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Geographical indications, Upgrading and the Competitiveness of Small- scale Producers: a case study of the Makó onion PDO

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Context

Increasing concentration of food processing and retail sectors.

Weak position of small-scale producers.

Strategies to improve their competitiveness?

One strategy: Geographical Indications (GI).

Case studies of GI: Parma Ham, Comté cheese, Jersey Royal Potatoes, Opperdoezer Ronde (potatoes), Mela Val di Non (apples).

Paper Aim

- Analyse the impact of the PDO for Makó onion, focusing on the extent which the GI aided the upgrading of small-scale producers' output and fortunes.

Makó is an example of nascent / developing GI system.

Long history of onion farming.

Registration of the PDO occurred in 2009.

For PDO only three onion varieties permitted: Makói CR,
Csanád and Makói Bronz.



Upgrading

- **Upgrading = ‘strategies used by countries, regions, and other economic stakeholders to maintain or improve their positions’**

4 main strategies for upgrading in the GVC literature:

- **Process upgrading**
- **Product upgrading**
- **Functional upgrading**
- **Chain upgrading**

Upgrading and GI

3 strategies for upgrading:

1. *Capturing higher margins for existing products.* Act as a quality signal, protecting producers from inferior copycats and market failure stemming from asymmetric information ([Akerlof, 1970](#)).
2. *Collective action* (improving bargaining power, lower transaction costs, rewards from knowledge exchange). Stimulate producer action > improve bargaining power by restricting the ability of buyers to introduce new suppliers to the value chain, and lower transaction costs.
3. *Diversify into new products* (with better margins). Capture downstream rents or auxiliary services. **Reputational asset.**

Findings – Quality signal, markets and margins for existing products

- **Consortium of Hungarian Onion Producers, Processors and Traders, based in Makó, has 64 members. Two relatively large growers (70 ha combined) and rest small-scale (130 ha).**
- **75% of PDO onions sold through supermarkets via Zöldség Centrum Ltd, which is also a member of the consortium.**
- **Average yield of PDO certified varieties is 25-30 tonnes per ha.**
- **Production costs per kg of Makó PDO onions = €0.16 - €0.21 per kg, compared to €0.06 to €0.11 per kg for higher yielding, non-designated varieties.**

Findings – Quality signal, markets and margins for existing products

- In supermarkets, Makó PDO onions sold in 0.75kg string bags under the Zöldség Centrum brand at a price similar to 1 kg of loose onions (i.e. roughly 33% relative mark-up).**
- Farmers reported no difference in price they received for designed and non-designated onions (similar picture at wholesale level).**
- Hungarian consumers are unfamiliar with EU agri-food quality schemes: “if we put the PDO label on the package, it repels people. They think for sure they cheat and it comes not from Makó”.**

Findings – Collective Action

- **A presidency, elected by members, manages the consortium.**
- **Consortium membership fees are relatively modest, approximately €13 per annum for small-scale producers and €267 for companies / larger producers.**
- **The Code of Practice is enforced with inspections (e.g. soil and plant) several times a year.**
- **Members largely regarded the consortium's decision-making structure as transparent and democratic, but regard it as ineffective as it lacks political or economic power.**

Findings – Diversification

- PDO not stimulated forward integration. Closure of onion drying plants.
- Onion themed attractions: *Hagymatikum* (onion themed spa), *Hagyma Ház* (cultural centre), annual two-day onion festival etc.
- Farmers not gain directly.
- Tourinform: “onion is still associated with Makó in the Hungarian mind, [but] alone it is not enough to attract tourists”.

Hagymatikum (onion themed spa)



Conclusion

Much of the literature and current policy thinking: GIs as assets in themselves, so that they inevitably deliver benefits to members subject to good internal governance. Makó - this may not be the case.

Policy support – facilitate consortium formation and registration of GIs.

For developing system GIs to facilitate upgrading, legal registration must be accompanied by a package of other activities.

Conclusion: how can GIs contribute more effectively to upgrading?

1. Shift to a more *customer-oriented mind-set* within consortia.

Developing systems lack renown and market presence > consortia need to play a more active role in establishing market positions and connecting with final consumers.

2. Brand building

Brand building rather than brand protection.

3. Building of effective networks with external actors.

Particularly important for upgrading via diversification, as relies on the availability of regional infrastructure, skills and technologies.