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The Impact of EU Agri-food Quality Policy in the New Member States: A Case Study of the Makó Onion PDO

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Abstract

Utilising the theory of Global Value Chains, this paper analyses the degree to which Geographical Indications (GIs) can facilitate upgrading for small-scale producers. It draws on a case study of the Protected Designation of Origin (PDO) for Makó Onion (Hungary). While the paper details three means by which GIs may facilitate upgrading (acting as a quality signal, stimulating collective action and enabling diversification into higher margin activities), the Makó Onion PDO has not delivered these in practice. The paper documents the reasons for this, drawing lessons for the literature and strategies for nascent / developing GI systems.

Keywords

Geographical indications, upgrading, small-scale producers, value chain, Hungary

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Introduction

While globally, food processing and retail sectors have become increasingly concentrated (Dobson et al., 2003), most branches of agriculture remain characterised by large numbers of family owned farms (Allen and Lueck, 1998). As a result, several studies identify that power in agri-food supply chains is increasingly skewed toward downstream buyers (Hingley, 2005, Hingley et al., 2006). Small-scale producers, which are unable to reap economies of scale, face high transaction costs and typically lack the volume and control systems demanded by multiple retailers. As a result, they appear particularly vulnerable to being excluded from mainstream food supply chains (Van Der Meer, 2006), while those that do remain ‘risk becoming simple pieceworkers on their land, while corporate enterprises control the means of production and the output, and capture most of the value circulating in the system’ (Trebbin and Hassler, 2012). This has led to increasing interest in how small-scale producers can compete effectively in supply chains dominated by increasingly concentrated and more powerful downstream actors.

One potential mechanism for improving the fortunes of small-scale producers is geographical indications (GIs). GIs constitute a form of intellectual property rights protection and are defined in the Trade Related Aspects of Intellectual Property Rights (TRIPS) Agreement as ‘indications which identify a good as originating in a territory... where a given quality, reputation or other characteristic of the good is essentially attributable to its geographic origin’ (WTO, 1994). The application for a GI typically involves a group of interested parties (e.g. producers) submitting a collectively agreed Code of Practice to the relevant authority, which specifies the production process for the good, its distinctive qualities, and the geographic boundaries of the production area. Once a GI has been registered, only those goods

which have been made in the production area according to the Code of Practice may bear the GI name, so that producers of registered goods are protected from misuse of the name by non-registered parties (Gaultier et al, 2013).

Advocates claim that GIs aid small-scale producers by protecting and rewarding enhanced quality and empowering producer action. For example, Coombe and Aylwin (2011) argue that GIs ‘enable producers to circumvent mass commodity markets’ by exploiting growing niche markets (p.2029) and can further ‘local farmers’ dignity and autonomy’ (p.2038) while Rangnekar (2011) writes that GIs offer ‘a remarkable opportunity to resist the erasure of place and participate in social movements of place’. In EU agri-food policy, GIs are regarded as fundamental to supporting ‘a quality orientation’ (European Parliament and the Council of the European Union, 2012) with the two most important GI schemes being Protected Designation of Origin (PDO) and Protected Geographical Indication (PGI).

In the increasing literature on GIs, work to date has been conducted at both an abstract policy level (e.g. Barham, 2003, Coombe and Aylwin, 2011) as well on the development of particular GIs (Rangnekar, 2011, Profeta et al., 2010). Amongst the many case study analyses conducted, insights have been revealed into the processes of negotiation around codes of practice (e.g. Tregear et al., 2007, Mancini, 2013, Bowen, 2010), power relations between actors (Rangnekar, 2011, Mancini, 2013, Kizos and Vakoufaris, 2011b), and the consequences of heterogeneity amongst actors in the GI systems (Dentoni et al., 2012, Bowen, 2010, Bowen and De Master, 2011). While the literature to date reveals important insights, it suffers from two weaknesses, which undermine understanding of the impact of GIs on the competitiveness of small-scale producers. First, it fails to distinguish between types of GI system, specifically between GIs designed to protect *long-established and valuable specialities*, which

command a significant price premium and possess substantial national and international reputations, from *nascent or developing systems*, where the main challenge is to build such a reputation and brand equity. To date, empirical research overwhelmingly focuses on case studies of the former type of GI, where the main challenge is to protect an already established and valuable asset such as Parma Ham (Dentoni et al., 2012), Parmigiano-Reggiano cheese (De Roest and Menghi, 2000), Roquefort cheese (Bessi re, 1998) and Comt  cheese (Bowen and De Master, 2011, Torre, 2006). The processes by which GIs deliver benefits to small-scale actors in already established systems is quite distinct from those found in nascent / developing systems. Claims and recommendations based on an assumption that the benefits are uniform across the two types of GI system are therefore likely to be unrealistic and misleading. Secondly, many case studies of GIs are descriptive in nature and lack an appropriate theoretical framework to effectively understand the position of producers within supply chains. This study adopts a Global Value Chain (GVC) perspective (Gereffi et al., 2005, Gereffi, 2013, Gibbon, 2001), which provides a strong theoretical anchor for the analysis of agri-food supply chain dynamics, strategies for upgrading and explanation of outcomes for farmers. While Bowen (2010) acknowledges the contribution that GVC perspectives can make to the study of GIs, this has not been fully realised in the extant literature.

This paper addresses these limitations, through an analysis of the impact of the PDO for Mak  onion (in Hungarian: *Mak i v r shagyma* or *Mak i hagyma*). The paper adopts a GVC perspective, focusing specifically on the extent to which the GI aids the upgrading of small-scale producers' output and improves their fortunes. Mak  onion is an example of a nascent / developing GI system, which are understudied in the literature. While Mak , a small town on Hungary's Southern

Great Plain (*Dél Alföld*), has a long history of onion farming, its renown is modest compared to emblematic Mediterranean examples. The registration of the PDO occurred relatively recently, in 2009. Under the PDO only three onion varieties are permitted: *Makói CR* (climate resistant), *Csanád* and *Makói Bronz* cultivars, all of which were developed during the socialist era at a breeding station in the town, which closed in the early 1990s.

The next section of this paper introduces the GVC perspective and considers in greater depth how GIs may enhance the competitiveness of small-scale producers. This is followed by a discussion of the methodology and sources of evidence. A thematic analysis of findings covers markets and signals, collective action and the stimulation of diversification. The subsequent discussion reviews the Makó case through a focus on upgrading and relationship with the extant literature on GIs. The conclusion considers appropriate strategies for the Makó onion PDO, and nascent / developing systems like it, where the GI currently generates little or no added value.

GIs and Small-scale Agri-food Producers: a GVC Perspective

The GVC approach conceptualizes contemporary economies as dense and dynamic economic networks consisting of inter-firm and intra-firm relationships (Gereffi, 2013). It incorporates a set of methodological tools for understanding the structure and trajectories of different actors within a given supply chain and to explain global-local dynamics (Gereffi and Fernandez-Stark, 2011). Studies typically explore a value chain's input-output structure, the territory covered, governance structure and institutional framework (Gibbon, 2001).

Gereffi et al. (2005) delineate five types of GVC governance (hierarchy, captive, relational, modular and market) which range from high to low levels of

formal co-ordination and imbalance in power. In captive value chains, small-scale suppliers are transactionally dependent on far larger and more powerful buyers, with typically high switching costs and / or lack of alternative buyers (Gereffi et al., 2005). Power rests with buyers, who control and monitor the actions of their suppliers. Several authors (e.g. Hingley, 2005, Ballet et al., 2008) detail how, for farmers, global agri-food supply chains increasingly resemble captive value chains.

Upgrading refers to ‘strategies used by countries, regions, and other economic stakeholders to maintain or improve their positions’ (Gereffi and Fernandez-Stark, 2011), i.e. in an economic context protecting or moving to higher value activities. There are a number of potential strategies for upgrading (Gibbon, 2001). The first potential strategy is *capturing higher margins for existing products* (e.g. moving up the quality grade ladder). GIs may facilitate this by acting as a quality signal. The second strategy for upgrading in supply chains focuses on the benefits that may be achieved through *collective action* between producers (e.g. improving bargaining power, lowering transaction costs, gaining rewards from knowledge exchange). Thirdly, producers can *diversify into new products* which yield higher margins. This could be in the form of localising commodity processing to capture the rents of downstream actors or auxiliary services (i.e. farm tourism linked to speciality food production). The remainder of this section contemplates the extent to which GIs may facilitate these three upgrading strategies for small-scale producers in agri-food systems.

Quality signals and Capturing higher margins for existing products

The first way in which GIs may facilitate upgrading is by the preventing misuse of registered names by non-registered competitors (Profeta et al., 2010) and hence acting

as a mechanism to encourage and reward enhanced quality in the market. According to Akerlof (1970), where information asymmetry exists between sellers and buyers, quality declines as sellers focus on driving down costs. Sellers are only incentivised to improve quality if it can be signalled to buyers in an assured way. Where GIs provide such a quality signal, they allow registered products to command a premium through their quality reputation (Moschini et al., 2008). Some evidence relating to quality premiums in the agri-food sector supports this premise: for instance, Torre (2006) observes that since the 1960s the real price of AOC wines in France has increased, in contrast to ordinary wines which have witnessed substantial reductions. Similarly, De Roest and Menghi (2000) report that the price of milk destined for PDO Parmigiano Reggiano cheese is normally higher than for liquid milk because the value of the end product is higher.

Higher values for end products related to GI premiums, however, do not necessarily translate into better returns for small-scale suppliers. In some cases, premiums may be captured and retained by the largest firms in a production system (e.g. Bowen, 2010, Galtier et al., 2013), or the quality specification articulated under the GI may be defined in a way that undervalues small-scale producers' inputs and know-how. For example, Bowen (2010) reveals that the quality specification for Mexican tequila refers entirely to the properties of the end-product (e.g. sugar content) rather than soil types or cultivation techniques. As a result, farmers have no incentive to improve quality.

A further condition for the effective capture of premiums by small-scale producers is articulation of a sufficient quality threshold in GIs' codes of practice. Where primary production in an area is heterogeneous in terms of scale and quality, studies reveal a tendency for authorities awarding GIs to adopt a "lowest common

denominator” quality threshold, so that larger, more industrial producers are included in the certification (Rangnekar, 2011). This means that smaller-scale producers, delivering specialist, quality goods related to traditional skills and know-how, are not rewarded by the GI and so do not invest in enhancing quality (Mancini, 2013). Indeed, in some cases, they resort to marketing their goods under a separate private brand (Dentoni et al., 2012, Tregear et al., 2007, Kizos and Vakoufaris, 2011b, Mancini, 2013), resulting in GIs becoming signals for lower quality amongst consumers who are knowledgeable and can distinguish between brands. This further depresses prices, undermines the reputation of the GIs, and hence reduces their power as premium-capturing tools (Torre, 2006). For example, Arfini (1999) identifies that Parmigiano Reggiano and Prosciutto di Parma bearing only an EU PDO/PGI label, sold, on average, for 14% less than when these products also included a producer/co-operative’s trademark on the packaging. Therefore, although in theory GIs may facilitate capture of premiums by small-scale producers, in practice certain conditions are necessary for upgrading to occur.

Collective Action

The second way in which GIs may facilitate upgrading is by stimulating collective action. GIs differ from other forms of intellectual property right protection by applying typically to producer groups, not single firms. By being encouraged to act collectively through pursuit of a GI, producers may reap advantages such as creation of production efficiencies through pooling resources, reducing transaction costs through cooperative working and benefit from knowledge sharing (Torre, 2006). Furthermore, where GIs make a specific requirement for core raw materials to be sourced from within a designated geographic area (as is the case with PDO

designations in the EU), they may incentivise primary producers to up-scale in order to meet the demands of processors / retailers. However, if the geographic boundaries and production codes are defined in particularly restrictive ways, it is possible for GI applicants to curtail future up-scaling. In this regard there may be a trade-off between retaining small-scale, artisan production practices and a high margin per product sold, and a strategy that requires up-scaling to reap economies of scale and meet the volume requirements of multiple retailers.

GIs also may facilitate upgrading through consolidation of producer action by giving primary producers the possibility, through the codes of practice and geographic boundary specifications, to restrict the ability of buyers to introduce new suppliers to the value chain, thereby improving their bargaining power. In other words, GIs provide countervailing power (Galbraith, 1954) by reducing the ability of buyers to substitute small-scale producers with lower cost, non-member competitors.

However, as with upgrading possibilities linked to GIs acting as a quality signal, empirical studies indicate that collective action that benefits small-scale producers is dependent on certain conditions. In particular, it relies on democratic governance and equitable distribution of resources across members. Benefits to small-scale producers may be undermined by power imbalances in consortia: for instance, governing bodies may be captured by more powerful actors (Mancini, 2013, Bowen, 2010) so that they act in the interests of a select few rather than aiding widespread upgrading.

Diversification into new products and markets

The third way in which GIs may facilitate upgrading is by stimulating diversification into higher margin activities. This maybe within the same supply chain (i.e.

downstream processing or retailing of agricultural produce) or auxiliary services such as farm tourism generated from the visitors drawn to the reputation of goods in a particular area. In France and Italy especially, there are examples of PDO/PGI products which have facilitated the growth of auxiliary activities (Ray, 1998) or wider ‘basket of goods’ rural development– i.e. where an emblematic agri-food product not only contributes via its production (generating jobs and income), but is also a focal point for auxiliary services – such as festivals, agri-tourism and gastronomic routes (Tregear et al., 2007). However, this link to diversification is not integral to a GI *per se* and it is questionable whether GIs can provide such opportunities, particularly in nascent systems where renown is weaker. Producers may also lack the skills and / or capital required to successfully enter downstream or auxiliary markets. For example, many attempts by dairy farmers, both individually and collectively, to engage in downstream activities (e.g. manufacturing cheese) have failed due to a lack of marketing and entrepreneurial skills (McElwee et al., 2006)

The preceding section sets out the theoretical basis for the contribution of GIs to upgrading strategies for small-scale producers in agri-food systems, within a GVC framework, and introduced evidence on the limits of their potential. In taking forward the analysis of GIs’ contribution to small-scale producer upgrading, a further conceptual refinement is required: to distinguish between types of GI system. Historically, GI legal frameworks were designed to protect mature production systems with established renown. For instance, AOC (*Appellations d’origine contrôlée*) systems for wine, emerged to prevent fraud and falsification in the use of regional names like Bordeaux (Stanziani, 2004). Much of the case study evidence on the potential of GIs for facilitating upgrading derives from these mature systems – e.g.

Mexican tequila, Parma Ham, Parmigiano-Reggiano cheese. However, in the EU in particular, the justification for PDO/PGI legislation is based strongly on the notion that such designations can support *developing* GI systems, i.e. those with less established or historically shorter production bases, and less widely-held renown. Many examples of such systems exist both in the EU and globally, and predominate in some regions such as Central and Eastern Europe (Török, 2013, Erhart et al., 2009). However, few studies reflect on the extent to which the protection and development logics argued for mature and internationally renowned GIs are relevant or effective for these systems. This study addresses the gap, by examining the extent to which GIs can facilitate upgrading for a developing system, and also whether the problems and barriers to upgrading revealed in studies of mature systems are echoed in a developing case.

Methodology

The research drew on an analysis of relevant documents (e.g. PDO code of practice), 12 in-depth interviews and a shop-check, considering the availability and price of Makó onions against competitors in Hungarian retail outlets. Interviewees included the president of the Consortium of Hungarian Onion Producers, Processors and Traders, five onion farmers that were members of the consortium, two onion farmers that were non-members, an industry expert, a wholesaler/trader, and a representative of the state tourism agency (*Tourinform*) based in Makó. Interviews with farmers who were members of the consortium included questions regarding their farm and onion production, consortium involvement and operation, impact of consortium membership on production and marketing, as well as future plans. Interviews with non-member

farmers focused on reasons for not joining the consortium. Interviews with other actors considered the impact of the PDO, or reasons for the lack of it, in their particular sphere of expertise. Interviews occurred between June and September 2013. By the eleventh and twelfth interviews minimal new insights emerged, with data and theoretical saturation reached (Bowen, 2008). The shop check, conducted in November 2013, noted the availability and price of onions from Makó as well as competitors in ten retail outlets (6 supermarkets, 2 greengrocers and 2 markets) in Budapest.

All interviews were conducted in Hungarian and recorded to allow for transcription and content analysis using NVivo10 software. Theoretical thematic analysis of data addressed the objective of the paper – understanding the ability of GIs to facilitate upgrading by small-scale producers. This followed the phases of thematic analysis outlined by Braun and Clarke (2006). Subsequent sections present our analysis of the extent to which the three potential strategies for upgrading presented themselves in the case of Makó onion, and how the different responses of actors in the Makó consortium resulted in the capturing, or forgoing, of any associated benefits.

Findings

Quality signals, markets and margins for existing products

The Consortium of Hungarian Onion Producers, Processors and Traders, based in Makó, has 64 members. It includes two relatively large growers: Kossuth Cooperative (60 hectares [ha] of certified PDO Makó onion) and Termix Makó Ltd. (10 ha of PDO Makó onion). The remaining production area of certified PDO onion (approximately 130 ha) is accounted for by small-scale producers. Three quarters of PDO designated onions are sold through supermarkets via Zöldség Centrum Ltd, a trader and

wholesaler, based in Makó, which is also a member of the consortium. Approximately 10-15% of certified output goes to fruit and vegetable wholesale markets in Szeged and Budapest, with the remainder sold directly to consumers via small-scale, often informal, channels. Not all farmers who are consortium members now grow PDO designated onions with several reporting that they switched to non-certified varieties for economic reasons.

The average yield of PDO certified varieties is 25-30 tonnes per ha. This compares with yields for more modern varieties in Hungary of 40-60 tonnes per ha and 80-100 tonnes per ha on the most efficient Dutch and German farms. Production costs per kg of Makó PDO onions averaged, in 2013, €0.16 - €0.21 per kg, compared to €0.06 to €0.11 per kg for higher yielding, non-designated varieties. Farmers reported no changes in their production practices (e.g. input use and intensity) as a result of PDO registration and the Code of Practice.

Annual onion consumption in Hungary averages 85,000 tonnes, of which 5,000 tonnes is accounted for by Makó PDO onions. The latter's share of the market has dwindled in recent years as imports have grown substantially (Table 1) with Hungary becoming a net importer of onions. The decline in domestic production has been dramatic: by 2012 the area devoted to onions and production volumes were only one-third of those recorded a decade previously. No PDO certified onions are exported.

[Table 1 about here]

In supermarkets, Makó PDO onions sell in 0.75kg string containers under the Zöldség Centrum brand at a price similar to 1 kg of loose onions (i.e. roughly 33%

relative mark-up) but this is insufficient to compensate for lower yields. PDO onion growers reported receiving €0.10 to €0.20 per kg for their output, which in most cases was below production costs. Farmers reported no difference in the price they received for designed and non-designated onions, with a similar picture at wholesale level. On this basis, only at the retail level of the supply chain is there a difference between the price of PDO designated and non-designated onions.

No producer uses the PDO label (they largely sell in bulk). Zöldség Centrum does apply the PDO logo on designated onions destined for supermarkets, alongside its own branding. However, to fulfil its contracts with supermarkets, Zöldség Centrum also imports onions from Holland and Germany, which are packaged in a similar manner, with Zöldség Centrum branding, albeit without the PDO logo. PDO certified onions are thus not marketed in a particularly distinctive manner and some imported onions may be confused with those grown in Makó. While Makó is famous for its onions in Hungary, consumers overwhelmingly are unfamiliar with the EU agri-food quality schemes and the consortium president reported widespread suspicion, so “if we put the PDO label on the package, it repels people. They think for sure they cheat and it comes not from Makó”.

Interviewed producers were overwhelmingly pessimistic about achieving a higher margin for Makó PDO onions, with the perception that few consumers are willing to pay a higher price for designated onions on the one hand, with lower yields, worsening genetics and lower resistance compared with more modern varieties presenting production challenges on the other. Rather than the PDO being an asset for facilitating upgrading via achieving greater added value for their production, producers regarded it as an impediment tied to outdated varieties.

Collective action

A presidency, elected by members, manages the consortium. It has nine members: a president, two vice-presidents and six ordinary members. The president of the consortium since April 2011 has been the owner-manager of Zöldség Centrum, which also owns Termix Makó. The consortium was established in February 2003, as a producers' organization rather than as a vehicle for obtaining a PDO. The PDO application was submitted in October 2005. Consortium membership fees are relatively modest, approximately €13 per annum for small-scale producers and €267 for companies / larger producers. Internal resources are thus very limited; although Zöldség Centrum spent an additional €33,000 on a marketing campaign to promote PDO Makó onions within supermarkets. The process of applying for and registering the PDO was initiated by the Ministry of Agriculture with involvement of the consortium. This developed in a rather 'top down' manner so that, as one interviewee noted, "everything was decided from the Ministry of Agriculture and locals were not really involved in the process".

The consortium monitors usage of the PDO logo and "*Makói hagyma*" label. Interviewees reported minimal abuse of the label, apart from possibly some small-scale market sellers. The Code of Practice is enforced with inspections (e.g. soil and plant) several times a year and farmers reported that quality control systems were robust and enforced effectively. The Code of Practice restricts PDO production to 16 districts of Csongrád County and two in neighbouring Békés County. These geographical boundaries have not proved controversial or a source of conflict.

While members largely regarded the consortium's decision-making structure as transparent and democratic, it was regarded as ineffective as it lacks political or economic power. As one producer noted "for the consortium there is nothing

important to deal with, as they have no influence on the onion market”. As a result some members take little interest in its activities.

The PDO registration has not stimulated co-operative activity between farmers (e.g. new forms of collective marketing) and has not transferred power to them within the supply chain. While actors within the consortium vary in terms of their power, all remain relatively weak in the face of international retailers and consumer indifference. There is also little competition between the producers of PDO certified onions as their number continues to dwindle and as the consortium president recounted “there is nothing to fear [from each other] as production is not profitable”.

Diversification into new products and markets

Within the onion supply chain, the PDO has not stimulated diversification into downstream activities. In fact, recent decades have witnessed a disengagement from the latter. Up to the end of the 1980s, operators in and around Makó processed 80-90 tonnes of raw onions into dried form every day, when, under the socialist system, the market was assured (Tóth, 1998). The PDO certified varieties, especially *Csanád*, were developed by the research station for this purpose and have high dry matter content. However, all these plants are now closed and there are no plans for their reopening.

Regarding ancillary services, Makó possesses a number of onion themed attractions including a *Hagymatikum* (onion themed spa), *Hagyma Ház* (cultural centre), onion-shaped statue and fountain, and an annual two-day onion festival. The Hagymatikum was designed by the revered Hungarian architect Imre Makovecz and opened in 2009. An analysis of the spa’s visitors in 2012 revealed that three quarters were Hungarian, with the majority from Makó itself or the surrounding county. The

remaining visitors came from Romania, especially those living close to the Hungarian border. There are also some attractions, such as an adventure park and playground, which have little association with onions.

Since the PDO designation was granted in 2009, the number of bed and breakfast houses (6), hotels (1), cafes (4) and restaurants (6) in Makó has remained almost unchanged. There is little involvement of onion farmers in tourism and hospitality or cross-sectional co-operation. For instance one consortium member, noted that while the *Hagymatikum* was a “nice initiative”, farmers do not gain directly so that “other sectors take advantage of the reputation of the onion while producers, so far, do not benefit from other sectors”. There is no ongoing forum for bringing farmers together with other actors and the PDO designation in itself has not stimulated upgrading via diversification.

The Tourinform informant felt that there were few prospects for onion based tourism as while the “onion is still associated with Makó in the Hungarian mind, alone it is not enough to attract tourists”. However, tourists attracted for other reasons may buy onions while visiting. A LEADER project, established in 2008, sought to develop gastronomic tourist routes in Makó and the wider region, linked to onions and garlic, culinary herbs, the perceived medicinal properties of various fruits and vegetables, ancient livestock breeds, honey, and other aspects of cultural heritage. A webpage, CD and brochure were produced from the project, but the webpage is no longer available and the other materials are now all out of stock.

The onion festival attracted 10,000 to 12,000 visitors per day in 2013. When first established in 1991, the festival was principally a meeting for professional growers. However, over time it has evolved into a wider programme, incorporating sporting and equestrian events, flea market, concerts, and a firework display. Some

onion related activities remain such as a culinary competition and exhibition for onion producers with the best winning the “golden onion” prize. The festival draws on local authority and EU rural development funds (circa €160,000 for 2013-14), is free for visitors and exhibiting farmers are charged only a nominal fee.

Discussion

The above data reveal that upgrading in the case of Makó onion has been limited, and the benefits to small-scale producers negligible. In this section, we reflect further on the reasons for this, comparing our findings with existing studies.

The first upgrading strategy for small-scale producers involves the capture of higher margins for existing products. In theory, GIs support this by acting as a quality signal to consumers, stimulating switching behaviour and correcting market failure that may stem from asymmetric information. Previous studies – based largely on established systems – indicate that the effectiveness of GIs as value-adding mechanisms is undermined primarily by power imbalances in consortia and poor specification of Codes of Practice, which mean small-scale producers become excluded from the additional returns that GIs generate (Torre, 2006, Bowen, 2010). In the case of Makó however, the problem is that no farmers, regardless of size, capture a premium for PDO production. This situation appears to be due to the type of market which Makó competes in: for a large proportion of consumers, onions are a basic commodity with price the main driver of demand. The possibilities for quality differentiation - to command a premium, or trigger purchase switches - are limited. This is unlike the established and famous French and Italian cheeses and hams that predominate in the existing case analysis of GI systems. If consumers regard onions merely as a commodity, achieving higher margins for existing products will hinge on

improving production efficiency rather premium prices. Yet, the PDO restricts improvements in production efficiency. For Comté cheese, Bowen (2010) argues that the GI ‘helps local actors maintain their position within the supply chain...primarily by making it more difficult to achieve the economies of scale that are needed for the efficient production of industrial-style cheese’. The Makó case illustrates that this is only possible if *artisanal production, traditional varieties and / or production practices are valorised*. If not, the fear of Bowen and De Master (2011) that GIs may establish nothing more than ‘museums of production’ is well founded, and appears particularly apt in the case of Makó.

Whilst much of the GI literature focuses on governance and internal negotiation issues for margin-capturing, the Makó case, however, illustrates that internal processes and distribution of returns may lack relevance if production of the designated good is loss-making, as a whole, for the consortium. The Makó PDO has not insulated producers from a cost-price squeeze as onion imports, especially from the Netherlands and Germany, have risen. The Makó case highlights that territorial identity alone may be insufficient for a product to establish a profitable and sustainable niche that benefits small-scale producers.

A further notable margin-capturing dynamic in the case of Makó is the scepticism with which the GI official designation is regarded by buyers. In theory, official recognition supports developing systems by reassuring consumers unfamiliar with the specific product that it meets certain quality characteristics that they recognise through identification of the certification mark. In the Makó case however, the GI designations themselves, as product information cues, have negative associations. Therefore, they cannot perform this consumer signalling role. Problematic issues related to consumer recognition of official GI labels are often

overlooked in previous case studies, perhaps because in established systems the GI designation plays a secondary role to the renowned product name. In developing systems however, such negative associations may represent a more serious problem, because in these cases the official designations can be expected to play a more important awareness and association-building role for buyers.

In some work on GIs, there is a tendency to overstate and overgeneralise consumers' willingness to engage *financially* with such initiatives, as examples of high margin, mature GI systems are used as 'best practice' cases for rural development (Bessi re, 1998). However, GIs *do not create* higher margins *per se* but may *protect those already established from inferior, copycat goods*. In Hungary, there is little evidence that consumers will pay extra solely to provide higher margins to small-scale producers. For instance, while three-quarters of Hungarian consumers agreed with the statement that "it is important that their buying could help the livelihood of farmers", only 37% said they would pay a 10% price premium to improve the wellbeing of local food producers (Medi n, 2012).

The second upgrading strategy focusses on collective action. This envisages that GIs stimulate producers to act collectively, improving their position within value chains by increasing bargaining power, sharing knowledge and co-operating in marketing. Existing work proposes that the main barriers to GIs acting this way again derive from power imbalances in consortia (Bowen, 2010): i.e. the more powerful actors design the Codes of Practice and dominate the negotiations, so that benefits are captured and retained by an elite few, with a lack of democratic and accountable decision-making. Hence, it is proposed that successful collective action for GIs depends on good *internal* governance, for example Bowen (2010) argues that three factors underpin successful GIs: a strong sense of leadership, collective vision, and an

organisational process perceived to be fair and representative. The Makó case suggests something different; not so much elite capture of benefits but rather a failure of collective action, to the detriment of all producers, in terms of ensuring market realities are effectively considered in designing the Code of Practice. In the Makó case, the designation is tied to varieties that were designed for a particular market (dried onions) that no longer exists, so that they are not ‘fit for purpose’ in today’s market. Indeed, the establishment of a counterproductive code of practice echoes the process described for Dominican coffee by Galtier et al. (2013): a largely external, driven procedure, with an over-optimistic forecast of potential margins, coupled with a degree of naivety, possibly stemming from an unfamiliarity with GIs, on the part of producers who did not realise its potential implications.

The third main strategy for upgrading focuses on diversification, either into downstream activities, to capture additional rents, or auxiliary services. While downstream processing used to occur in the Makó case, in the form of onion drying, all such plants have long closed and their reestablishment is infeasible due to a disappearance of the market for dried onions. The most powerful downstream actors, who appear to capture most of the rents currently, are the multiple retailers. There appears little prospect of producers seizing these rents. Short supply chains which omit multiple retailers (e.g. farmers markets, consumer buying groups) may provide some opportunities, but this depends on displacing the seemingly ever-growing dominance of the multiple retailers in Hungary. For instance, ‘modern’ retailers (e.g. discounters, supermarkets and hypermarkets) accounted for 82% of grocery sales by value in 2013 (Euromonitor, 2014), compared with just 46% in 1998 (Dries et al., 2004). As in some other cases of GIs with disappointing results (Mancini, 2013), there is a lack of infrastructure to support alternative, short supply chains.

In the Makó case there are auxiliary activities (Hagymatikum, festival etc.) but the direct benefits to both small and large-scale producers are minimal. This stems from the lack of an enduring institutional framework for cross-sectional development, a general unwillingness or inability of farmers to provide non-agricultural goods and services and the limited ability of auxiliary activities such as tourism to be based on onion production. While some GIs such as those linked to wine may be suitable for a ‘basket of goods’ strategy, where large numbers of enthusiasts savour differences in sensory characteristics, this may not translate to all GIs.

Conclusion: How can GIs contribute more effectively to upgrading?

This paper draws on GVC perspectives, to consider the extent to which GIs can facilitate upgrading within supply chains for small-scale producers. To date much GI research focuses on dynamics *within* consortia (e.g. how Codes of Practice are shaped by the largest members) rather than the extent to which they can facilitate upgrading *per se*. This reflects the fact that previous case study analysis focuses predominately on established GI systems and emblematic products, where the external market is already assured. In these cases, the central challenge is to protect an already established, valuable asset rather than develop it. For the nascent systems, the Makó case highlights that GIs may be of little value in themselves, with upgrading contingent on the market context, quality positioning and the relationship between consortium members and external actors.

To conclude, we reflect on potential strategies for Makó and developing systems like it, where GIs currently generate little to no added value and in fact represent a loss-making activity. On the one hand, producers could simply abandon the GI and pursue a yield maximisation and farm modernisation approach. *De facto*,

this is currently what is happening in Makó but this will not insulate producers from an import driven cost-price squeeze and such a strategy weakens any links with *terroir*. However, in *entirely and enduringly* commodity based markets; this may be the only realistic strategy.

Alternatively, the consortium could retain the GI and undertake actions to augment its value. In this case, we propose three strategic changes that would be essential to address, relating to customer orientation, branding building and external networking. These are discussed in turn.

For upgrading to occur in developing GI systems, there needs to be a shift to a more *customer-oriented mind-set* within consortia. By definition, developing systems lack renown and market presence, therefore consortia need to play a more active role in establishing market positions and connecting with final consumers. To be effective, these activities should be based on intelligence about consumer segments and market trends, and an understanding of the specific challenges and opportunities that particular types of market (e.g. highly price-driven) present. To date, there has been a lack of institutional and academic attention paid to improving market orientation in GI systems. Although research on some mature systems identifies a lack of market orientation (Kizos and Vakoufaris, 2011a), much of the GI literature continues to focus on internal aspects of marketing, such as negotiations regarding supply and prices. Moreover, state support for GIs typically concentrates on their legal establishment (e.g. advice on submitting applications, constructing a Code of Practice, internal governance of the consortium) rather than assessing market viability or constructing an appropriate marketing strategy. In future, supporting institutions could do more to assist with these tasks and the generation and analysis of market intelligence.

Next, consortia in developing systems need to devote attention to building their protected product names into brands. The conversion of a product name into an identity with meaningful, positive associations and ultimately strong quality reputation is complex and difficult, particularly in commodity markets. Yet without strong brand identity, consortia have little possibility of competing effectively for customers beyond their local communities. Studies of product names and brands in mature systems tend to focus on brand protection rather than brand building (Bowen, 2010, Rangnekar, 2004, Rippon, 2013). Indeed the GI literature often conveys suspicion of the brand building process, regarding it as antithetical to authenticity and distorting of tradition. However, brand building is essential for developing GI systems and producer consortiums often lack expertise in this field.

A third area of attention for consortia of developing system GIs relates to the building of effective networks with external actors. This is particularly important for the pursuit of upgrading via diversification, as it typically relies on the availability of regional infrastructure, skills and technologies which are beyond the resources and control of consortia themselves. Studies of mature GI systems often focus on internal aspects of negotiation and decision-making to explain processes of innovation and change, while neglecting the importance of context and external agents. Building relations with key external actors, to foster supply chain and cross-sectoral links, should be integral to policy assistance to establish or enhance the functioning of developing system GIs.

In summary, while much of the academic literature and current policy thinking, regards GIs as assets in themselves, so that they inevitably deliver benefits to members subject to good internal governance, the Makó case highlights that this may not be the case. For developing system GIs to facilitate upgrading, legal registration

must be accompanied by a package of other activities linked to crafting an appropriate marketing strategy, brand building and forging better relationships with external actors.

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Table 1: Evolution of the Hungarian Onion Market

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Area Harvested (ha)	6,093	5,001	4,594	3,996	2,900	3,619	2,500	2,566	2,366	1,695	2,318	2,076
Production (tonnes)	174,327	122,330	93,658	118,765	92,192	94,736	69,300	67,364	61,195	40,895	57,592	57,183
Yield (tonnes per ha)	28.6	24.5	20.4	29.7	31.8	26.2	27.7	26.3	25.9	24.1	24.8	27.5
Export Quantity (tonnes)	19,015	10,916	672	37	2,221	2,491	2,473	2,838	1,351	2,081	3,365	
Import Quantity (tonnes)	9,342	10,286	22,517	13,613	10,831	15,117	17,588	13,210	18,208	15,903	14,584	

Source: data extracted from FAO (2014)