European Food-Labeling Policy: Successes and Limitations

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The EU policy on voluntary food labeling emphasizes the geographical origin of the products. Specialty products from a given area (e.g., wine) benefit from a reputation premium that is well-identified by consumers. Public authorities allow exclusive use of the appellation to a group of producers in exchange for commitments on production techniques, certification and control, and obligation of a collective use of the name. In spite of many successful aspects, the future of this policy is uncertain in a globalized environment. Caveats in the regulation (moral hazard, bureaucracy), lack of international readability of the labels, and competition from registered brand names are the main limitations of the EU policy.

There are considerable differences between North American and European consumers concerning the relevant quality attributes of a food product, including nutritional content, taste, production methods, and authenticity (Bureau and Marette 2000). Many Europeans consider that the soil, climate, and traditional know-how that exist in a region have a decisive influence on product quality. That is, a significant share of European consumers—particularly in France, Italy, Spain, and Greece—are receptive to quality signals that associate quality with geographical origin. While the regulation on mandatory labeling only shows a few differences between the EU and the U.S., the EU policy on voluntary food labeling now strongly emphasizes the link with the production region. In spite of many successful aspects, the EU policy has several unwanted effects. The limitations of this policy are becoming more apparent with the globalization of the food market and the increasing competition of private signs of quality. The objective of this paper is to describe the EU voluntary and mandatory labeling policies. In the first section we present the main features of the EU legislation; then we present some of the main successes; finally, we discuss the caveats of the EU policy and some international issues.

The EU Legislation

Mandatory Labeling

The EU legislation on the labeling of foodstuffs prevents presentation and advertising to mislead the consumer as to the product's characteristics or effects.[1] Mandatory labeling includes the list of ingredients; net quantity; date of minimum durability; special conditions for keeping or use; and the name of the manufacturer, packager, or a vendor established in the Community. It is noteworthy, though, that provenance must only be indicated when the omission of such information might mislead the consumer; in most cases it is not required to indicate the origin of products. It is also noteworthy that a full nutritional labeling (like in the U.S.) is not mandatory. Unlike in the U.S., the presence of genetically modified ingredients in a product must be indicated. Specific additional labeling is required for food containing additives and/or flavorings that have been genetically modified or have been produced from genetically modified organisms.

Organic Products

The EU regulation protects the denominations "biological" and "organic," sets production rules and standards, and defines the procedures of control and inspection. An organic agricultural product must result from production methods that ban the use of synthetic pesticides and fertilizers. Production methods must be based on the recycling of organic natural ingredients, on the use of natural ways for fighting insects, and on crop rotation. They must respect a plan for converting land to organic practices. Additives, conservation agents, disinfection, and cleaning must rely on natural products. Genetically modified organisms cannot benefit from the label. Organic animal products are regulated in a specific way. Livestock production must not cause

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[1] Council Directive 2000/13/EC on labeling, presentation, and advertising of foodstuffs.

pollution of soil and water; in addition, animals must be fed with organic feedstuffs that are grown on the farm or nearby, the breed must be chosen so as to maintain biological diversity, animals must be born on the farm, and they must be raised free-range. Animal-welfare considerations are also taken into account, including conditions of transportation and slaughtering. The use of growth-promoting substances (hormones) is not allowed.

Voluntary Labeling: PDOs and PGIs

Several European countries have long developed regulations governing the use of some geographical names to protect regional production and improve marketing. France has been a pioneer in this area, with protected appellations that date back to the sixteenth century for Roquefort cheese. These regulations were then extended at the EU level.[2] The 1992 EU framework for protecting and promoting quality products focuses on traditional products and products from a designated origin.

Three systems of identification have been implemented: the protected designation of origin (PDO), the protected geographical indication (PGI) and the traditional specialty guaranteed (TSG). PDO is used to describe foodstuffs that are produced, processed, and prepared in a given geographical area using recognized know-how, when the origin determines the quality of the product (e.g., a wine that can only be produced on a particular soil and in a specific climate). In the case of the PGI, the geographical link must occur in at least one of the stages of production, processing, or preparation. A TSG does not refer to origin but highlights traditional character, either in the composition or means of production.

The general rationale for such labeling is that these products have developed a reputation, associated with the place of production that makes them more valued by consumers. Ham sold as Parma, for example, should come only from that product's traditional region of origin and should be made according to traditional methods so as not to mislead consumers. Products from other areas or made by other methods would have to be sold under different names. At the same time, other product names were designated as generic (including some cheese, such as emmenthal or camembert) and can be used for goods made anywhere and by any methods.

In all cases, the label requires that inspection, control, and certification be made by an independent third party, accredited by the public regulator. The ownership of the name PDO or PGI is collective. All farmers belonging to the defined geographical area and respecting the specifications have the right to use the geographical name recognized by the appellation of origin.

EU Labels at the National Level

In EU member states, national regulations on food labeling must comply with the general EU framework. That is, the French legislation on "Appelation d'Origine Contrôlée," or AOC, is a national translation of the EU legislation on "Protected Designation of Origin." The coexistence of EU and national labels results in a multiplicity of labels that damages their informational value. The French case illustrates the complex articulation between the EU framework and national policies. There are five official food quality labels in France: the AOC, the "Label Rouge" (a trademark that is a property of the French Ministry of Agriculture) for high-quality products, the certificate of conformity, the certified organic mode of production, and the label "mountain" that certifies that the good originates from a mountainous (i.e., disadvantaged) area.

In all cases, these are voluntary labels and their attribution relies on terms of reference that go beyond the regular production methods used in the industry. For example, in France a product that benefits from one of the five forms of labeling listed above must be certified by an accredited organization that is independent from producers.

Successes of the EU Labeling Policy

The EU policy of PDO and PGI has been successful in promoting differentiated products. There are now some 572 agricultural products protected in the EU, including 339 PDOs and 214 PGIs. Countries that had a long tradition in linking quality to geographical origin (France, Italy, Spain) account for most of the protected products, but some countries such as Germany (53 PDOs in 2000) have taken advantage of the EU regulation. While wine was originally the main sector that benefited from PDOs, there are now 143 protected denominations for cheese.

[2] On 14 July 1992 the Council adopted Regulation (EEC) No 2081/92 improving the protection of designations of origin for agricultural products intended for human consumption, which was subsequently amended by Regulation (EC) No 535/97.

The economic importance of PDOs and other labels is significant. In France, the gross income of the PGI chain in 2000 was close to 800 million euros, an increase from 1999 of 20%. Wine under AOC (i.e., the national version of PDO) accounts for roughly 13 billion euros and liquor for roughly 1.5 billion euros in France. The combination of the two is the largest net exporting sector. Cheese and dairy products under AOC amounted to roughly 7 billion euros, close to 20% of total sales of French cheese.

The growing economic importance of the sector and the fact that more and more consumers, especially in Northern Europe, have become familiar with the labels of origin and associate them with quality testifies to the success of the EU policy. There are also some indirect positive aspects of this policy, such as the traceability, that have impacted the food chain, even for non-labeled products.

Traceability

The implementation of product traceability has been a positive outcome of the EU policy on food quality labels even though that was not its primary purpose. Because guarantee of origin requires control by a third party, the 1992 legislation has had an important role in defining and testing methods for ensuring traceability. The experience proved useful after the BSE (i.e., "mad cow") crisis when generalized traceability was imposed by the retailing sector for a whole range of products (e.g., beef). Traceability of the products benefiting from a label of origin also increased consumer confidence. It is noteworthy that during food crises such as the "mad cow" issue, as well as other panics involving dioxin in Belgium, chemical residues in Germany, etc., products designated by one of the voluntary labels mentioned above did not suffer from the fall in demand.

Impact on Production Methods

An indirect impact of the EU regulation on voluntary labels is the rationalization of production methods in a way that promoted improved practices. The terms of references of the labels have introduced self-discipline among the producer organization that managed the appellation. For example, in some labeled cheeses, producers banned the use of silage grass in feeding dairy cows and shifted to dry hay because of the negative effect (acidity) of the silage on milk and, therefore, on the taste of the cheese. This has had the effect of reducing the introduction of telluric germs in feedstuffs, and the increased hygiene has enhanced consumer confidence in labeled products.

In the wine sector, the terms of reference of the appellation required replanting with traditional but higher-quality types of grapes. This has contributed to the considerable improvement of wine in some regions such as southern France or Italy. The terms of reference of some AOC and the quality label "Label Rouge" has imposed a lower stocking density for poultry. Constraints on the number of chickens per square meter or the imposition of free-ranging have increased animal welfare, allowing these products to be recommended by the powerful animal-welfare groups.

Farm Income

The EU regulation on quality labels relies on a *de facto* contract between the regulator and the producers. Exclusive use of a geographical name requires producers to become collectively organized; that is, they must create a producer organization in order to manage the use of the appellation. This makes it possible to control, coordinate, and implement the right incentives for sound collective management of the label. By allowing the use of a well-known name, the regulator enables the collective organization of producers to reap the benefits of a reputation rent, without incurring all the costs that a private company has to incur when it has to establish the reputation of a commercial brand name. In that way, the appellation of origin has proved successful in allowing even small producer groups to benefit from a well-established reputation. The whole system organizes some sort of "cartelization" of the group of producers that benefit from the exclusive use of the positive externality of the label so that they capture the value added. In many cases it has helped regional economies that could not compete in a non-differentiated market, such as marginal agricultural areas or areas with difficult access to large consumption centers.

Regional Economy Impact

The link between the quality label and the production location has made it possible to value the image of a particular territory or region. The positive externality benefits the whole region through higher prices paid to the producers, a reputation that encourages tourism, and promotion of processed products. That is, at least in the most successful cases, linking the quality label to the origin of the product has generated a virtuous circle for rural development.

Mahé and Ortalo-Magné (2001) explain how the strategy of linking quality labels to the origin of the product has had a considerable positive effect for rural development in particular regions. Differentiated goods that can be imitated by competitors seldom translate into higher income for producers in the long run because the entry of new competitors drives the producer rent to zero. If the good produced cannot be imitated because of a patent or a brand name, it is often the shareholders who eventually capture all the rent.

If the differentiation rent is linked to the geographical origin, the rent will capitalize into those factors of production that are required to produce the good: labor; specific producers skills that may be needed; and land or intellectual property rights, if the name of the product is protected by a label based on the geographical location, such as a PGI. This is a fundamental difference between labels linked to origin and labels certifying that the product is "of high quality" or "organic," where free entry drives the rent to zero. The economic mechanism explains that farm producers, even in less-favored areas, that benefit from a PDO or IGP tend to be relatively well-off. It also explains the high market price of vineyards inside the region benefiting from a PDO, compared to those that are only a few miles outside.

Cost-efficient Policy

The Common Agricultural Policy (CAP) has been criticized for imposing considerable costs on taxpayers and consumers. By encouraging bulk production, CAP mechanisms—such as the public purchase of excess supply in order to maintain a guaranteed price for the main commodities--have sometimes led to massive quantities of products of low quality (e.g., a low-quality wine that cannot find buyers or low-quality wheat that sells poorly on the world market). In contrast, the EU regulation on food-quality labeling provides a market-based form of regulation that makes it possible to segment markets and differentiate products in a much more efficient way than classical CAP instruments. It is noteworthy, for example, that quality wine (AOC) and liquors are net exports among agricultural and food products in France and have not received support from public funds. Exports of AOC wine and liquors increased by 5% in 2002, while the exports of the products that receive high subsidies and support (cereals, sugar) experienced a significant decrease. At some point, it is the regulation on quality products, not the CAP, that has made it possible for the EU agricultural sector to express its economic potential.

Limitations of the EU Labeling Policy

There are nevertheless several caveats in the present EU policy on voluntary labeling that raise questions about the future of the policy in an increasingly integrated market.

International Recognition

In countries such as France or Italy, consumers are aware of the local food traditions and of the production techniques specific to a given area, and are often willing to pay more for acquiring a good from a particular origin (Vogel 1995; Lucatelli 1999). In other countries, quality is associated more with a set of rules on safety, integrity, or conformity to industrial processes. Because consumers do not place a particular value on products originating from a specific geographical area, there is no point in protecting appellations and traditional know-how. The use of EU appellations (Champagne, Chablis, Porto, Parmesan, etc.) in other countries is often seen by Europeans as fraud. In the ongoing round of multilateral negotiations, the EU considers that a deeper international protection of its appellations is a requirement for any agreement on agriculture. At the same time (April 2003) the U.S. and Australia challenged the EU regulation of origin (seen as mere protectionism) in the WTO. This illustrates how skeptical other countries are about the EU notion of linking quality and origin.

The fact that EU denominations are sometimes "counterfeit" in other countries is perhaps a less important issue than the lack of identification by non-EU consumers of the EU system of promoting high-quality products, which is a major caveat of the EU regulation. It is significant that, in spite of the EU official quality, the most widely known names of French wine in the U.S. are those of companies that have registered brands (e.g., Chateau Margaux, Georges Duboeuf, Mouton-Cadet), even though these brands also use geographical appellations (i.e., Bordeaux, Beaujolais, Médoc, etc.). This suggests that a well-promoted brand name can be a more efficient marketing instrument than an official EU quality label.

Bureaucracy

The EU regulation, with a decentralized system of definition of the labels, has raised the opportunity of political collusion. The influence of particular lobbies in the definition of the terms of reference or of the exact area to which an appellation is granted (given the huge consequences on the price of land, for example, in the case of wine) has been a recurrent problem in France. The adoption of the legislation at the EU level and the fact that supranational authorities now scrutinize the decision enhance the transparency but add administrative procedures. In addition to being quite bureaucratic, the procedure of accreditation of a PDO or PGI can also lead to overprotection of traditional production techniques. The terms of references imposed on PDO products can act as an obstacle to innovation. For example, some innovations in the wine sector (e.g., new methods for separating juice and grape must) cannot be used by AOC winemakers, on behalf of maintaining the tradition. The technological gap between AOC wine and wine produced in industrial wineries is likely to become larger in the future, with the adoption of genetically modified grapes by competitors of AOC wine. If these innovations translate into what is perceived as a higher quality by the consumer, it is likely that the respect for tradition will act against the AOCs. Already, the obligation of manual harvesting in some AOCs may have acted against the competitiveness of such wines.

Quality (Moral Hazard)

PDO and PGI labels are provided to a group of producers. That is, they are collective brands, and the producer organization is in charge of the management and the implementation of the terms of reference, so that production, processing, and preparation will take place in the geographical area specified. The collective property of the indication of geographical origin is one major weakness of the EU system. All producers in the area that satisfy the terms of reference of the label can use it and benefit from the positive externality of the collective reputation. This leaves room for moral hazard and opportunistic behavior. In spite of the need for certification by a third institution, the collective management of an immaterial asset (the image of the product) raises difficult questions of coordination (Valceschini, Mazé, and Torre 1995). In some cases, free riding and difficulties of management have led to a loss of reputation for the collective quality signal—the variance in quality within a large appellation such as Beaujolais wine seems to be responsible for decreasing market shares.

Competition Issues

The organization of the EU legislation and the exclusive right given to a group of producers to use a particular denomination has raised the issue of competitiveness. The issue is particularly well-documented in Buccirossi, Marette, and Schiavina (2002). In several EU countries, producer organizations and firms that benefited from an official quality label have been accused of, and sometimes fined for, anticompetitive practices. There is a fine line between organized cartellization in the public interest and undue barriers to entry set by a small group of producers.

The Future of the EU Policy

There are several questions about the future of EU policy on quality labeling. First, it is unlikely that non-EU countries will recognize, let alone adopt, the EU system where a quality label is linked to the geographical origin of a product. Most countries see in the EU regulation a way to prevent foreign producers from signaling the high quality of their food products. It is possible that this will change in the future; China could, for example, join the EU demand for more recognition of denomination of origin for traditional products such as the Shaoxing wine, the Lon Jing tea, or the Xuanwei ham. However, a general adoption of the EU concept is unlikely, and Chen (1996) explains why the future of the EU appellations of origin in a globalized world is, at best, uncertain.

Large-scale industries are able to offer high-quality products that emphasize attributes other than "authenticity," i.e., the fact that a product is "typical" of a particular region. Clearly, the fast growth of Californian and Australian wine (under registered wineries names) in the EU wine market shows that high-quality products sold under a brand name are likely to be easily accepted by consumers and that "authenticity" is not always a quality attribute that drives purchasing decisions (Conseil Economic et Social 2001).

Another risk for the ability for a PDO/PGI to signal a differentiated product is that there are regional brands that emphasize the notoriety of the region, outside the PGI framework. This is a strategy followed by the industry in some particular regions in Europe (Emilie-Romagna and Tuscany in Italy, Asturia in Spain, etc.), and it confuses consumers.

Another source of uncertainty about the future of the EU food-labeling policy is the emergence of new criteria that are seen as relevant as quality attributes. Consumers now focus more than in the past on the environmental characteristics of the goods, on the multifunctional nature of the production methods (protection of landscape, natural resources, animal welfare), and on food safety (Bureau and Marette 2000). The official labels such as the PDO/PGI account for some of these characteristics (e.g., production methods that require free-range animal production, etc.). Nevertheless, the lables are not central in terms of reference. Some private brands, and in particular retailer brands within Europe, base the differentiation of their products on characteristics that are seen as more and more important by consumers. A label "sustainable agriculture," "animal friendly," or "free-range" could become more palatable or more readable for consumers than a label that emphasizes the origin of the product (Valceschini and Mazé 2000).

Conclusion

Overall, it is likely that major changes will be required in the EU labeling policy in spite of its accomplishments. So far, PDOs and PGIs have been quite successful in promoting quality products within the EU and in ensuring that farm producers capture a significant share of the rent associated with the product differentiation. Nevertheless, in the future, and especially in markets that are becoming more integrated, commercial brand names could be more visible. Brand names also benefit from stronger legal protection, making them perhaps a more efficient instrument than the present EU labels and appellations. Already, some producers attempt to combine the reputation of a brand name with the credible signal of an official quality label.

The fact that virtually no non-EU product has benefited from the status of the EU PDO or PGI suggests that the system has been used in a discriminatory way to help the promotion of EU products (note that the EU organic food label has been granted to products that satisfy the specific EU terms of references, including references for countries such as Argentina).

However, the role of the EU system of voluntary labels as a significant trade barrier seems relatively limited. Clearly, there are major economic consequences of protecting well-known names such as Champagne or Parmesan, especially if they are protected in third markets by international agreements, but this is more a classical intellectual-property issue than a non-tariff barrier issue. The protection that the PDO/PGI label grants to domestic products should not be overestimated. It took centuries to have consumers associate the region of origin with quality in the case of Bordeaux or Burgundy wine in Europe; it has only taken a few years for some Californian and Australian wineries to become household names in Europe. The recent increase in sales of wine identified by brand name or type of grapes in the EU market suggests that efficient marketing strategies for differentiating quality products could successfully compete with the official EU quality signs and even, perhaps, "crash France's wine and cheese party," to use an expression by Chen (1996).

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