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GROUP HETEROGENEITY AND COOPERATION IN THE GOVERNANCE OF GEOGRAPHICAL INDICATIONS. THE CASE OF PARMIGIANO REGGIANO “MOUNTAIN PRODUCT”¹

JEL classification: Q13, Q18

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Abstract. *This study contributes to the call of many scholars to investigate the relationship between group heterogeneity and cooperation patterns in GI consortia. In particular we focus on the solution of the problems of quality standardization derived by an increasing heterogeneity and free-riding behaviour among members.*

A framework adapted from Lee and Wall (2012) and Forster and Metcalfe (2012) is employed to identify the resources (inputs), conditions (facilitators) and innovation process (outputs) required for the formation of a new internal institution in the Consortium, as a tool for safeguarding “higher quality” within the common (outcome).

This work uses a case-study approach and analyses the Parmigiano Reggiano (PR) Consortium in Italy. Specifically, we applied a ground-theory approach and conducted 24 semi-structured inter-

views to stakeholders at different levels (consortium, politicians, large-sized dairy farms, small-sized dairy farms, NGOs, members of PR route, PR museum) in the time frame May 2012-August 2013.

The governance patterns highlighted in this study give evidence of a high internal dynamism within GI Consortia. Our study confirms how governance strategies to reduce free riding in GI schemes and to re-establish cooperation can be implemented even through the creation of formal endogenous or exogenous institutions. However, cooperation can stem among homogenous sub-groups as a resilience strategy showing how a formal institutionalization of sub-consortia within a well established GI common may be successful.

Keywords: *Geographical indications, Consortia, Free-riding, Food Clusters, Parmigiano Reggiano*

1. Introduction

The legal foundation for Geographical Indications (GIs) for food products (e.g. PDO, PGI) was drawn up in 1992, with Council Regulation (EEC) No. 2081/92 for the protection of Geographical Indications and Designations of Origin for Agricultural Products and Foodstuffs.

¹ We wish to thank the interviewees for responding to our questions and hope that the present publication does not in any way violate the trust, which was extended to the authors.

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A Geographical Indication (GI) is the name of a place or country that identifies a product to which quality, reputation or other characteristics are attributable. A GI signals to consumers that the goods have special characteristics as a result of their geographical origin (Vandecastelaere et alii, 2010).

Both at institutional and political level GIs are often protected for the several roles they play:

- GIs are a means to escape from growing competition and permit a diversification of production costs and a differentiation of quality levels (the “market” justification);
- GIs may exert positive effects on rural development, keeping traditions and culture, economic and social viability, and showing spillover effects on local economy. They reproduce and improve local specific resources (the “rural development” justification);
- GIs are more and more demanded by consumers as they are perceived as safer than “nowhere” products, of higher quality with respect to conventional ones, authentic and genuine compared to mass food. Besides, GIs allow consumers to participate to local cultures and show their own identities (the “demand” justification);
- GIs are an important flag/symbol of culture and identities all over the world, and they must be protected from abuse and misuse to save the “fairness” of transactions and prevent an economic loss to honest producers (the “abuse” justification). In other words they can help producers to protect their products from counterfeiting and reduce information asymmetries to the benefits of consumers.

Akin to strong brands in an information economics sense, Geographical Indications are credence attributes, as they are not verifiable by the end user (Nelson, 1970). They assure product standards for food brands and avoid the problem of adverse selection, which can lead to market failure (Akerlof, 1970). From a marketing perspective, a label is therefore necessary to safeguard the credibility of the information given to the consumer.

Although studies investigating label preference by consumers and focusing on indications of origin are relatively few (Dimara and Skuras, 2003, Menapace et al. 2009, Profeta and Balling, 2007), current literature agrees on the growing importance of product reputation as displayed by labels. However, in the case of geographical indications, a product’s reputation depends not only on the quality attributes directly related to the producers, but also on those derived by the association or common to which the producer belongs. Thus, as voiced by Bravo (2003), whereas the label reputation (LR) is directly managed by producers, the reputation of the denomination (DR), either PDO or PGI, derives from the totality of goods produced by the GI association, as well as by the actions implemented by its members.

The “dispute” between actors may also become a “crisis” when the actors refer to different or even contradictory conventions. In such a case, the establishment of a compromise, or a combined convention, is a mean to escape from the crisis. Regarding specific quality products (Allaire & Sylvander, 1997), these compromises may be expressed through micro-conventions among homogeneous producers (Sylvander et alii, 2006).

The collective character of a GI means that the issue of ‘commons’ is highly relevant in analysing the reputation of the denomination and its consequences on quality. For instance, the issue of quality standardization is often mentioned in reference to regulatory norms. If not satisfactorily addressed, the problem of free-riding within the common often increases, which in turn can lead to a situation where the producers of higher quality goods (e.g., with a high LR) leave the commons (Bravo, 2003) as a consequence of a (feared or real) decrease of DR. At times, a desire for innovation is also cited as partly responsible for initiating mechanisms for adapting regulatory norms (Josling, 2006).

According to Bravo (2003), two tools essentially exist which producers of a GI common can use to solve the problem of free-riding, thus remaining in the common: 1) finding an arrangement among participants which leads to the creation of formal endogenous or exogenous institutions tasked with monitoring and sanctioning transgressors; or 2) establishing motivational factors among the members of the common while, at the same time, creating self-control mechanisms.

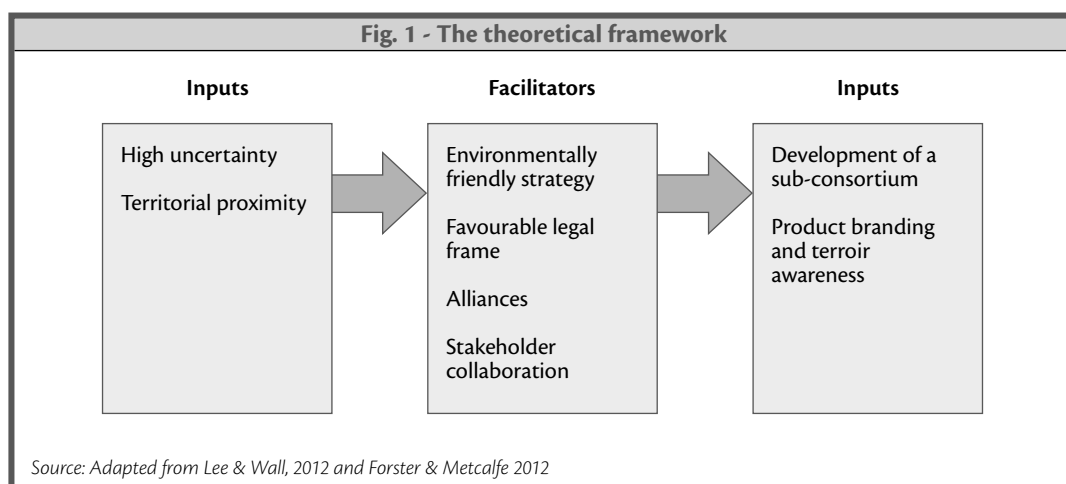
In this paper, we will focus on the first mechanism and adapt the theoretical framework of Lee and Wall (2012) and Forster and Metcalfe (2012) to show how some members of the Parmigiano Reggiano cheese consortium establish a formal institution, the Consorzio Terre di Montagna, to solve the problem of quality standardization derived by an increasing heterogeneity among members within the consortium.

The research questions faced are twofold:

- 1) Are there governance strategies to reduce internal free riding in GI schemes and to re-establish cooperation? Specifically, can the creation of formal endogenous or exogenous institutions tasked with monitoring and sanctioning transgressors be a successful strategy?
- 2) Which factors may have a positive impact on internal GIs governance? Specifically can informal networks be beneficial for the (re)establishment of trust? Can institutionalization of sub-consortia increase cooperation within a well established GI common?

2. Theoretical framework

As mentioned before, Lee and Wall's model is the departure point for conceptualizing the main steps that may lead to the creation of a sub-consortium. Basically, this model describes in a clear and concise way the main phases that small farm operators undergo to re-territorialize (Kneafsey, 2010) their resources in a creative way. The authors explain that the inputs phase is characterized by the juxtaposition of local production with consumption, which leads to the awareness of the place as a competitive advantage. However, it is only after the intervention of the so-called facilitators, either key stakeholders of the product chain, the legislator, or NGOs, that meaningful synergies take effectively place. In this way, new cultural food products such as creative farms or food trails are created (outcomes) (see Fig. 1).



Inputs:

We assume that the generalized feeling of high insecurity is the pre-requisite for the establishment of a sub-consortium. This radical situation of uncertainty is defined by Forster and Metcalfe (2012) as a situation where the “totality of possible outcomes is unknown”.

Further, we narrow the scope to the second input of the model, namely the territorial proximity. Essentially the GI system is designed for small groups of producers who create a cultural and locally specific repertoire. These small-scale facilities are often scattered in rural territories that are difficult to reach. Yet, for local consumers and gourmet tourists, this ‘territorial drawback’ acts as a major source of attraction, since such localized products are perceived as territory’s icons, providing identity-markers (Cohen, 2002). Hence, territorial proximity allows small-scale producers to adopt practices that Eden and Bear (2010) identify as the “spatialization of certification”.

Facilitators:

Recent studies point out that consumers tend to associate origin-based products with environmental protection, animal welfare (Fonte, 2008; Sidali et al, 2013a) and other sustainability issues. In this regard, Lee and Wall (2012) demonstrate that environmentally friendly strategies attract consumers searching for authentic products.

Furthermore, a favourable legal framework facilitates the creation of a formal institution that allows the legitimization of the process (Sylvander et alii, 2006). In our case, this is represented by the EU policy on mountain products. The EU has recently approved a legal framework (EU Reg. 1151/2012 on Quality Schemes for Agricultural Products and Foodstuffs, modified by EU Reg. 665/2014) for the protection of the optional quality term “mountain product” (Art. 31). This term shall only be used to describe products intended for human consumption in respect of which: (a) both the raw materials and feedstuffs for farm animals essentially originate from mountain areas; (b) in the case of processed products, the processing also takes place in mountain areas.

Alliances (NGOs, universities, etc.) are the third facilitator identified by Lee and Wall (2012). The development of alliances with ‘third party actors’ such as NGOs is an important factor in legitimization processes. Due to their ability to nurture and legitimate alternative knowledge, Eden and Bear (2010) identify NGOs as already established players in science-policy communities (p. 84). Other actors, such as experts employed by third-party certifiers or universities, are equally important partners for legitimizing certification from a scientific viewpoint (Eden and Bear, 2010) and therefore legitimizing it.

Finally, the creative processes set in motion by innovative entrepreneurs can lead to a “knowledge gradient” (Forster and Metcalfe, 2012) that facilitates the creation of a niche, which is impossible for competitors to emulate. However, according to Forster and Metcalfe (2012), this is possible only if the operator is embedded within a cooperative network.

Outcomes:

Lee and Wall (2012) demonstrate the effectiveness of iconic food products in forging the identity of a location. The food tourism literature is rich of such examples, for instance, Urry (2009) states that “iconic” products build a “brand” that can be used to distinguish a region, or delimited area from its competitors.

3. Case study selection

Parmigiano Reggiano is a GI with a strong reputation in the international market. It is an important economic reality in northern-central Italy, taking into account the 400 active dairies, the 3,279,156 wheels produced in 2013, and the turnover of 23 ml € in 2013.

The main function of the consortium is to protect the PDO 'Parmigiano Reggiano' promoting its brand. The OCQPR (Organismo Controllo Qualità Produzioni Regolamentate) is the inspection body in charge for controlling the quality of the Parmigiano Reggiano production which verifies the origin and traceability requirement perform ex-ante sensory tests on the sensory ripeness of the cheese, etc.

In recent years, however, the consortium has experienced an extended crisis due to over-production, with falling prices having forced many small dairies to close. As a result, many stakeholders from outside the GI area have entered the organization through the acquisition of local processing plants. The new entrants lobbied for a change in the GI regulation of Parmigiano Reggiano (Dentoni et alii, 2012: 208). In the past, small-scaled operators of the Consortium had reacted to such pressures by creating the sub-consortia of "Parmigiano Vacche Rosse" and "Parmigiano Vacca Bianca Modenese". This resilience strategy has been thoroughly analyzed within the framework of the emergence-approach (Sidali et alii, 2013b).

In 2008 the producers of dairy products of the Appennino Mountains grounded the Consortium of Mountain Regions (Consorzio Terre di Montagna). Among them, all the ten dairies producing the Parmigiano Reggiano cheese in the area adhered to the Consortium. Because of the particular setting of the mountain, they have been trying for years to differentiate their cheese from the Parmigiano Reggiano producers of the plain. Despite the initial opposition, in 2013 the Parmigiano Reggiano Consortium agreed to produce the additional green mark, which reads "Product of the mountain" for the producers set in the mountain region that request it. Following the approval all the nine existing Parmigiano Reggiano dairies asked for the use of the additional label.

Our goal is to outline the strategies that members of a GI common use to avoid the problem of quality standardization and free-riding. Against this background, the choice of the case Parmigiano Reggiano is coherent for two main reasons. Firstly the Consortium is suffering from fierce price competition that has been exacerbated by the entrance on the market of some large dairies that are considered internal free riders by (above all) small-size dairies. As it will be shown in the remainder of this paper especially the small-size producers settled on the mountains -who are the focus of this work- tend to consider the new comers as opportunistic actors rather than peer members, since they are suspected to lower quality complying with minimum standards in order to reduce costs, though enjoying the halo effect of the GI reputation. Secondly within the timeframe of the current project, the authors have witnessed the creation *in fieri* of a parallel consortium, namely the "Consorzio Terre di Montagna" (CMR) to which both Parmigiano Reggiano and other mountain cheese producers belong. Whilst not all mountain cheese producers settled in the area belong to the CMR, at the time of the interview all ten mountain producers of Parmigiano Reggiano were members of the CMR. Thus, the latter belong both to the main Parmigiano Reggiano (PR) consortium and to the newly grown CMR. Our analysis shows the path they followed in order to constitute this new cultural property.

4. Methodology

In order to follow our purpose, we chose a ground-theory approach focusing on actors belonging to different governance-cultures both within the GI consortium and outside it.

Thus, in our analysis, we used documentation related to the PR consortium from the scientific and popular literature, as well as from the e-content of various online associations of experts and practitioners dedicated to the study of GIs. In a first phase of the study secondary literature was collected and analysed in order to highlight characteristics, evolution, strengths and weaknesses of the Parmigiano Reggiano (PR) consortium. In a second phase we triangulated these results with 24 qualitative, in-depth interviews, conducted between early 2012 and end of 2013 with members of the GI consortium. Our face-to-face interviews were carried out both with members of the GI consortium and their critics. Specifically, outside the consortium we managed to interview actors belonging to the public domain, such as civil servants of the regional government and members of the control and certification body, NGOs and consumer associations, as well as experts both within and outside the Parmigiano Reggiano supply chain. The qualitative approach has allowed us to investigate which meta-cultural certification practices and scientific discourses were used to achieve the sub-consortium's institutionalization.

5. Findings

The theoretical framework conceptualized has been applied to the case study in order to compare it with the findings of our empirical research. *In the inputs phase* we found out how the crisis that characterized the market in the period prior to the establishment of the Consortium of Mountain Regions (CMR) caused a radical uncertainty that producers voiced as strongly due to two factors: falling prices for cheese production which were mainly due to overproduction within the time frame 2005-2010, and 2) the entrance of new producers - which further exacerbated the situation, since even 'old barns were re-opened'. The crisis reached a peak in 2009 and the situation was even more severe in the mountainous territory.

"Some producers of Grana Padano {the main competitor of Parmigiano Reggiano} have bought dairies {in the plain} in order to add it {the Parmigiano Reggiano} to their product portfolio" (interview with a member of the certification body).

A crisis situation such as this is expanded by the geophysical morphology of a mountainous territory, since the existing infrastructure tends to be less efficient than on flat land, leading to a dispersion of added value along the chain. In the case of Parmigiano Reggiano dairies located in mountainous territory, the interviews reported:

"the crisis was so acute that producers were hardly managing to cover production costs" (interview with a member of the CMR).

There were ten Parmigiano Reggiano dairy producers at the time in the area. Most of them saw their territorial proximity as an asset in creating a collective mountain brand, a strategy that would signal a specific quality next to the PDO label and Consortium brand (Dentoni et alii, 2012), allow to elude intermediaries and directly market the mountain Parmigiano Reggiano cheese abroad by reaching a higher mass of production. The creation of the CMR is explained by one of the members as follows:

"Our dairies here in the area.... we met, we analysed the situation and we said let's try to do something to try to valorise the mountain product (...) because individually our dairies have produ-

ctions which are very small (...), so {we cannot} propose them to distribution chains and supermarkets, whereas by joining together we can achieve... reach a much greater production mass" (interview with a member of the CMR).

Facilitators:

Environmental friendliness is in line with the Zeitgeist of a new environmental awareness because it "unites the interests of certain types of producers and consumers" (Lee and Wall, 2012, p. 6). In the case of mountain Parmigiano Reggiano, the ten producers chose this positioning strategy not only to meet the cultural trends of consumers, but also as a way to mitigate conflicts with other members of the main Parmigiano Reggiano consortium, perceiving, though this may be disputable, to be more environmentally friendly:

"We don't want factions (...), the mountain product accounts (productively) for only 20% of total production (...) but we are certainly more environmentally friendly" (interview with a member of the CMR).

Furthermore, the ten producers of the mountain Parmigiano Reggiano felt they were supported by a favourable legal framework, which allowed them to emancipate from the Parmigiano Reggiano consortium.

"Thanks to the EU policy on mountain products, the {Parmigiano Reggiano} consortium has a label for mountain products (...) an internal commission regarding mountain Parmigiano Reggiano dairies has been established with the task of identifying the criteria for marketing this mountain product, although the {Parmigiano Reggiano} consortium does not have any power, ...because it is a European law".

One of the actors in the NGO-sector, which has significantly influenced food policy making, is without a doubt the Slow Food Movement. This association was founded in Italy in 1989, with several aims, including that of opposing itself to fast food and fast life, and fighting against the disappearance of local food traditions, while raising awareness on food issues by creating interest in the origin, taste, and impact of food on the world's economy (www.slowfood.com). The close interdependency of the Slow Food Movement with the GI sector is documented by several studies. According to MacDonald (2013), the Italian government has passively profited from the halo-effects of the reputation of Slow Food to promote Italian nationalism and improve local development around the concept of eco-gastronomy. Furthermore, a quality study conducted by Sidali et al. (2012) has shown that the Slow Food/GI relationship is characterized by 'love-hate dynamics'.

As we mentioned before, the mountain Parmigiano Reggiano producers founded an association in 2007 for the marketing of mountain Parmigiano Reggiano and other types of cheese. During this period, the association organized several meetings to attempt to trace a path for further development. Eventually, in 2008 the association legally adopted the form of a consortium, namely the CMR. To cope with the opposition of the Parmigiano Reggiano consortium, which was vehemently rejecting a further differentiation within Parmigiano Reggiano producers, the CMR recruited experts to scientifically test the quality of mountain Parmigiano Reggiano from a sensory perspective, though no specific quality attribute is required by the EU regulation on Mountain Products. Specifically, in 2009 the CMR enrolled scientists from a private university with a strong affinity to the Slow Food Movement, in order to create a sensory profile of its mountain cheese, whilst in 2012 a market research institute was paid to test consumer reactions, revealing (by means of tasting) a preference for mountain Parmigiano Reggiano. Although the authors could not access the findings of the mentioned studies, it

is plausible to imagine that the results of the sensory analysis supported the mountain Parmigiano Reggiano, since the only publicity leaflet on the cheese the authors managed to get included the label of the university recruited for the study. This was certainly a way to increase the legitimisation of the product itself. By commenting the results, the members of the CMR displayed a cautious rhetoric:

Interviewer: Does mountain Parmigiano Reggiano differ from conventional Parmigiano Reggiano from a sensory point of view?

Reply: yes, they {the University experts} do not say it openly (...) the study says that the mountain product tends to develop sensory characteristics that are more ... evident ... (...) while the product from the plain has a more neutral flavour, and the mountain one at the same ageing time has more highly developed sensory characteristics. It is more complex, with other sensory sensations, such as perhaps fruity or spicy features which develop earlier in comparison to the cheese from the plain... let's say this was essentially the outcome (interview with a member of the CMR).

Interestingly, the Parmigiano Reggiano is certified by a third-party certification body which is responsible for the sensory analysis of Parmigiano Reggiano samples to confirm the sensory ripeness of cheese prior to its certification.

Interviewer: Why didn't you recruit the third-party certification body which is responsible for the sensory analysis of Parmigiano Reggiano to create the sensory profile of the mountain product?

Reply: in this case we wanted a third party...even the Department {the certification body} is a third party but less of a third party...(interview with a member of the CMR).

Finally, when asked to compare which institution was less dependent on the PRC, the determinant role was attributed directly to the Slow Food Movement (the university was named after the Slow Food Movement).

Interviewer: Is the University of (...) more independent?

Reply: Yes, yes, we think it is more independent.. Slow Food provides ... more protection for the typicality of products, therefore ... it was the right way to get a certificate .. a real one .. (interview with a member of the CMR).

Overall, it would appear that the efforts set in motion by the mountain Parmigiano Reggiano producers were successful in eliciting the initial opposition of the Parmigiano Reggiano consortium. Either the scientific practices attesting to a higher consumer preference for the taste of mountain Parmigiano Reggiano, or a change in the direction of the Parmigiano Reggiano consortium, or as is more likely the case, a combination of both these factors, finally led to the creation of an internal commission (within the Parmigiano Reggiano consortium) to study the case of mountain Parmigiano Reggiano cheese.

"In 2007 during the first meetings with the president of the consortium (of Parmigiano Reggiano) there was no support, then .. now the commission, the arrival in the Consortium of (name of the person), who previously worked at the Ministry {of Agriculture} with the Minister de Castro, now there is a lot of openness .." (interview with a member of the CMR).

Outcomes:

The steps mentioned above eventually led to the introduction of a more highly regulated level of label differentiation between the current PDO and a "higher quality" version of the PDO.

"{the label of mountain product} is a green badge placed next to the one identifying Parmigiano Reggiano (..) it is now produced by the Parmigiano Reggiano consortium for those Parmigiano Reggiano mountain dairies that formally request it and that, at the time of the interview, constituted the totality of Parmigiano Reggiano in that mountain region." (interview with PRC Director)

Furthermore, the establishment of a collective brand helps the Parmigiano Reggiano mountain producers to tailor the image of Parmigiano Reggiano by combining it with the mountain setting. Though by law no vertical differentiation in the quality is required, the label was meant as being used for this goal.

“the mountain product brand is effectively a preferential brand of origin, as well as denoting quality ... in essence, it doesn’t just identify a geographical area of production – perhaps more restricted compared to Parmigiano Reggiano – but also represents a quality that must be superior” (interview with PRC Director)

6. Discussion

The establishment of the new institution affiliated to the Parmigiano Reggiano Consortium has reduced the asymmetric relationship of the Parmigiano Reggiano mountain producers with the PRC. Mountain Parmigiano Reggiano producers feel they have the same or a similar status as the large scale Parmigiano Reggiano producers from the plain, thus reinforcing and improving governance among all actors within the Parmigiano Reggiano Consortium. At the same time, the independence gained by the mountain producers has helped them safeguarding quality within the newly established institution of CMR. A similar goal was reached in the past by the sub-consortium of “Parmigiano Vacche Rosse” that links the production of Parmigiano Reggiano with the milk of endangered cattle. Also in that case the Slow Food movement helped the producers to organize themselves as a sub-consortium (see Sidali et al., 2013). The differentiation was based in the latter case on genetic specificities and not only on the localisation of the production like in the Parmigiano Reggiano mountain product. Generally speaking, it seems that the institutionalization of such sub-groups is an effective strategy to increase cooperation among homogenous producers, and smoothen contrasts within the governance framework of the broader denomination.

The motivations of the mountain dairies were and still are tied on the one side to the necessity of differentiation from the “standard”, product, owing to higher production costs and price competition, and on the other side to the need of reaching higher market accessibility through concentration. As a result all the mountain Parmigiano Reggiano producers reached a micro-convention, helped by some alliances with the University and on some issues with the Slow Food movement. The authorization to use the label was required by all the mountain Parmigiano Reggiano dairies.

Finally, this improved governance reinforces also the PRC that acts as a “third party body” (Giacomini et alii, 2010) protecting the overall interests of all actors belonging to the PRC. Despite the initial opposition, the PR Consortium has negotiated with the sub-groups of producers thus reaching eventually a win-win situation.

7. Conclusions

In recent years, the number of papers in the field of economics focussing on geographical indications has increased considerably. More and more countries worldwide are displaying interest in these certification instruments (Joguët, 2010; Thual and Lossy, 2011). With the exception of the seminal paper of Dentoni et alii (2012) there are, however, remarkably few studies that

investigate the internal barriers within a GI common due to high member heterogeneity and the strategies adopted by its members to counteract this phenomenon.

Our study confirms prior findings on new-comers' efforts to loose strictness in the code of practice. Governance strategies to reduce free riding in GI schemes and to re-establish cooperation can be implemented even through the creation of formal endogenous or exogenous institutions. The case study analysis shows how some Parmigiano Reggiano members organized themselves in sub-consortia to better provide resilience to such strategies. Hence heterogeneity does display a negative effect on the sense of trust towards the consortium as an institution. However, cooperation can stem among homogenous sub-groups as a resilience strategy showing how a formal institutionalization of sub-consortia within a well established GI common may be successful.

This heterogeneity of producers' structure and characterisation of their production practices is even wider when we deal with mountain products. In the framework of the recent approval of Regulation 665/2014, that introduces fundamental derogations to the implementation of Regulation 1151/2012 on the use of the optional quality term "mountain product", we think that a higher impact of the legislation will be possible. A limit might be represented by the flexibility left to the member states in its implementation, which implies the necessity of coordination at institutional level in order to protect producers and consumers from free-riding behaviours.

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