

Strength of Protection for Geographical Indications: Promotion Incentives and Welfare Effects

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Abstract

This paper addresses the question of how the strength of protection for geographical indications (GIs) affects the GI industry's promotion incentives, equilibrium market outcomes and the distribution of welfare. We develop a model whereby GI producers engage in informative advertising by associating their true quality premium (relative to a substitute product) with a specific label emphasizing the GI's geographic origin. The extent to which the names/words of the GI label can be used and/or imitated by competing products (i.e., the strength of GI protection) determines how informative the GI promotion messages can be. Consumers in the model are assumed to have heterogeneous preferences, vis-à-vis the quality premium of the GI product, in a vertically differentiated framework. On the production side, both the GI industry and the substitute product industry are assumed to be competitive (with free entry), and to display upward-sloping industry supply functions. The model is calibrated and solved for alternative parameter values of interest. The computational results that we obtain show that the strength of GI protection has clear impacts on GI producers' incentives to promote their product. What strength is best from the aggregate welfare point of view, however, depends on the model's parameters, and an intermediate level of protection might be optimal in some circumstances. Producers of the GI and of the lower-quality substitute good have divergent interests: GI producers are generally better off with full protection, whereas the substitute good's producers prefer intermediate levels of protection (but they never prefer zero protection because they benefit indirectly if the GI producers' incentives to promote are preserved). For consumers, the preferred level of protection depends on the degree of knowledge of the substitute good, and a less-than-strongest protection may be optimal.

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Comments are welcome

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