

## ECONOMIC COMPETITIVENESS THROUGH GEOGRAPHIC INDICATIONS

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### ABSTRACT

Every region has its name and fame. Qualities and characteristics of certain goods attributable to some geographical indications. Geographical indications is an emerging trend in Intellectual Property. This paper explores the economic arguments for the implementation of a system of Geographical indication, in order to gain a deeper understanding of the importance of protecting geographical indications. Those calling for increased protection of geographical indications are motivated by various socio-economic objectives such as increased rural incomes and consumer protection etc.,.

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### Introduction

India, as a member of the World Trade Organization (WTO), enacted the geographical Indications of Goods (Registration & Protection) Act, 1999 has come in to force with effect from 15<sup>th</sup> September 2003. GIs are not absolutely commercial or legal instruments. They exist as an integral form of rural development that offers a valuable framework for GIs. These are unique expression of local agro-ecological and cultural characteristics that have come to be evaluated and protected in many countries throughout the world.

This paper explores the economic arguments for the implementation of a system of Geographical indication, in order to gain a deeper understanding of the importance of protecting geographical indications. Those calling for increased protection of geographical indications are motivated by various socio-economic objectives such as increased rural incomes and consumer protection etc.,. This paper try to address the fundamental question of, Can an intellectual property based strategy be successful in the development of rural areas?.

### Geographical indications

The term 'geographical indication' (GI) is relatively new concept introduced by the TRIPS Agreement (WTO, 1994). However, evidences suggest that the practice of using other closely related concepts existed even in the pre-industrial times. The concepts such as 'appellation of origin', 'indication of source', 'designation of origin' and 'protected geographical indication' used names of places and distinctive signs for variety of products as 'indications of geographical origin' (IGO). For example: Mt Fuji sake and Pisa silk, Champagne, Florida Oranges, New Zealand lamb, Murano Glass, Swiss Watches, Bukhara carpets etc.

Prior to the TRIPS agreement of the Uruguay round which concluded in 1994, there were mainly three international conventions dealing with protection of IGOs, i.e. the Paris Convention for the Protection of Industrial Property (1883), the Madrid Agreement (1891) and the Lisbon Agreement for the protection of Appellation of Origin and their international Registration (1958). While the Paris Convention and Madrid Agreement dealt with 'indication of sources', the Lisbon Agreement focused on protection of 'appellation of origin' (Kasturi Das, 2006). In terms of providing global protection to these IGOs, however, these

multinational treaties offered limited scope as these conventions were ratified only by few countries. Hence, signing of the TRIPS Agreement which brought GI to the fore in multinational negotiations; by more than 150 member countries was an important step forward for the international protection of IGOs. The agreement provided the 'minimum' standards of protection for GIs backed by an enforcement mechanism.

Geographical Indications registration typically implied to market protection and concentration of product market value with the endorsed producers. Article 22.1 of the TRIPS Agreement defines "*Geographical Indication*" as "*Indications which identify a good as originating in the territory of a Member (of the WTO), or region or locality in that territory, where a given quality, reputation or other characteristic of the good is essentially attributable to its geographical origin*"

### **Economic Arguments for Protecting Geographical Indications**

The economic arguments for protecting Geographical indications derives mainly from the fact that place of origin may be used as a quality signal, or alternatively, that the resources of the region may be captured as quality attributes. In the first instances the meaning of the geographical name is emphasised in order to reduce information asymmetries. Where place of origin is used as an attribute, resources of the region are used to increase the value of the product. This include specific resources such as production techniques, varieties and species, but also resources that are general to the region such as landscape, environment and culture. Some of the economic arguments for the protection of Geographical Indications are listed below.

#### **1. Product differentiation**

Product differentiation has an important role in marketing a product. In the case of geographical indications also provides a scheme of attributes to differentiate the product. Product differentiation and protection by law makes the GI marketing more prominent and supportive. As we mentioned above the exclusive rights are providing the unique opportunity to producers for establishing a different marketing strategy. Geographical indications are increasingly viewed as helpful tools for achieving product differentiation, and can increase economic efficiency because such measures provide producers with incentives to deliver appropriate supply to the market (Nelson 1970)

#### **2. Higher profits through price premiums**

Work done by Thiedig and Sylvander (2000) indicates origin labelled monopolies' potential of earning a premium. Numerous empirical studies indicate that consumers are willing to pay a premium for origin-guaranteed products. A consumer survey done in Europe (WTO, 2004) revealed that 40 percent of consumers surveyed were willing to pay a premium as high as 10 percent.

There is indeed a premium to be captured in locality is reflected by the fact that French origin labelled cheeses earn an average of 2 euros per kilo more than French non- origin labelled cheeses. French Poulet de Bresse has a market price 4 times higher than regular French chicken. Producers of milk used for Comte cheese are paid 10% over regular milk prices. Similarly, producers of Italian Tuscano olive oil have managed to earn a premium of 20% since registration as a geographical indication in 1998 (EU Background Note, 2004).

The size of the premium is dependent on a number of factor such as market size, degree of competition with substitutes, consumer perception about the linkage of an indication with product attributes and demand elasticity (Correa, 2002). However, in all instances the premium seems to favour authentic and distinctive products linked to a specific area. In the

western studies wine and spirit and some other protected geographical indications are getting premium price 40% of European consumers are ready to pay a 10% premium price for GI products (EU, 2004).75% of Italian consumers are ready to pay a 20% premium price (Rangnekar D, 2004). In the case of specialty salts gourmet cooks are willing to pay \$80 a pound for such varieties versus 30 cents for common table salt, for eg the Indian black salt, Portuguese Algarve salt, Australian Murray River Pink Flake Salt, Il Buco Handcrafter Italian Wooden Sea Salt, French Fleur De Sel and Claytinged red Alaea Hawaiian Sea Salt-Businessweek, 2004 Source: (Opportunities, 2010). A consumer survey undertaken in the European Union (EU) in 1999, found that 40% of the consumers would pay a 10% premium for origin-guaranteed products (WTO, 2004). GI as a concept is still at its infancy in India, a study conducted by the UNCTAD India Programme has revealed that in case of agricultural products the premium in India could be in the range of 10–15% whereas in case of non-agricultural products it could be 5–10% (Teshager Worku Dagne, 2010).

### **3. Consumer protection**

GIs are source identifiers as they help the consumers to identify the place of origin of the goods as well as act as the indicator to the quality, reputation and other distinctive characteristics of goods, that are essentially due to that place of origin. Any duplication and false use of GIs by unauthorized parties is detrimental for both the consumers as well as legitimate producers. Because of this, former are likely to be deceived as they get a worthless imitation of product, which they buy by considering as genuine product with specific qualities and characteristics.

### **4. Producer protection**

Geographical indications (GIs) increase revenues for local producers and satisfy the needs of more conscious and demanding entrepreneurs. The producers suffer losses and damages as their valuable business is taken away from them and their established reputation for the products is damaged. So protection of Geographical Indications is very important to producers.

### **5. Rural Development**

The most fundamental rationale for protecting geographical indications in the European Union is found in the rural development potential of origin labelled products. Both widespread literature and policies adopted by the European Union stress the importance of supporting origin labelled products to attain this objective (Pacciani *et al*, 2001). Origin labelled products, per definition, reflects a strict link between product and origin given that the product derives its unique characteristics from the climatic, human and technical environment of the region. As such, origin labelled products is one of the most evident manifestation of locality and is often considered useful instruments through which to preserve local culture and tradition and to foster rural development especially in disadvantaged areas (Pacciani *et al*,2001)

The evaluation of the impact of origin label led products on rural development should be based on the multifunctional nature of origin labelled products (Sylvander, 2004), accounting also for indirect development goals such as the preservation of biodiversity and traditional knowledge. As such, assessment of the impact should not be limited to the standard criteria (higher prices, increased sales and employment and income levels). The spread of the economic effects within the rural area, the level of participation of local actors, the sustainability and reproduction of the social system aand the environmental impact are all

factors which should be considered ( Sylvander, 2004) in evaluating the impact of origin labelled products on rural development.

### Conclusions

Extensive gaps exist on operationalising GIs and this is where the focus of the Government needs to be. Well-crafted policies and strategies on post-GI mechanisms are required for marketing, distribution, branding and promotion of the Indian GI products to realise the commercial potential in the international market. This will in turn translate into socio-economic development of the community by GI registration.

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