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Effectiveness of European Appellations of Origin on the International wine market

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Summary

The objective of this paper is to evaluate the role of the Appellation of Origin system on the international wine market, given *i*) the Geographic Indications international legal protection system, *ii*) the main aspects of world wine demand evolution and *iii*) the strategic choices of firms on the international market.

On the demand side, we show through descriptive statistics and economic literature review, the increasing wine consumers' appreciation of reputation and origin attributes. On the supply side, we identify the main quality strategies implemented on the international wine market and show an increasing role of origin in firms' strategic choices worldwide.

Finally, a direct survey on Italian Appellations of Origin concerning the AO registration on the international market shows an increasing risk of an imperfect use of geographical place names. The main consequences are identified for both producers and consumers. Firstly, a misperception of products' quality attributes can arise and menace the effectiveness of AO as informative tool. Secondly, the free riding phenomenon may arise and affect the AO collective reputation with a consequently long term demand drop. A public authority intervention is envisaged in order to reduce market distortions related to an imperfect use of geographical place names.

KEYWORDS: Appellations of Origin, Consumer Information, Intellectual Property Right protection, International Trade Agreements, Wine market.

Introduction

International wine markets are subjected to increasing competition. As traditional wine producing Countries in the EU-25 address the domestic challenges of increasing stocks and stagnating per-capita consumption, the emergence of the so-called "New World" producers has animated extensive international discussions on the issues of labelling, brand protection and Geographic Indications of Origin (GIs) (Camanzi et al., 2007).

In this environment, differentiated products can offer the hope of maintaining profitability. As a sensory experience good, wine differentiation hinges primarily on the transmission and perception of information on product quality.

Consumers face the problem of asymmetric information, with the potential that the average quality in the market will be less than optimal. Conversely, producers need to find ways to efficiently transmit information on their product quality, so as to maximize the potential price premium.

In the traditional European approach, producers tend to organize through consortia, which centre around the Appellation of Origin (AO) designation. This mechanism is much more than a simple geographic delineation. The consortium can be governed by history, tradition, culture, *terroir*, and even by tight controls over production decisions, irrigation, plant varieties etc... Product quality is embodied in everything the Appellation stands for. The AOs play also an important role in EU exports. In fact they provide a tool for product differentiation in order to better fit demand segmentation as to create higher added value for producers.

With growth in international trade, subtle national differences in regulatory and legal frameworks can become major irritants between exporting and importing Countries. Pragmatically, there is a need to find common ground so that trade can continue to flow. Discussions aimed to find that common ground have been taking place for a number of years in different fora. From the 1891 Madrid Agreement to the more recent talks taking place within the TRIPS framework.

At present an important debate is taking place about the meaning of the notification and protection system. According to the US and other "New World" producing Countries the GIs should be based on a voluntary registration system as an identification tool. Therefore GIs should be considered as a form of territorial right and their utilization should be discussed in national legislation. On the other hand according to EU the GIs should enter in a multilateral register that should be enforced in all Countries.

The aim of this paper is to discuss the efficiency of AO system on the international wine market as an instrument that can satisfy both producers and consumers needs, and then to give some suggestions to improve the market performance in the future.

Background

The protection of the Appellations of Origin on the international market

An important debate is taking place in the WTO concerning the legal protection of GIs on the international market. Article 22 of the Trade Related Intellectual Property (TRIPS) agreement provides the general protection for food products, but additional protection is accorded for wines and spirits in article 23 and 24 of the agreement¹.

Article 23.1 permits each Member to "provide the legal means to interested parties to prevent the use of a geographical indication" identifying wines or spirits which do not originate in the place indicated by the geographical indication in question. However, a first issue arises because the TRIPS Agreement does not set out the registration requirements for a geographical indication (Blakeney, 2001). It addresses the issue negatively by permitting, in Article 23.2, Members to legislate to provide "an interested party" to request the refusal or invalidation of the registration of a trademark which contains a geographical indication identifying wines or spirits, which contains or consists of a geographical indication which does not have the indicated origin².

More in detail, Article 23.3 establishes a protection for each geographical indication for wines in the case of homonymous indications. Conflicts typically arise where products on which homonymous geographical indications are used and are sold into the same market. Concurrent use of homonymous geographical indications in the same territory may be problematic where the products on which a geographical indication is used have specific qualities and characteristics which are absent from the products on which the homonym of that geographical indication is used. In this case, the use of the homonymous geographical indication would be misleading, since expectations concerning the quality of the products on which the homonymous geographical indication is used are not met (Blakeney, 2001).

Article 23 stipulates that each Member shall provide legal protection for GIs 'even where the true origin of the goods is indicated or the geographical indication is used in translation

¹ In the current debate, some Countries consider this additional protection as an unacceptable discrimination against all other products and they have agitated for an extension of that protection to all kinds of geographical indications (Blakeney, 2001).

² An important issue currently at stake consists in the provision (Article 23.4) of a multilateral system of notification and registration of geographical indications for wines eligible for protection in those Members participating in the system.

or accompanied by expressions such as “kind”, “type”, “style”, “imitation” or the like’. No mention is made of misleading the public or unfairly competing within Article 23: as the Article is headed ‘additional’ protection, the presumption is that no such conditions are required for GI protection for wines and spirits (Josling, 2006).

However, article 24 establishes important exceptions, which are likely to limit the effectiveness of the international protection of GIs for wines and spirits.

Members are exempted (Article 24.4) from having to “prevent continued and similar use of a particular geographical indication of another Member identifying wines or spirits in connection with goods or services” where GI has been used “in a continuous manner with regard to the same or related goods or services” in the territory of that Member either for at least ten years preceding 15 April 1994 (the date of entry into force of the TRIPS Agreement) or where the continuous use has been in good faith. For example, US. Bureau of Alcohol, Tobacco and Firearms (BATF) permit the use of “semi-generic names” such as “Champagne”, “Burgundy” and “Chablis” if “the correct place of origin is directly conjoined to the name” (Brody, 1994).

Article 24.5 states that when a trademark has been acquired or registered in good faith before the date of application of the Agreement in that Member, or before the geographical indication was protected in its country of origin, measures adopted to implement TRIPS Section 3 shall not prejudice eligibility for or the validity of the registration of a trademark or the right to use a trademark, on the basis that such trademark is identical with or similar to, a geographical indication.

Parallel to, but distinct from the TRIPS Agreement, there are a number of bilateral and multilateral (including regional) agreements, which contain provisions modifying the TRIPS provisions dealing with geographical indications.

For example, in 1994, the EU negotiated an agreement with Australia which included the phasing-out of European wine names used by Australian wine-makers that had entered into generic use. The Agreement also provided for mutual recognition of oenological practices of each party and improved European market-access conditions for Australian products, by removing a number of technical barriers to trade between both parties.

On March 10, 2006, the US-EU wine trade Agreement has been signed. The Agreement covers wines with an actual alcohol content of not less than 7% and not more than 22%. It addresses several key issues, sets a framework to facilitate future wine trade between the United States and Europe and provides for mutual acceptance of existing oenological (wine making) practices (with the mutual acceptance of wine making practices the US will exempt EU wine from new US certification requirements for imported wine), certification (the EU will simplify its import certification requirements for US wine) and labelling (the Protocol on Wine Labelling, sets specific conditions for the use of names of vines, vintage characteristics, production methods, product types and variety names).

Moreover, the US and the EU agree to recognize certain of each other's names of origin in specific ways (article 7) and the US agrees to seek legislative changes to limit the use of 16 semi-generic names. The “traditional expressions” that the U.S. will be allowed to use under specified conditions are: Chateau, classic, clos, cream, crusted/crusting, fine, late bottled vintage, noble, ruby, superior, sur lie, tawny, vintage and vintage character. These terms may only be used if they have been approved for use on wine labels in the U.S. on a Certificate of Label Approval (COLA). Current US laws permit these names to be used on non-European wine. The new rules will prohibit new brands from using these names on non-European wine, but will grandfather existing uses of these semi-generic names.

The effectiveness of Appellations of Origin for producers and consumers

According to the economic theory, the creation of a brand has important effects on social welfare.

First of all we know that when the quality of the product is not adequately signalled to consumers, a decrease in the average quality provided on the market is expected to arise. In this sense, the brand acts as informative tool and can increase consumers' utility.

Secondly, the brand creation increases quality differentiation and thus let producers gain positive profits in the short-term, according to the degree of products substitutability (Dixit and Stiglitz, 1977).

Finally, as far as the brand corresponds to an actual quality differentiation, the Intellectual Property Right acts as a tool to protect both consumers and producers interests.

In the specific case of Appellations of Origin, we can consider that an AO has an important role for both producers and consumers. On the demand side, the Appellation of Origin represents a quality signal, which provides information about the region of origin and the wine's average quality. On the supply side, the Appellation of Origin represents a long-term commitment constraining firms' strategic choices in terms of quantity and quality; in exchange, producers have access to a collective reputation.

On the one hand, Appellations of Origin represent a way to solve of the asymmetric information problem (Laporte, 2001). In a context where the wine's quality is not directly observable to consumers, AO represents an important quality sign concerning the wine characteristics by providing information about the wine geographical origin and its average quality. In fact, wine market is characterized by a very heterogeneous supply and the impossibility to observe the product quality before purchase. This leads to relevant asymmetric information between producers and consumers and consequently implies strong promotional and information research costs (Nelson, 1970, Darby e Karny, 1973). The major consequence of quality signals' inefficiency as regard to consumer's expectations on quality and typicality is the risk of a decrease in the average quality level supplied on the market, which can imply a long-term demand drop (Akerlof, 1970). In this context, the AO aims at reducing consumers' information costs.

On the other hand, Appellations of Origin have important consequences on the "characteristics space" (Lancaster, 1966). The *delimited production area* and the existence of *specific production requirements* (the maximum yield of wine from grapes, the minimum density of rootstocks per hectare, the minimum natural alcohol level by volume, the minimum total acidity, etc) confer to wine *specific quality characteristics and substantially differentiate each Appellation of Origin from the other ones*. As a result, the construction of an AO provides an increase in the *inter-appellation* quality differentiation and a decrease in the *intra-appellation* quality differentiation, by conferring specific quality characteristics to the wines belonging to the same AO. The quality differentiation is thus based on the *specific production requirements* to which producers commit. In exchange of quantity restrictions (delimited production area and maximum yield per hectare), which limit producers' strategic flexibility in the long term, producers have access to a collective reputation, which may increase consumers' willingness to pay for the AO (Chambolle, Giraud-Héraud, 2003).

Objectives and methodology

The objective of this paper is to discuss the performance of the Appellation of Origin system on the international wine market, with respect to some relevant context factors, such as: *i*) the GIs international legal protection system; *ii*) the world wine demand trend and size; *iii*) the strategic choices of the competitors on the international market.

In particular, the analysis aims at identifying the key factors that determine the effectiveness of Appellations of Origin to provide both profitability for producers and satisfaction for consumers.

We will show AO importance for producers by describing how it helps to build and give access to a collective reputation, making it profitable for them to undertake relevant investments for quality.

As regards consumers we intend to point out that AO are an effective tool for them to recognize the quality attributes they look for, especially when they are seeking an actual link with *terroir*: this means that the AO represent a valid solution to the asymmetric information problem.

The study is conducted in three steps.

First, we carry out a demand analysis in order to evaluate consumers appreciation of origin attributes. The demand analysis is conducted through descriptive statistics and a critical review of the related economic literature.

The second step of our methodology consists in a supply analysis carried out in order to describe and evaluate alternative market strategies adopted by the main wine producing Countries and in order to identify the role of origin in firm's strategic choices.

Thirdly, through two empirical analyses we intend to show the risks that arise for both consumers and producers as a consequence of the coexistence of the brand names and AOs on the international markets.

The first investigation is conducted the United States Patent and Trademark Office (USPTO) trademark register database in order to illustrate some cases of imperfect use of quality signals on the international market. This analysis is aimed at quantifying the actual risks of altering of consumers' quality perceptions and of weakening of Appellations' reputation on the international markets.

Further, we conducted a direct survey on the Italian AO Consortiums Association (Federdoc) in order to give some insights into producers' efforts to register the collective brand on the international markets.

Results

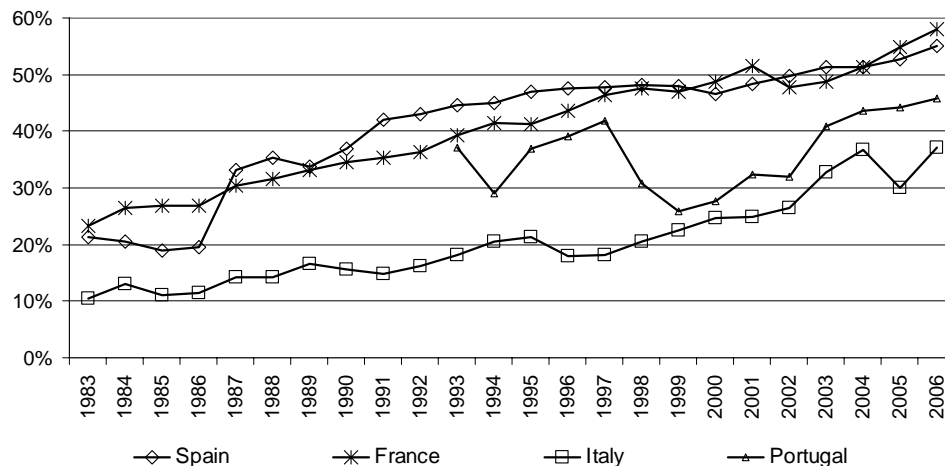
Consumers' appreciation of quality and origin attributes

This section of the paper aims at evaluating the role of quality in consumers' behavior through descriptive statistics and literature review.

The demand analysis shows that wine's quality seems to be a fundamental factor behind consumption trends. In fact, if we consider the demand for wine from 1984 to 2003, we observe that the two categories "quality wine" and "table wine" have been moving in different directions. In particular, there has been a substantial fall in consumption of "table wines". Over the same period there has been a growth in consumption of "quality wines", but not sufficiently large to compensate for the reduction in the first category.

If we consider the traditionally producing and consuming Countries (France, Italy and Spain), the gross human consumption per-capita (GHC) of total wine has decreased about 40% from 1984 to 2004, whereas the opposite trend is registered in the case of quality wines PSR. Figure 1 shows the role of quality wines PSR on the total GHC per capita in France, Italy, Spain and Portugal.

Figure 1 - Role of quality wines PSR on per-capita gross human consumption in the traditionally wine producing and consuming Countries (1983-2006)



Source: Eurostat data, Wine Balance Sheet (2006)

European consumers appear to be more quality-oriented than quantity-oriented. The raising importance of occasionally wine consumption is confirmed by several socio-economic surveys. In 2003, about 67% of Italian wine consumers consume wine each day, while about 33% consumes wine occasionally. The 75% of occasional consumers is identified as «wine-passionate» consumers, which also have a «wine-culture». As for France, the INRA-ONIVINS survey 2005 confirms the increasing role of occasionally consumption.

As for the Italian market, a recent ISMEA's survey (ISMEA, 2005) examines the role of the designation of origin in consumers' purchase choices. According to this survey, Italian consumers recognize the Appellations of Origin as high quality products from the point of view of *i*) taste and *ii*) food safety (due to the existence of production system's control mechanisms). Moreover, an increasing knowledge concerning AO is registered, which highlights an increasing interest in these categories of products.

Further, the demand analysis through the review of economic literature shows, an increasing relevance of objective characteristics (as region of origin, the reputation and other objective characteristics) on consumers' willingness to pay for wine.

When a product has a high proportion of attributes that can only be assessed during consumption (experience attributes) as with wine (Chaney, 2000), then the consumers will fall back on extrinsic cues in the assessment of quality (Speed, 1998).

Several papers show the impact of objective characteristics on price differentials. This category includes the vintage's year, the Appellation, the region, the grape variety, which usually appear on the label and are therefore easy to identify by consumers.

Combris et al. (1997, 2000) use data for Bordeaux and Burgundy wine to estimate a hedonic price function. In both studies, price is strongly explained by objective attributes appearing on the label of the bottle. The authors conclude that consumers may decide to vary their willingness to pay for wine primarily according to observable attributes. See also Nerlove (1995) and Gergaud (1998) for an analysis carried out using the data for Champagne. The relevance of objective traits is also underlined in Oczkowski (1994).

Landon and Smith (1997), use an unbalanced panel of 196 red wines from the five Bordeaux vintages from 1987 to 1991 and estimate two hedonic price equations. The authors confirm the relevance of the objective traits and show that long term reputation explains much more variation in the consumers' willingness to pay than does short term quality changes. This finding has been confirmed by focusing only on a balanced panel of

151 wines for the 1989 and 1990 vintages (Landon and Smith, 1998). Subsequent applications to premium wines from North America, Australia, South Africa and Chile by Schamel (2000) and to Australian premium wines by Oczkowski (2001) support the presence of significant reputation effects.

Schamel (2003) estimates a hedonic pricing model of premium wines sold in the U.S in order to analyze the factors behind price differentials based on regional origin and points out that the domestic regions command higher prices than wines imported from other New World sources.

As for the Italian market, Benfratello, Piacenza, Sacchetto (2004) estimate an hedonic model using a dataset on two premium quality wines (Barolo and Barbaresco) covering the 1995-1998 vintages and show that the reputation acquired by wines and producers during the years is more important than taste in driving market prices.

Other papers, dealing with experimental studies, point out that the AO can improve consumer's WTP (Bazoche, Combris, Giraud-Héraud, 2005).

Mtimet and Albisu (2006) examine Spanish AO wine consumer behavior by the use of a choice experiment technique. Empirical results indicate the importance of the designation of origin and the wine aging attributes on wine selection. The grape variety variable, although it has a lower utility values, is also found to be significant (especially a foreign variety), thus confirming the emergence in the Spanish wine market of the "New World" marketing strategies based on well-known varietal wines.

Quality strategies on the international wine market: the role of origin

Two main production–marketing systems coexist on the international wine market. Behind these systems two main strategies can be identified: the private brand strategy and the Appellation of Origin system. These two strategies can be distinguished through the degree of commitment-flexibility, which characterizes producers' strategic choices.

The *private brand strategy* is advantageous for the firms, because it allows speedier adjustments to market conditions, particularly changing in this field of the agrifood consumption. Let us consider as an example the large firms of "New World" producing Countries (Jacob's Creek, Gallo, Southcorp, etc.). These firms develop a whole series of brands, easily identified by consumers, thanks to a great market volumes and notoriety. Considerable investments in promotion are associated with these brands. The firm efficiency is based on its capacity for scale economies, which allows it to meet market volume requirements and to develop strategies of price promotion. For example, around 66% of Australian wine is sold on price or multi-buy promotion on the UK market.

On the other hand, the *Appellation of Origin system* requires the producer's commitment to specific production requirements, which constraint the producers in terms of quantity. In exchange, the producer benefits from a collective reputation related to the Appellation. The quantity constraints may result in a loss of strategic flexibility (Giraud-Héraud, Grazia, 2006). The loss of strategic flexibility can constitute a limitation of firm's expansion in the markets which are characterized by an increasing wine consumption trend (mainly the Anglo-Saxons Countries) and thus by a great level of competition between Appellations of Origin and "New World" wines. Indeed, whereas the wine consumption is nowadays stagnating in the Countries with the highest wine production (and consumption) as France, Italy or Spain, on the other hand, it is not the same in the U.S.A, in the United Kingdom and in the Asian Countries, as China or Japan, where the competition between the AO and the private brands is very strong and leads to several strategic difficulties for the producers.

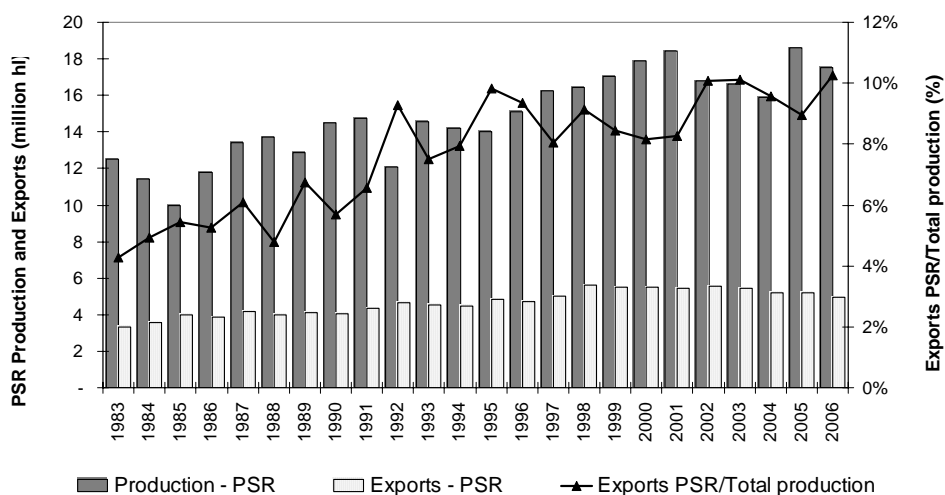
The importance of wine origin for traditionally producing Countries', can be appreciated from the following graph showing the trend of wine *production* and *exports* in the leading trio of producing and exporting Countries (France, Italy and Spain)³.

Table wines still make up more than half of Community wine production (98 million hl in the 2004/05 wine year) but their share is declining in favor of quality wines. The increase in the share of quality wines on the total wine production is mainly resulting from conversion of lands and reclassification on some table wines in response to changing demand.

The analysis of the trend of volume of *exports* by category of wine (for France, Italy and Spain), points out that the growth in exports of quality wines has been slower but more constant than for table wines. This points out a relatively stability of quality wines' image on the exports markets.

The conjoint analysis of the trend in production and exports points out that the relative importance of exported volumes of quality wines with respect to the total production has increased in the period 1983-2006 from 4% to 10%. This points out an increasing importance of quality wines strategy for the traditionally producing Countries with respect to exports markets.

Figure 2 - The relative importance of quality wines PSR exports on total wine production in the trio of leading world producing and exporting Countries



Source: elaborations on Eurostat wine balance sheet (1983-2006)

The competition between the two systems mentioned above (*private brand* vs *Appellation of Origin*) is particularly tight in those markets characterized by increasing consumption. Nevertheless, we observe that many producers around the world started to use Geographical Indications to differentiate their product (Hobbs, Kerr, Phillips, 2001): the increasing competition by foreign wines and the evolution of consumers' behavior towards an increasing appreciation of quality, implies the implementation of origin-oriented strategies.

³ France, Italy and Spain together account for 50% of world production and 60% of world exports.

In this perspective is worth noticing the development of the American Viticultural Areas (AVAs) in California and in particular in Oregon and Washington (Rousset, Traversac, 2006): over 160 American Viticultural Areas are nowadays approved.

An American Viticultural Area (AVA) is a delimited grape-growing region distinguishable by geographic features, with boundaries defined by the United States government's Alcohol and Tobacco Tax and Trade Bureau (TTB). The TTB defines these areas at the request of wineries and other petitioners. An AVA specifies a location. Once an AVA is established, at least 85% of the grapes used to make a wine must be grown in the specified area if an AVA is referenced on its label. Current regulations impose the following additional requirements on an AVA: *i*) evidence that the name of the proposed new AVA is locally or nationally known as referring to the area, *ii*) historical or current evidence that the boundaries are legitimate and *iii*) evidence that growing conditions such as climate, soil, elevation, and physical features are distinctive. It can be noticed that the AVA implies a lower level of commitment as compared to the European AO. In fact, it does not limit the type of grapes grown, the method of vinification, or the yield, for example. Some of those factors may, however, be used by the petitioner when defining an AVA's boundaries.

The use of Geographical Indications in Australia started in 1993 when the Australian Wine and Brandy Corporation Act (1980) was updated to enable Australia to fulfill its Agreements with the European Community on Trade in Wine and the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS). The use of GIs is aimed at “providing the legal means for interested parties to prevent use of a geographical indication identifying wines for wines not originating in the place indicated by the geographical indication in question”. With respect to the European AO system, it is much less restrictive in terms of viticultural and winemaking practices. In fact the only restriction is that wine which carries the regional name must consist of a minimum of 85% of fruit from that region. This protects the integrity of the label and safeguards the consumer.

The assessment of the effectiveness of Geographical Indications on the international market: empirical results

In order to assess the risk of consumers' misperception of the link between the geographical place name and the actual region of origin, we carried out an analysis on the USPTO database with respect to the 17 "semi generic" names concerned by the EU-US Wine Agreement. This analysis points out some examples of trademarks, which explicitly refer to European Appellations of Origin, but have been registered by firms located outside the delimited production area.

The main results of the analysis are the following:

- Several semi-generic names appear in non-wine related products. In this case the level of consumers' misperception is relatively low. See for example, “The Champagne of Tea”, “Pink Champagne” (Beauty products), “The Champagne of Water (Drinking Water), “Champagne Honey mustard splash” (salad dressing) or “Marsala” (Fresh olives and grapes), Porto's (Bakery goods);
- Some of the semi-generic names are explicitly mentioned in trademarks referring to wine (relatively high risk of misperception), which have been registered by producers located outside the delimited production area. See examples in the Table below;
- A few semi-generic names are not registered as trademarks, neither from producers located in the delimited production area, nor from US firms (Haut Sauterne, Hock, Moselle, Retsina, Sauterne). “Porto” and “Malaga” do not appear in trademarks registered from producers located outside the delimited production area;
- The most “used” geographical place names (both in non-wine and wine related sectors) are likely to be those with the highest notoriety on the international

market; thus, in addition to the risk of consumers misperception, an opportunistic behavior may take place, when producers located outside the original production area may take advantage of the Appellations of Origin collective reputation;

- In particular some multinational firms seem to develop a sort of strategy based on an explicit mention to European Appellations of Origin (Arbor Valley).

Table 1 - Registration on the US market of semi-generic names

Burgundy	Arbor Valley American Burgundy, Inglenook classic Burgundy Taylor California Cellars Burgundy
Chablis	Arbor Valley American Chablis Inglenook Chablis
Champagne	Chamblue (Sparkling wine)
Claret	Bearitage California Claret, Vanderbilt Claret, Crown Claret
Madeira	Arbor Valley American Madeira
Marsala	Arbor Valley American Marsala
Rhine	Taylor New York Rhine Wine
Sherry	Arbor Valley american Sherry, Arbor Valley american cream sherry
Tokay	Y-Tokay

Source: elaboration on United States Patent and Trademark Office (USPTO)

As a second step of the investigation, we searched the USTPO database for names similar to the Italian Controlled and Guaranteed Denominations of Origin (DOCG). The results are shown in the following table.

Eleven out of the thirty-four DOCG names are not registered at all (neither from the Consortium nor from other firms not related with the actual product's origin or with the wine sector). These are the following: Albana di Romagna, Bardolino, Carminiano, Ghemme, Soave Superiore, Taurasi, Torgiano Rosso Riserva, Valtellina Superiore, Vermentino di Gallura, Vernaccia di San Gimignano, Gattinara.

More interestingly, we found that some DOCG are not registered by the Consortium, but their geographical place name has been registered as trademark or service mark by non-wine related firms (Barbaresco, Barolo, Chianti, Gavi o Cortese di Gavi). IN this case the risk of misperception is relatively high, in particular for the DOCG Chianti, which has not been registered by the Consortium. In fact, its geographical place name appears in wine-related trademarks (Arbor Valley American Chianti, Inglenook Chianti, Good Chianti, Chianti Station).

The risk of misperception can arise in spite of the registration from the Consorzio di Tutela. For example, the DOCG Asti has been registered by the Consortium, but the geographical place name "Asti" appears in trademarks registered by non-wine related firms.

An effective intervention of the Consortium is registered for Brachetto d'Acqui, Brunello di Montalcino, Chianti Classico, Franciacorta Spumante, Gattinara, Ramandolo, Recioto di Soave and Vino Nobile di Montepulciano.

A relatively important action is that of individual firms, which register their individual brand (containing the geographical place name of the AO). Let us consider for example the trademarks, Marchesi di Barolo, Primore Casa Vinicola in Gattinara, Gavi La Scolca,

Martini & Rossi Asti Spumanti Martini, The Bosca Millennium Collection Asti, Poggio Rosso Chianti Classico, Barone Pizzini Franciacorta DOCG brut.

In some cases the individual registration strategy allow the firm to protect its brand (and indirectly the geographical place name of the concerned AO), in spite of a lacking intervention of Consorzio di Tutela (Ruffino Chianti 2004 dal 1877 DOCG, Chianti DOCG 2001 Piccini, Chianti Vino Pasolini).

Table 2 - Registration on the US market of Italian DOCG

	Registered by the Consorzio di Tutela	Risk of mis perception	
		Registered in wine sector (high risk)	Registered in non-wine sectors (low risk)
Asti spumante – Moscato d'Asti	Consorzio dell'Asti (Trademark), Asti (Certification Mark)		Astipure, Asti, Asti aircraft safety technology, Asti magnetics corp.,
Barbaresco			Barbaresco (Service Mark)
Barolo			Villa Barolo Ristorante and Wine Bar (Service Mark), Barolo, Barolo Tuscan Grill (Service Mark), Barolo (watches), Barolo (shoes)
Brachetto d'Acqui	Brachetto d'Acqui (Certification Mark)		
Brunello di Montalcino	Brunello di Montalcino (Certification Mark)		
Chianti		Arbor Valley American Chianti, Inglenook Chianti (Constellation Brands), Good Chianti, Chianti	Chianti
Chianti Classico	Chianti Classico (Trademark), Chianti Classico dal 1716 (Trademark), Consorzio Vino Chianti Classico (Collective Trademark)		
Franciacorta Spumante	Franciacorta DOCG (Trademark)		
Gavi o Cortese di Gavi			Gavi, Gavi Fund, Piazza Gavi
Montefalco Sagrantino	Montefalco Sagrantino (Certification Mark)		Sagrantino di Montefalco (Service Mark), registered by an italian firm
Ramandolo	Ramandolo (Trademark)		
Recioto di Soave	Recioto di Soave (Certification Mark)		
Vino Nobile di Montepulciano	Vino Nobile di Montepulciano (Certification Mark)		

Source: elaboration on United States Patent and Trademark Office (USPTO)

In order to give an insight into traditional wine producing Countries attitude towards brand registration in international markets we conducted a direct survey among the most representative Consortia in Italy.

Consortia were chosen from the National Confederation for Voluntary Consortia for the Oversight of the Denominations of Origin (Federdoc).

Results refer to 21 Consortia that account for 40,3% of Italian production with Appellation of Origin.

The survey shows that almost one out of two Consortia interviewed (48%) have not taken any action yet to register their Appellation of Origin as a brand, neither on the national or EU market, neither on the international market. At least two of them are presently evaluating the cost of registration in few Countries which are their main importers.

Among those Consortia that already have registered a mark we notice that quite a few (19%) have taken this action only to protect their Appellation on the National or European market.

Therefore only one third of the Consortia considered makes use of international marks, in the form of individual trademarks, collective marks and international marks (according to the Madrid Agreement).

The most used tool for Appellation protection on the international markets is the Individual trademark, chosen by 24% of Consortia of our sample, followed by the collective mark which is used by a smaller percentage of Producers Associations – 19%. Only in one case (5%) we recorded the use of the Madrid Agreement through which the Appellation is protected in 31 Countries.

Table 3 – Attitude of Italian Consortia towards marks

Strategy	Consortia	
	(n.)	(%)
No action	10	48%
<i>Presently evaluating costs of registration</i>	2	10%
Registered international marks	7	33%
<i>Trademark</i>	5	24%
<i>Collective mark</i>	3	14%
<i>Madrid Agreement</i>	1	5%
National or European collective mark	4	19%
Total	21	100%

Source: Direct survey on Appellations of Origin associated to Federdoc

As regards the Countries in which Appellations seek for protection, Canada and the US are leading the list (71% of cases), followed by Japan (57%), Argentina, Australia, Chile and South Africa (43%).

Another relevant group of Countries includes Brazil, Philippines, Mexico, New Zealand, Venezuela, in which 29% of our sample Consortia registered their marks.

Finally there are several Countries such as India, Indonesia, North Korea, Paraguay, Peru, South Korea, Switzerland, Taiwan, Thailand and Uruguay, where only one Appellation is registered as mark.

Table 4 – Countries in which marks are registered by Italian Consortia

Countries	Registered marks	
	(n.)	(%)
Canada, USA	5	71%
Japan	4	57%
Argentina, Australia, Cile, South Africa	3	43%
Brazil, Phillippines, Mexico, New Zealand, Venezuela	2	29%
India, Indonesia, North Korea, Paraguay, Perù, South Korea, Switzerland, Taiwan, Thailand, Uruguay	1	14%
Total	7	100%

Source: Direct survey on Appellations of Origin associated to Federdoc

In the last three years the overall registration process cost was about 126.000 euro and it has been more expensive for trademarks (almost 89.000 euro) than for collective marks (37.300 euro), but this is due to the greater use of the former as compared to the latter.

At present two important Consortia are pursuing registration of both trademarks and international marks in many other Countries such as Albania, Algeria, Bulgaria, Croatia, Cuba, Malta, Morocco, Romania, Singapore, Tunisia, Turkey, Vietnam.

The main difficulties come up in the registration process relate to refusals, in particular in Australia, Canada Russia and Switzerland. Other issues arose because of the bureaucratic burden, the excessive time length and costs (consultants and personnel) required by the procedure.

As for the legal actions in protection of the Appellation or the mark the survey shows that Consortia had to spend even more than for the registration process (164.000 versus 126.100 euro). However we notice that in most cases they are oriented at protecting the Appellation of Origin, with a cost up to 114.000 euro, while the protection of the trademark / collective mark occurred more rarely with a lower overall cost.

Final remarks

The higher competitiveness on the international wine market, in the last years, has increased the implementation of strategies to differentiate production and at the same time, it has increased the demand for a protection system apt to guarantee high investments and commitments by producers.

The study conducted aimed at assessing the effectiveness of the AOs on the international wine market. The results of the analysis conducted are both positive and negative. As for the negative factors, we observe a weak performance of AO on international markets. In fact, given the present IPR system, in some case we observe a double registration of brand, and double costs for producers: one for the AO registration, and one for the industrial brand registration. Further, we observe a weak recognition of specific investment and quantity and quality commitment for AO producers and some risk of altering of consumer quality perceptions.

The debate at national and international level, concerning industrial brand and AO brand, is linked to distribution of monopole rent derived from monopolistic competition by the brand. In the case of industrial brands, since these are property of a firm, the firm will directly benefit from them. In the case of AOs, the beneficiaries are all the producers of the area, who may be considered as a club. In fact the management of AO is always a collective concern, with many difficulties because of the different interests and behaviors of the beneficiaries.

This is why, in order to develop its potential benefits, the AOs need a strong economic regulation and specific controls to adapt, by one hand, supply to demand to avoid short term opportunist behaviors and stabilize product's quality in the long term, and, by the other hand, to increase its notoriety and information guarantee and trust to consumers. Individual and collective brand should coexist, with differentiated and specific dynamic to fit in wider segmented wine markets.

Moreover the AO implies specific techniques, a traditional competence linked to territory, a collective patrimony, with an economic value and also a strong social and cultural dimension that constitute determinant factors of quality policy for European producers.

This is another reason why we believe that the present IPR system should be improved in order to avoid an improper use of geographical place names. In addition to this a more intense promotional effort should be provided by both economic agents and institutions in order to take full advantage from the opportunities offered by the AO system.

All this considered, and given the importance of the AO to protect and incentive intangible investments such as *terroir*, tradition and social history, we suggest that AOs should be accorded a more extensive recognition on the international market.

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