
| <b>Valandovski drenok grape</b>  | <ul style="list-style-type: none"> <li>Limited quantities</li> <li>Low market demand</li> <li>Possibilities for bad yield</li> </ul>   | Not familiar with benefits of PDO and PGI and application process, but they show a big interest to apply for registration  | No evidence for producers association  |
| <b>Tetovo apple</b>  | <ul style="list-style-type: none"> <li>On the edge of extinction</li> <li>The quantities of produced apple are very small</li> </ul>   | No interest for future activities  | /  |
| <b>Pelagonia pepper</b>  | <ul style="list-style-type: none"> <li>Used mainly as raw material for processing industry</li> <li>Low market demand for this pepper variety in comparison with other types of peppers</li> <li>Lower price than other existing types</li> <li>No controlled seed material</li> </ul> | Some of the farmers were aware of the PDO/PGI activities but not in details and they all have shown interest to participate in this program if there is a financial benefit for them | No existing association of pepper producers in this region                           |
| <b>Tomatoes jabucar</b>  | <ul style="list-style-type: none"> <li>Planted only on small fields and home back yards</li> <li>Bad transportation abilities</li> <li>Quality characteristics of this tomato are much better compared to other varieties</li> </ul>   | No any interest for future activities  | /  |

|                        |  |
|------------------------|--|
| Kochani rice           | <ul style="list-style-type: none"> <li>• Already registered at the State Office for Industrial Property according to the Macedonian Law for Industrial property</li> <li>• Internationally registered in accordance with the Lisbon Agreement for the Protection of Appellations of Origin under number 897 from 01.12.2010</li> </ul> |
| Tetovo bean            | <ul style="list-style-type: none"> <li>• Registered since 11.12.2006 at the State Office for Industrial Property according to the Macedonian Law for Industrial property</li> </ul>  |
| Ohrid black grape wine | <ul style="list-style-type: none"> <li>• Lack of production of this Law interest from /<br/>type of wine grape variety producer's side</li> <li>• No market demand</li> </ul>  |

Source: Own presentation based on IQS report, 2012

### *Lack of motivation strategy*

As it was presented in the introduction part, the Macedonian farmers have many issues that seriously affect the enforcement of the GIs system, which essentially requires motivation and education of the farmers. Generally, producers are interested in protecting their agro-food products, but there is lack of initiative and limited knowledge about the benefits of GIs on the producers' behalf. In other words, the willingness for creation a well-developed GIs system will be a tool to support farmers in their decision-making process for protection of their products.

This is important because one of the problems in this process is the lack of information provided to the farmers about the procedure for application and the benefits in general.

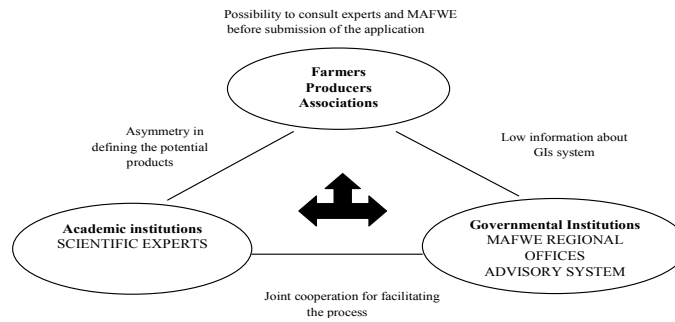
On the other side, the results show that farmers do not pay attention of all the legal requirements necessary for the application process. This has affected the implementation procedure so far, in terms of producers which have to additionally submit all required documents or to correct those that already they submitted.

### *Asymmetry in information flow*

As a result of the field research and data analysis, it was considered that there is asymmetry in the information flow among the stakeholders in the process.

Information asymmetry is present from the beginning, even in the process of defining the potential products, because most of them are produced in very small quantities, and some of them not produced at all (ex. Monastery white). The results of this research indicated much inefficiency in the communication between the institutions and the farmers, resulting in missing other potential products which can successfully and timely complete the registration process. Therefore there is an urgent need for on-field and close collaboration between farmers and all other stakeholders in this process and revision of the defined list of potential products.

Mostly, farmers are interested in quick financial benefits from the protection, but it is necessary for them to understand that GIs as a tool should be consider as a long-term investment that will bring long term benefits. In this regard, providing farmers with right and on time information should be considered as a major point for the institutions and advisory system.



Picture 3 Concept of information asymmetry from institutional and producers perspective

The model presented in picture 4 is fully in line with the discussion by Teuber *et al.* (2011), who state that theoretically and conceptually it should be possible to determine the optimal levels of information and protection, but in practice the situation is more complex. This was also confirmed in our results, especially after the practical application of the system where changes in the entire process, (organizational and procedural) are required.

Public intervention is needed to effectively regulate the system, as well as support processes at different levels, which will ensure the success of the GIs system. Vandekandeler *et al.*, (2007) indicate that cooperation between the public and private actors (or establishment of public-private partnership) is essentially important for proper development of the production system and geographical indications.

## 5 Conclusion

Traditionally, Macedonia has good capacity for producing quality agriculture products, present for many years in this region and recognized by the buyers, retailers, tourists and domestic consumers.

Even though the level of awareness for the GIs program was not very high, such program was welcomed by all stakeholders in general. It was also seen as a potential tool that can lead to further strengthening of the domestic products role, both in the domestic and the export markets.

In general, the main obstacles are (i) producers not being active members of any association or being members of the Association of fruit producers that is not actively involved in following registration or similar project; (ii) almost all producer admitted that they use their own seed and plant material which can lead to disappearance of the original variety of products and (iii) no proper packaging of the product. Since all producers sell their product on the green markets or through middlemen it becomes clear that the improper packaging must be changed if any registration is to be considered.

Once the quality legal framework of the GIs system is established, close cooperation and coordination among the scientific experts and the farmers is



necessary in defining the specific and potential products that might be considered for protection with PDO and PGI. In addition, collaboration between academic and governmental institution will be needed for promotion of the system directly to the producers. This will include sharing of essential information for the producers' benefits of GIs as well as providing assistance in preparing good product specification. Furthermore, a fundamental step is developing a sustainable informational system, where farmers will be continuously informed about the process of receiving GIs protection and the opportunities to increase their competitiveness.

In order to develop a well-built GIs system of protection, strong organizational and institutional structures that will maintain, and at the same time monitor the GIs system, must be established. This means that there is necessity for unbiased participation among the producers and enterprises in the GI region, strong market partnership that will promote and commercialize over the long term, and effective legal protection, including a strong domestic GI system.

## **6 Recommendations**

Our general recommendations are towards institutions that should support PDO/PGI system in a way that they will create a concept for collaboration with scientific experts and producers association. In this regard, farmers ought to have constant assistance for the application as well as to be motivated to participate in the process of increasing the competitiveness of their products. Additionally, institutions should undertake strong promotional campaign in order to raise producers and consumer awareness of PDO/PGI. At the end, further development of the capacities in the relevant institutions that work on GIs issues is recommended.

Our recommendation for the farmers is to use the possibility to consult experts or MAFWE before submission of the application. This will facilitate the process of preparing of appropriate product specific and completion of all required documents.

During this research and analysis of the results, prospects for further research appeared. Aligned with the used New Institutional Economics theory and the identified transacting costs for this systems' applications, we identified the need for more detailed analysis of the possibilities of lowering the transaction costs, and benefits from farmers' collective action.

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Študije potrošnih navad

Agrarna politika držav zahodnega Balkana

Ekonometrične analize in matematično modeliranje

Empirični modeli v podporo odločanju kmetijske politike

Modeli v podporo odločanju na ravni gospodarstva

Organizacije pridelovalcev, potrošne navade in poslovno odločanje

Pravo in razvoj podeželja

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