

# THE PROTECTED DESIGNATIONS OF ORIGIN AS A STRATEGY OF ENDOGENOUS REGIONAL DEVELOPMENT

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## **Abstract**

Craft traditions create natural or manufactured products that possess quality levels strongly affected by the geographical environment. Should these quality levels be different from similar products, these crafted goods can get the consideration of protected designations of origin granted by the European Union. The regional dimension of this figure has important economic implications in the local development, which will be studied in this paper.

The paper is structured in three sections. The first one defines the concept of protected designation of origin and highlights its main business effects as a differentiation mechanisms. Then, we proceed to the economic analysis of protected designations of origin as endogenous development instruments. Finally we study the impact that may have an adequate management of protected designations of origin at the regional level. We will focus on its impact in the Spanish region of Asturias, through the Cabrales Cheese Protected designation of Origin.

**Keywords:** Protected designations of origin, Quality Policy, Economic development, Cabrales Cheese DOP.

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## **1. Introduction**

One of the main advantages of Protected Designations of Origin (PDO) and the Protected Geographical Indications (PGI) is that they may preserve those traditional industrial activities of agricultural sectors that create rents and economic development in regions that, most of the times, are economically and industrially rural deprived areas. PDO and PGI support both the raw material and input development industry and the industry that transforms them into the protected product, creating thus rents for a geographical area. The conception of Southern countries towards PDO and PGI is that they contribute to the economic development of deprived economic regions by protecting and promoting the commercialisation of Quality foodstuff. Anglo-Saxon countries conceive that Quality is the development of products that satisfy the health and sanitary regulations, independently of its mass production productive system.

In this paper, we review the economic and business advantages that arise from an agrarian Quality Policy. Therefore, we have to analyse the role of PDO and PGI in accordance to the E.U. Agricultural Quality Policy. We compare these institutions with other trademarks and finally, we analyse the economic importance of the PDO Cabrales Cheese in Asturias as an economic development factor for the municipality of Cabrales.

## **2. Quality and product differentiation in the agroalimentary sector: the role of Protected designations of origin and of Protected geographical indications.**

The European agroalimentary sector faces a growing competition due to its markets being increasingly open to foreign products and to the augmentation of agricultural productivity. The entrance into the European Union market of third World lower prized

agricultural products is a real threat for the traditionally protected European Agriculture. This fact demands for a professional and competitive economic behaviour of small and medium sized producers. It is perceived that Quality is the way to survive in such a competitive market, where product differentiation is difficult to attain. As a result, the E. U. has set its efforts in the development of a Quality policy for agricultural foodstuffs, in addition to the traditional economic support instruments implemented through the Common Agricultural Policy. This Quality policy aims to: 1) encourage diverse agricultural production, 2) protect names and product reputation from misuses and imitation and 3) help consumers by giving them information concerning the specific characteristic of the products. These partial objectives will have the desired effect of creating an exclusive product offer to satisfy the demands of consumers willing to pay more in exchange for better Quality. Thus, value added agricultural production is the main objective.

The importance of the agroalimentary industry in the E.U. has led to two mainstays concerning Quality: a) the compliance of foodstuff with industrial/health standards and b) the elaboration of foodstuff according to traditional and geographically linked production methods. The former mainstay is tied to the compliance with E.U. Quality norms. However, there is always a risk that Quality standards are used as non monetary barriers to trade within Member States of the European Union. The success of Quality norms along with the principle of mutual recognition for the internal European market of industrial goods complying with Article 28 of the Constituting Treaty, opens a way for foodstuff trade and for the reduction of the negative effects on free trade that may have the setting of national imperative regulations or minimum standards. The second mainstay approaches Quality differentiation as a potential competitive driving force, which is based on the reputation of a producer. This reputation may be built in an individual way or derive from the reputation of a collectivity or set of producers linked by similar production methods or by deploying their activities in the same territory (in a sort of industrial territory in agribusiness). This interconnection within a territory allows for the transmission of knowledge and capabilities among producers and has two positive effects: on the one hand, it safeguards the reputation of the collectivity more easily, allowing for the exploitation of lobbying capabilities and, on the other hand, it enhances the flow of information and economic resources among producers, promoting thus the development of future product or process innovations in the area. PDO and PGI are not trademarks though, in essence, they may fulfil the same role: they will help to

recall in the memory of a consumer the Quality and performance of a given product. Reputation leads to consumer attraction, so both mechanisms: trademarks and PDO and PGI will become barriers to imitation and according to European Union provisions, to trade.

Trademarks are barriers to trade and are set based on the grounds of the protection of intellectual property rights, whilst PDO and PGI are barriers to trade as a result of the legal harmonisation produced within European Union. Their existence allows for the impediment of the use of the Registered geographical designation to identify a product and to build up barriers to trade and competition of other similar products, regardless their compliance with health and safety regulations or industrial Quality norms.

By means of Regulation 2081/92, the E.U. has harmonised the principles governing the development of PDO and PGI, which are not thus affected by the provision of information and technical standards and regulations. This harmonisation creates a monopoly for producers in certain regions, that leads to a competitive advantage for some firms (those that are Registered in the PDO or PGI and comply with the Quality standards set) while market distortions and unfair competition are created. Hence, Quality Policy in Agriculture has to be analysed from the perspective of protecting firms and industries in economically deprived regions by creating those mechanisms that will enhance their economic and rent generation activities. A Quality and product differentiation strategy in agribusiness that provides a response to the actual preferences and concerns of individuals towards Quality products against low priced products, is one of those mechanisms.

In such a homogeneous sector such as foodstuff, differentiation may be only achieved at an individual or collective level. In the first case, consumer trademarks make tangible the market valuation, reputation and consumer appreciation of a product. They may also be confirmed through Quality validation and qualification processes performed by external parties. In the second case, Quality trademarks, collective trademarks and PDO and PGI articulate the efforts of producers to differentiate their specific products in the market. Within all these differentiating instruments, the Quality Policy in Agriculture has bet for PDO and PGI, since, on the one hand, there is a real link between tradition, Quality and geographical area that supports product excellence (thus justifies the existence of a monopoly). On the other hand, these productive traditions are performed by small and medium sized firms, which, in contrast to large industrial firms, promote more the endogenous economic growth.

The E. U. Regulation 2081/92 lays down the rules on the protection of designations of origin and geographical indications of agricultural products and foodstuffs intended for human consumption and, in fact, has acted as the harmonising legal body of the Quality Policy for agricultural products in the E.U. Article 2 a) defines the designation of origin as *the name of a region, a specific place or, in exceptional cases, a country, used to describe an agricultural product or a foodstuff:*

*-originating in that region, specific place or country and*

*-the Quality or characteristics of which are essentially or exclusively due to a particular geographical environment with its inherent natural and human factors, and the production, processing and preparation of which take place in the defined geographical area.*

Article 2 b) defines geographical indication as *the name of a region, a specific place or, in exceptional cases, a country, used to describe an agricultural product or a foodstuff:*

*-originating in that region, specific place or country and*

*-which possesses a specific Quality, reputation or other characteristics attributable to that geographical origin and the production and/or processing and/or preparation of which take place in the defined geographical area.*

The most important difference between a PDO and a PGI is that whereas a PDO requires foodstuffs to be produced, processed and prepared in a given geographical area, in PGI the geographical link must occur in at least one of the stages of production, processing or preparation. Furthermore, the product can benefit only from a good reputation in order to be protected by a PGI<sup>1</sup>. Therefore, PDO and PGI can not be defined according to the specific categories of foodstuffs that they protect, but by the link between Quality and geographical milieu, and how this milieu will interact in all the productive activities arising from raw material and input development or procurement to the final elaboration of a product. It is precisely this link with the geographical milieu that allows for the differentiation between PDO, PGI and national labels and generic Quality marks, which only consider geographical links or Quality levels.

PDO and PGI also perform a collective role and a Quality assurance. The collective role arises from the fact that those producers who do not belong to the PDO or PGI can not use the name, despite being localised in the same geographical area. The Quality role is

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<sup>1</sup> The 1992 Exportur EU Court Ruling accepted that Quality levels were not necessary if the product had a reputation capable of attracting clients independently of its Quality performances.

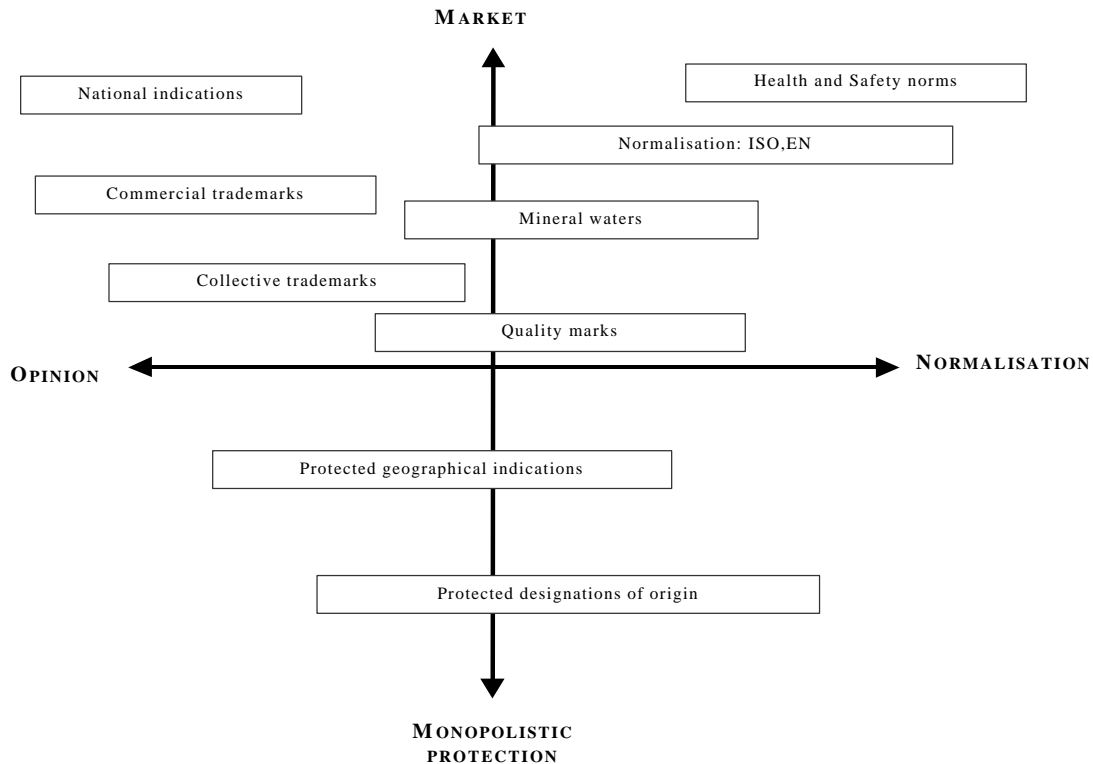
made visible in the necessary compliance of the products sold under the PDO or PGI seal, with minimum standards set by the PDO or PGI Council. If these are private bodies, they may fulfil the requirements laid down in standard EN 45011. Therefore, they assume the role of Quality assurance and control of the products.

Contrary to individual trademarks and brands, Quality marks and collective trademarks have a collective dimension and, according to the provisions laid down in the Regulation of the European Community Trademark, they may be identified with a geographical reference. In PDO and PGI the geographical reference is an essential element, with the geographical milieu having a strong incidence on the specific characteristics of the product. However, the use of a PDO or PGI does not restrict the possibility to use a trademark or brand to differentiate the product according to its business origin with the collectivity. From the industrial organisation perspective, PDO and PGI create monopolies of exclusion that may be considered barriers of entry to new markets and to trade.

Thus, an important aspect is the possible relationship and identification of Quality marks and collective marks with PDO and PGI. This identification is not right either, since these legal institutions fulfil different economic roles and are subject to different legal requirements in order to be granted. From an economic point of view, it is still difficult to differentiate between the above mentioned institutions. A Quality mark, in addition to being a differentiating element and the source of competitive advantages for one or several firms, is a warranty for consumers. Internally, it obliges a firm to comply with the special rules and requirements set in the Rules of the Quality mark, which tend to assure the correct functioning of the production process, and thus a better business performance. Externally, it provides information about the common characteristics, particularly the Quality, the components and the origin of the products and services provided by a firm duly authorised to use the Quality mark. Quality marks are managed by their owners, who can not use them to differentiate their own products.

Collective trademarks are used to differentiate in the market the products and services developed and performed by the members of an association from those of outsiders. Collective trademarks create, develop and protect the image and reputation of a group of firms and build upon their use a monopoly of exclusion of those organisations that do not belong to the association.

**Figure 1: Foodstuff differentiation mechanisms**



Source: adapted from Sylvander (1995)

All the legal institutions previously described can be represented in figure 1. It is important to stress that they perform the same functions: the differentiation of a product or service in the mind of the consumer and the signalling of its business and geographic origin (Vicent Chulià, 1991), but the importance of this function is different according to whether the legal institution is collective or individual or is aimed to promote competition and firm differentiation or to create monopolies to increase the economic resources in an area. A special case is that of mineral waters, which only in Germany are considered PDO or PGI. Their role is to identify a very homogeneous product and to provide consumers a health and safety assurance.

Within actual foodstuffs and agribusiness markets, the key elements that have played a major role in the development of PDO and Quality marks for agro-alimentary products are the need for firms to acquire market power -measured in terms of access to distribution channels and consumer reputation-, and their capability to create economic value and, to some extent, restrict competition -due to their capacity to set up a premium price, superior to that of the products developed industrially or with worse inputs-. In

order to pursue a differentiation competitive strategy, PDO, PGI and Quality marks have to provide a fair and objective Quality warranty, in which the actual trend towards Quality certification of the PDO or PGI council according to the EN-45011 is a further step. Additionally, they have to set up clear communication processes in the market, with the aim of extrapolating the positive aspects of the protected foodstuff, and create a notorious and positive perception among consumers. Due to their collective nature, they can attract resources and create lobbying capability in order to achieve a minimum efficient productive capability to compete in the market. The business organisations and associations that bind together traditional producers under a PDO or a PGI should set up clearly their compromise towards the defence of the differentiation and Quality strategy pursued. They also have to sustain the lobbying capability of the PDO or PGI, which is based on its positive effects on the endogenous economic growth of the region.

The economic rationale for product differentiation and its protection lies in the fact that when consumers are incapable of differentiating between industrial and artisan products *ex ante* to buying them, the industrial producers may benefit of the premium price that the consumer is willing to pay for artisan products. Therefore, industrial producers who use larger scale production processes, obtain extraordinary benefits and force out of the market artisan producers, who use more flexible production processes<sup>2</sup>. *Ex post* only very well trained consumers may be capable of differentiating artisan and Quality products from low Quality industrial products. Non trained consumers may associate a bad Quality of the product with the generic characteristics of the product instead to the specific brand being consumed. This misunderstanding may imply a reduction of the aggregated demand of the product and a bad reputation. Thus, the imitation or use of the differentiation mechanisms of Quality and traditional products by industrial producers may destabilise the source of economic resources and potential growth of traditional producers, leading in the short term to a reduction in their monetary rents and, in the long term, to a potential delay of their economic and industrial development. Due to the geographical location of artisan traditions, the imitation has a very important negative effect on the overall rent generation or economic development of a specific area. These consequences provide just enough arguments to enhance the differentiation of products in a collective dimension: such as PDO, PGI, collective trademarks or Quality

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<sup>2</sup> The more a production process is rigid, the larger will be its minimum efficient economic output level. Therefore larger productions are needed and Quality may be reduced. In these cases, production systems are considered rigid or efficient.

trademarks. This is the differentiation role of these legal institutions which works in parallel to the Quality and protection against imitation roles.

As a conclusion, due to its differentiating and associative roles, PDO, PGI, collective trademarks and Quality assurance trademarks lead to the achievement of three business advantages: a) they guarantee the Quality of elaborated and commercialised products b) they create the infrastructure for small and medium firms to deploy all its economic potential and c) they provide legal protection to the differentiation efforts of small producers. Well managed, these business advantages lead to an endogenous economic development, where traditional producers, located in specific geographical areas, exploit a set of capabilities and routines that allow them to achieve a competitive advantage based on a cost leadership or on a differentiation strategy. Following a cost leadership competitive strategy, once the sector acts coordinately, the producers exploit the benefits arising from a larger size, that is to say, its aggregated bargaining power is larger. However, due to the artisan nature of Quality foodstuffs, the possibilities to achieve productivity gains by means of increasing the productive output are reduced. Pursuing a differentiation competitive strategy, implies that the organisation opts to satisfy the Quality requirements set by the clients. PDO and PGI assure these Quality levels by assuming the responsibility to perform strict controls on both the raw materials and inputs used in the production process, and the elaboration processes. Thus, the granting of a PDO or PGI becomes a Quality referent for consumers and is supported by Public Administrations that create the necessary infrastructure through the PDO or PGI Council to operate economically this Quality foodstuff. The importance of Quality implies that the control made on raw materials and on production processes has to be objective, reliable and a balance must be found between eliminating excessive unnecessary costs, and assuring that the products reaching the market under the PDO or PGI seal possess the minimum Quality levels required. Otherwise, all the collective efforts to maintain a differentiation strategy would be spoilt. Therefore, an essential role of PDO and PGI is to impede the commercialisation of the products that do not comply with the geographical production area and the Quality levels required. This control is made only for Registered producers.

Precisely, there lies the most important role of PDO or PGI Councils, which perform the control and surveillance of the Quality behaviour of the producers and have the right to punish any infraction to the Quality standard set or raw material procurement rules. Additionally, it performs advisory and consultation activities and joint promotions, even

imposing non relevant restrictions to competition (setting selling prices or limiting production scale) trying to avoid the possible negative effects that may have competition on Quality levels. The PDO or PGI Councils also perform a market surveillance and control in order to detect the imitation of Registered products or the sale of similar products under the seal of the PDO or PGI.

### **3. PDO and PGI as promoters of endogenous local development**

Endogenous local development strategies exploit the existence of local resources and capabilities that are under-used. Should they be mobilised, they may become a source of economic welfare and they will provide the basis for economic adjustments to environmental uncertainty (both economic and institutional) by their capability to restructure the productive system.

Hence, under this circumstances, the possibility of economic development and success of a region or specific area may depend on its capacity to improve and enhance the set of available resources. In order to succeed, it is first necessary to identify its endogenous development potential. This potential embraces all the factors that may contribute to the development of a region, such as material and environmental resources, urban and communication infrastructures, physical and human capital and their degree of literacy, innovative and managerial capability (Waddle, 1998). The different scientific approaches to this concept stress the common local nature of most of the development factors. Hence, they should be already available in the region or, otherwise, it will be very difficult to attract them or to develop them from scrap. The difficulties to develop these resources signal the strong link between economic development, territory and environment, where human capital, business seeds and institutional organisation are essential elements of economic growth.

As a result, from the endogenous growth perspective, regional economic development results from mobilising economic resources and from the behaviour and patterns of action of local small and medium sized enterprises rather than from the optimal decision of establishment of large industrial interregional firms. Therefore, regional politics should not centre in the mobility of the production factors –as it is stated in neo-classical economic growth models–, but they should rather focus on the total exploitation and productivity of endogenous regional resources. Thus, for the purpose of

endogenous sustainable economic growth, those policies aiming for the larger movement of economic factors may be less relevant than those that aim to promote the most efficient use of local resources. Nevertheless, these strategies should not be considered as incompatible but, on the contrary, they may be complementary (Cappellin, 1988). The factors that have proven essential for the economic development and promotion of an area or region may be classified under five categories: infrastructures, qualitative factors, organisational capability, finance and environment (Vázquez Barquero, 1993).

The setting of PDO or PGI may promote a more efficient use of those endogenous economic resources categorised as qualitative resources and organisational capability. In fact, among the qualitative economic development factors characterised by their intangible nature, we can signal the qualification of human resources, the technological and innovative know how, the entrepreneurial capability, the accumulated information within firm boundaries and institutions, and the culture of sustainable self development growth in the region. The more the endogenous resources are used, the more extensively these factors will be exploited. PDO PGI achieve these effects since they protect very specific activities, usually from agro alimentary industries of a traditional character.

In second place, organisational capability, is essentially important when the firm has to improve the competitiveness of a given economic region. Hence, in an environment clearly defined for the growing competence at the national and international level, the traditional craft agro alimentary industries, set in rural areas, need to pursue a differentiation strategy in order to survive and fight against firms of a larger dimension. PDO or PGI allow the traditional producers to develop a better product, as opposed to lower priced products developed through larger scale productive processes.

The organisational capacity of the producers tends to be improved if there is a PDO. Due to their collective and associative nature, PDO and PGI may lead to cost reductions and the sharing of the benefits and risks. Among the joint activities are the establishment of relationships with specialised distribution channels (which focus on the Quality of the products and their traditional-artisan methods of elaboration instead of their prices) or with large consumer distribution channels (which will demand supply regularity and reduced prices as opposed to Quality levels). In either case, a larger bargaining power may be achieved belonging to the PDO or to the PGI. Other shared activities are joint advertising and promotion; the joint search of Quality assurance and performance, technological innovation, both in the activities of the production process

and in the development and procurement of raw materials employed as inputs, in the access to professional advice and the technical or business training of the producers, and in the establishment of links with Public Administrations and Institutions, which will support the lobbying capability of the producers (Pérez-Bustamante, 1999).

The PDO or PGI Councils do not just perform a control and monitoring function, but they also provide assistance and consulting facilities, or lead joint advertisement and promotions. Therefore, there is a common and mutually beneficial co-operative strategy.

The importance of such a strategy of economic and regional development is shown in table 1 of the annexe, which reports the PDO and PGI approved by the E.U. in its different Member States. In early 1999 there were 322 PDO and 190 PGI. Most of them, protected products from Mediterranean countries: France (110), Italy, (98), Greece and Portugal (76), Germany (58) Spain (44) and U.K. (24) The exception is Germany; though 31 PDO are for mineral waters. From a closer analysis, a slight difference in the use made of PDO and PGI by the E.U. Member States may be perceived. Mediterranean countries protect products with a reduced industrial transformation, whilst those products protected by non Mediterranean countries have undergone a larger industrial transformation. Hence, there are differences in the conception of PDO and PGI according to geographical areas within the European Union. Mediterranean countries -with their agricultural sector being important in their Economy- consider that foodstuff Quality arises from the raw materials and inputs used in its elaboration and from its transformation process. Non Mediterranean countries - with their agricultural sector weighting less in their Economy-, consider Quality as compliance with health regulation and nutritional value of the product. Southern countries link the Quality policy in Agriculture to the promotion of economically deprived regions and productive sectors and to the defence of cultural traditions. They try to establish regulation to define the product standards and to protect their artisan elaboration process. Northern countries consider that an adequate promotion and informative policy and the exploitation of the legal system may be considered enough to develop a Quality policy that promotes the establishment of a mass production and efficient industry (Sylvander, 1995). Thus, for Southern countries Quality accounts for comparatively better products, whilst for Northern countries Quality is compliance with technical standards.

The importance of PDO and PGI for Southern countries lays in their capability to preserve traditional agrarian and artisan activities that provide economic resources to industrially deprived areas that have a reduced endogenous economic development capability. The existence of PDO and PGI supports the local raw material and input producer and the transformation industries. The structuring of these activities within the PDO or PGI creates potential for the development of a competitive economic sector that pays attention to market requests and develops Quality products valued by consumers. Therefore, they are part of an endogenous local economic growth development strategy. The differentiation provided by PDO and PGI creates a market niche for those products that grant a Quality level based on the link to a geographic area. This market niche and its development contributes to the potential growth of the economic agents that have been traditionally established in the region, with an artisan production process. It results in a local development, based on traditional artisan and craft productions for which the geographical area provides a technological and productive experience and know how, as well as a market that consumers and values those products. With the protection granted by PDO and PGI there is an economic exploitation and use of endogenous resources and capabilities, such as labour experience, technical knowledge and natural resources. The environment is also preserved by small local firms.

As a conclusion, PDO, PGI and geographically linked Quality trademarks, exploit the existing connection between the production strategy, the business and market organisation and the local economic development based on the exploitation of endogenous resources. Specifically, the requirement of agroalimentary or foodstuff nature of the products to be protected by PDO or PGI set in Regulation 2081/92 facilitates the development of rural areas, which, as opposed to urban areas, there is not a critical mass to implement successfully an economic development policy based on external resources. PDO and PGI provide a more viable strategy than the attraction of external resources for capital or qualified labour intensive sectors, which may not be linked at all to the productive reality of the geographical area. An economic development based on local firms, according to business initiatives of local people and based on endogenous investments and the support of regional and local Administrations, becomes key for the future economic restructuring of a region. PDO and PGI help towards achieving this goal, while exploiting local resources.

#### **4. The analysis of a Protected designation of origin in Asturias (Spain): the Cabrales Cheese PDO.**

The Asturian agroalimentary industry has as its main strengths the existence of a large number of products of a renown Quality, which becomes the source of a competitive advantage to respond to the actual demands of consumers for better Quality products. Within this favourable market environment, the Asturian agribusiness sector should demonstrate an economic vision to promote the commercialisation of its production outside the boundaries of the region, exploiting the image of Asturias as a “Natural Paradise”. Agro alimentary firms in Asturias should not try to compete with large scale industrial businesses, but should rather exploit the positive connection that has in the local market the perception that products are developed in a Natural Paradise location, where the important aspect is the Quality of raw materials and products developed.

In Asturias there are only 1 PDO (Cabrales Cheese) and 1 PGI (Faba asturiana -beans) and four more PDO in process. However, this reduced representation of Quality agrarian foodstuff does not imply that there are not products with recognised Quality in the region. In fact, the Euroterroir inventory made in 1997 registered 31 products from Asturias. The reason for this reduced number of PDO or PGI lies in the small production levels that, despite the Quality standards, do not provide enough scale as to set up a competitive PDO or PGI. We will illustrate the positive advantages that may have a PDO on local economic development on the basis of the Cabrales Cheese, which led to the economic growth of the area and even attracted the production attention of a large agrarian co-operative of the region.

Cabrales Cheese is a Spanish PDO since 1981 though, due to several legal problems, it was not set in force until 1990. However, since 1988 it functioned in a temporary basis. From the beginning of EU Register of PDO for Spain in 1994, Cabrales Cheese was recognised as a European PDO.

The PDO Cabrales Cheese protects the production of Cheese in the municipality of Cabrales and three villages in the neighbouring municipality of Peñamellera Alta, both located in the mountains of Eastern Asturias. The PDO is managed by the PDO Council, which gets financial support and managerial assistance from the Rural and Agrarian Department of the Regional Government. The Council is the governing body of the PDO and its members are elected every five years among the cheese and milk producers. There are also three representatives of the Regional Administration. As it has already been signalled, the Council guarantees the Quality and authenticity of the

products and milk inputs used in the elaboration of Cabrales Cheese, as well as their compliance with the Quality standards and geographical origin set in the Statues.

The importance of the PDO Cabrales Cheese is made clear in the fact that the production of this cheese is the second source of economic revenues in the area, standing behind tourism and its related tertiary sector service activities. The economic value of the Cabrales Cheese production in 1999 was 592.4 million pesetas. Since 1990 (first year for which there are reliable data), the economic importance of Cabrales Cheese has increased from 148.9 million pesetas up to 592.4 million pesetas. Table 2 shows this evolution.

**Table 2. Evolution of the cheese production and margin**

Year	Cheese production (Kg.)	Price of cheese in origin (Ptas./Kg.)	Value of cheese in origin (million Ptas.)	Milk price for 1 Kg of cheese (10 litres)	Production margin per Kg of cheese
1990	148,959	1,000	148.9	425	575
1991	178,487	1,000	178.5	450	550
1992	200,000	1,000	200.0	500	500
1993	240,000	1,100	264.0	500	600
1994	264,671	1,100	291.1	500	600
1995	331,782	1,200	398.1	800	400
1996	359,783	1,150	413.8	--	--
1997	411,934	1,150	473.7	650	500
1998	440,498	1,200	528.6	720	480
1999	493,633	1,200	592.4	650	550

**Source: Datos estadísticos de las denominaciones de origen de vinos, bebidas espirituosas y productos agroalimentarios, Subdirección General del INDO and The Council of the Protected Designation of Origin Cabrales Cheese**

In 1996, the last year for which there are published desegregated data on economic rents by municipalities, the value of primary activities in Cabrales (in which are incorporated, among others, the production of Cabrales Cheese and its milk input) was of 1,153.7 million pesetas. Thus, the Cabrales Cheese production accounted for 35.8% of the rents generated in the region in 1996. Since the primary sector represented the 18% of the rents of the municipality the rents generated by the sale of Cabrales Cheese amounted to 6.3% of all the rents generated. After the total setting of the PDO in 1990, the growth of the productive outputs has been accompanied by an improvement in the production rationale and a productivity improvement of cheese producers. However, the restriction to use only milk from the area has led to some tensions in the demand for milk. The mean production of Cabrales Cheese per manufacturer has increased by 7.5 between

1990 and 1999. It has passed from 1,154 kg/year in 1990 to 8,227 kg/year in 1999. Of course, not all the cheese manufacturers have reached the same production increases. It is also remarkable that in the same period of time the number of producers has diminished from 129 registered in 1990 to 60 registered in 1999. According to the data of the Council of the PDO this reduction has also been accompanied by an increase in the production scale of the remaining cheese producers. As it is shown in table 3, in the period 1992-1998 the number of producers with a scale bellow 900 pieces of cheese went down from 63 to 19. Some of them increased their production output contributing thus to the increase in the 900-1,200 pieces bracket, 1,200-1,800 pieces and the over 1,800 pieces bracket. However, most of them closed their businesses being incapable of complying with the new industrial requirements, despite the economic aid given to the sector. The most spectacular growth takes place in the 1,800 pieces and above bracket that passes from 2 to 30 producers. Most of them are small producers and co-operatives that used the Cabrales Plan financial aids to increase their productive capacity and to modernise their production process.

**Table 3. Evolution of the number of producers by size (pieces of cheese/year)**

Pieces/year	Number of producers						
	1992	1993	1994	1995	1996	1997	1998
0-300	25	23	20	14	17	15	8
301-600	20	16	10	11	10	8	2
301-900	18	16	14	11	11	11	9
901-1200	2	5	10	16	9	11	8
1201-1500	5	6	6	6	9	4	5
1501-1800	6	6	3	6	8	5	3
>1800	2	11	19	18	19	26	30
<b>TOTAL</b>	<b>78</b>	<b>83</b>	<b>82</b>	<b>82</b>	<b>83</b>	<b>80</b>	<b>65</b>

**Source: The Council of the Protected Designation of Origin Cabrales Cheese**

Generally speaking, we see that the PDO has had a positive effect in the production level of protected cheese, though this increase may not derive only from an increase of the production levels, but also from the perception that selling Cabrales Cheese under the PDO channels has positive effects and grants larger margins. Therefore there has been a shift of production that traditionally was not sold using the distribution channels of the PDO towards the control and labelling of the PDO.

A second aspect that we must recall at, is the evolution of milk prices within the area of the PDO. In fact, milk prices have a large incidence on the production margins of producers and on commercial margins. The increase in the demand of milk to satisfy the need for milk by cheese producers and the impossibility of importing milk from outside the geographical area of the PDO, led to an increase in the price of milk and, thus, to a reduction of the producers' margins. In table 2 we show how the increase of milk prices from 42.5 pesetas/litre in 1990 to 50 ptas/litre in 1992 led to a reduction of the producers' margins of 75 ptas/Kg. In 1993 the distribution of economic rents was balanced due to the increase of the selling price of cheese. However, in 1995 the increase of milk prices up to 300 pesetas per Kg of cheese was only partially financed by an increase of the selling price of 100 pesetas per Kg of cheese. In 1995 the demand for milk increased as a consequence of a large milk co-operative entering the production of Cabrales Cheese, which in turn, led to social disruption in the area. Small producers accused this co-operative of driving milk prices up and of pulling down cheese prices, with the final objective of kicking them out of the market. The truth is that the success of the Cabrales Cheese led producers –both the small ones and the milk co-operative- to produce more and, therefore, the result was an increase in demand for milk. All of it led to a rent distribution from producers (incapable of charging more for their products) to milk producers. Since 1998 there seems to exist a tendency to leave cheese margins around 500 pesetas/Kg, although at the cost of increasing the final price for consumers. Hence, we can claim that the PDO may provide a source of economic resources to all or several of the agents that take part in the production process. These rents are created by establishing clear limits to the geographical area of production of raw materials and inputs as well as for the production of the protected foodstuff itself. When in 1995 the demand for milk surpassed its offer, milk prices increased. At that moment, the greater demand for milk, which was the necessary input for value added products, the restrictive limits to its production outside the municipality of Cabrales, and the Common Agricultural Policy led to market tensions. As a result of regulation, milk became a scarce resource, capable of creating ricardian rents. In the short term, milk supply is fixed and its price is market driven by its best alternative use; in this case, the production of cheese. The larger the selling price of cheese, the more it will be economically interesting to produce cheese and the more milk will be demanded, leading to an increase in its final price. All in all, if there is not an increase in the final price of the product, there will be a rent transfer from cheese producers to milk dairies.

From an economic development point of view, what is relevant is that setting the PDO Cabrales Cheese has led to an increase on the rents in the region. The aspect of rent transfer is a problem that should be addressed by the discipline of business organisation.

## **5. Final considerations**

The implementation of a PDO or PGI may bring as a result an increase in the economic rents of the productive sector implicated in the development of the protected product which, in turn, due to the strict localised nature of PDO or PGI, will increase the economic rents in the geographical area. Therefore, the economic benefit of the sector affects directly the local economy.

It is in this sense that we can conceive PDO and PGI as a possible local development strategy. The protection that grant PDO and PGI, which is based on product differentiation, create within competitive national and international markets a market niche. In this market niche there is a provision of a Quality assured product determined by a traditional method of production and a geographical link. This link to a region implies that there is a development of the economic sectors operating traditionally in the area. Consequently, the protected sectors and regions will benefit of increased rents.

It is a local development based on traditional activities for which there is a specific know how or accumulated expertise. PDO and PGI promote the exploitation of those resources easily available in the region; that is to say, endogenous. Among these resources we account natural resources, labour expertise and technical knowledge. The collective nature of PDO and PGI also create a connection between the firm production strategy and the economic and regional local development strategy.

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**Table 1: PDO & PGI APPROVED IN THE EUROPEAN UNION (AS OF FEBRUARY 1999)**

	Germany		Austria		Belgium		Denmark		Spain		Finland SF/ Sweden S		France		Greece		Holland		Italy		Luxembourg		Portugal		U.K.	
	PDO	PGI	PDO	PGI	PDO	PGI	PDO	PGI	PDO	PGI	PDO	PGI	PDO	PGI	PDO	PGI	PDO	PGI	PDO	PGI	PDO	PGI	PDO	PGI	PDO	PGI
Meat	2	1							1	5			2	43					1		1		11	8	3	2
Meat derivatives		4		1		1			4	2				1					18	4		1		1	13	
Cheeses	4		6		1			2	12			1 S	34	4	20		3		30				11		8	2
Fruits, vegetables cereals			2	1			1	6	7	1 SF		7	7	21	7	1		2	22			11	7	1		
Other products of animal origin									1				2	1	1						1		9		1	
Greases		1		1	1				4				3		12	10			19	1	1		5			
Fish and seafood...		1												1	1											1
Ciders													2													3
Beers		11																								3
Mineral Waters	31																									
Bakery		3								2				1		1				1						
Natural gums & resins															2											
Non human aliments & foodstuffs													2		1											
TOTAL	37	21	8	3	2	1		3	28	16	1	1	52	58	58	18	4		69	29	2	2	48	28	13	11

**Source: European Union**