

Wheying up the Options: How do Geographical Indications used in the European Union Influence New Zealand Speciality Cheese?

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“Blessed are the Cheese makers!”

Monty Python's Life of Brian (1979)

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Abstract

Global food production, supply chains, and food quality are coming under increasing scrutiny by consumers, environmentalists and governments. Particularly in developed countries, there is growing awareness among consumers about food origins and environmental practices. There are increasing concerns over animal welfare and protection and due to food scares in the late 1990's, and more recently contamination issues from additives within supply chains and food borne illness outbreaks in Europe. It is no surprise then that food safety and traceability matters have become an issue of public and governmental concern. There is much debate currently about globalisation of the international trade of food commodities. There is also a growing awareness about and changing attitudes towards the provenance of consumers' food sources. This dichotomy provides the background argument to this thesis.

Europe has long been considered the home of finely crafted cheeses and this thesis aims to examine how the use of Geographical Indications (GI's) by the European Union (EU) can influence New Zealand made speciality cheeses. The EU system of GI's and the protection of specialised food and agricultural products has enabled companies to build strong reputations in the global marketplace and also within the internal market in order to charge premium prices for these protected products. The vast majority of the world's GI foods are located in Europe. This thesis aims to argue that while there is not an official system for the control of labels of origin for the names of speciality cheeses in New Zealand, they are used nonetheless. These labels of location are used to denote certain qualities, production methods or guarantee and differ from standardised, commoditised cheeses. This thesis discusses the use of GI's in the cheese industry as a way for New Zealand cheese producers to create product differentiation and as a means of communicating product quality through provenance branding.

This thesis uses qualitative research methods to gauge industry opinion regarding the nature of the speciality cheese industry in New Zealand in order to better understand the reasons for naming speciality cheese products and how European cheeses have influenced them. Findings indicate that naming and influences for these products are varied and complex, but have been ultimately influenced by European cheeses. For New Zealand cheese companies GI's are used as a means to differentiate products from competitors.

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Abbreviations

AOC	Appellation d'origine Contrôlée
BRIC	Brazil, Russia, India, China
CAP	Common Agriculture Policy
CECA	Closer Economic Co-operation Agreement
CET	Common External Tariff
DOC	Denominazione d'origine Controallata
DPA	Dairy Partners Americas
EEC	European Economic Community
EU	European Union
FAO	Food and Agriculture Organization of the United Nations
FTA	Free Trade Agreement
GATT	General Agreement on Tariffs and Trade
GI	Geographical Indication
IDF	International Dairy Federation
MFAT	Ministry of Foreign Affairs and Trade (New Zealand)
NZ	New Zealand
NZDB	New Zealand Dairy Board
NZFSA	New Zealand Food Safety Authority
PDO	Protected Designation of Origin
PGI	Protected Geographic Indication
SFP	Single Farm Payment
SMP	Skim Milk Powder
TRIPS	Trade Related Aspects of Intellectual Property Rights
TSG	Traditional Speciality Guarantee
TTP	Trans- Pacific Partnership
UK	United Kingdom
USA	United States of America
WHO	World Health Organization
WIPO	World Intellectual Property Organization
WMP	Whole Milk Powder

Chapter ONE: Introduction

This thesis is concerned with how certain regional foods and beverages originating in Europe have been protected by the European Union, and how this could influence the international trade speciality niche foods worldwide, and New Zealand food and beverages in particular. More specifically, this thesis aims to examine how the application of Geographical Indications (GI's) by the European Union (EU) can influence New Zealand made speciality cheeses. Recently there has been debate about globalisation of the international trade of food commodities. There is also a growing awareness about and changing attitudes towards the provenance of consumers' food sources. This dichotomy provides the background argument to this thesis. This thesis aims to argue that while there is not an official system for the control of labels of origin for the names of speciality cheeses in New Zealand, they are used nonetheless. These labels of location are used to denote certain qualities, production methods or guarantee and differ from standardised, commoditised cheeses.

The practical impact of this study is to weigh up the opportunities and challenges of the protected geographic status framework used by the EU for New Zealand speciality cheese producers. This study will contribute to the international discussion surrounding the use of Geographical Indications within the World Trade Organisation (WTO) framework and considers New Zealand's current position within this organisation.

Geographical Indications permeate through many fields of international legal, political, economic, social and geographic domains. Global food production, supply chains, and food quality is coming under increasing scrutiny by consumers, environmentalists and governments. Particularly in developed countries, there is growing awareness among consumers about food origins, nutritional value, and environmental practices such as deforestation, pollution, and land degradation. There are increasing concerns over animal welfare and protection, due to food scares in the late 1990's, and more recently contamination issues from additives within supply chains and food borne illness outbreaks in Europe. It is no surprise then that food safety and traceability matters have become an issue of public and governmental concern. The dairy industry is considered one of the most important to the New Zealand economy. While some research exists in the development and applicability of GI's for the New Zealand wine industry, very little is concerned with the speciality cheese industry, or to any other New Zealand primary industry. Thus, this research will contribute to the development of the speciality cheese industry in New Zealand. "The European Union has a very

affluent market that looks for quality goods – just right for New Zealand’s increasingly high-value products... The EU is the biggest importer in the world and hungry for many of the things that New Zealand produces – especially your lamb, fresh fruit, wine, venison and butter.”¹

Following this introductory chapter, the thesis is organised around five substantive chapters and a conclusion. Chapter two provides the theoretical context within which this thesis is based. Using macro and microeconomic theory, this chapter explains how firms and states trade and why. By applying basic economic theory of supply and demand and the principle of comparative advantage and competitive advantage that firms employ to distinguish their products from competitors, explains how firms and states compete in the international market. It conceptualises the quality aspects of food choices which are intangible attributes and which add to products standards. This provides the framework for analysis for the nature of the speciality cheese market in New Zealand and how cheese companies aim to differentiate their products through the use of GI’s to name their cheeses.

Chapter three offers differing perspectives to trends in international trade and reviews the literature which highlights the changing landscape within food chains. Consumers are becoming increasingly concerned with, and aware of their food choices and the impact it may have on the environment. In light of this shift it discusses current scholarly thought concerning the international food system and emerging trends concerning consumer food choices. The view of the New Zealand government and the EU regarding GI’s differs greatly and much has been written about these diverging perspectives. Following on from this, this chapter addresses the importance of milk pasteurisation for the speciality cheese industry and provides an overview of the history of cheese making and its origins. The advent of pasteurisation of milk has become an important part of modern cheese production. Unpasteurised dairy products have been banned or heavily restricted in many countries around the world for fear of outbreaks of food borne illnesses associated with raw milk and raw milk products. For many however, raw milk cheeses are viewed as the most superior of all cheeses as they require great skill to produce. This chapter looks at current policy development regarding pasteurisation as a means of regulation for the ‘exception’ thus highlighting the controversy of raw milk cheeses. In New Zealand, the regulations surrounding raw milk cheese sale and production have changed to allow for importation into the New Zealand market, highlighting the implications this could have for New Zealand cheese companies and consumers.

¹ Delegation of the European Union to New Zealand., "Europe - New Zealand Partners in Trade, Partners in Trade Policy.,Speech by European Commissioner Karel De Gucht Visit to New Zealand 17-20 March 2011 " <http://www.delous.ec.europa.eu/newzealand/press/speeches/DeGucht-March-19-2011.htm> [Accessed 23/05/2011].

In light of the current trends surrounding speciality cheese production, chapter four highlights the current status of dairy trade and the dairy industry in New Zealand by introducing the global trade in dairy products to provide an overview of the New Zealand dairy industry and how it interacts with and relates to the global dairy industry. Understanding the global dairy industry is important in order to adequately explain the trends, opportunities and challenges for the dairy industry. New Zealand has capitalised on the growing prosperity in international markets and successfully sought out new markets. One of the most important challenges it would seem for the global dairy industry is climate change and sustainable production to meet the needs of an increasing global population. This chapter also highlights the different trade policies of New Zealand and the European Union in terms of agricultural trade. The agricultural industry is a notoriously sensitive and politically challenging sector to consider in international trade negotiations. This section considers the global dairy industry and the challenges and opportunities it faces in light of growing environmental concerns over the dairy industry and the rise of Asia and other emerging economies (Brazil, India, Russia) and the impact and opportunities that they may present. This chapter examines the role that agriculture has played in the context of international trade negotiations with regards to its sensitivity in certain markets thus explaining how geographical indications are framed within the international trade negotiations and the diverging rationales between differing actors.

Chapter five analyses the challenges and opportunities that can be identified through the key informant interviews. It addresses the key issues and influences for cheese makers as to the opportunities and challenges that exist for them when naming their products and the influence that the European appellation system has had on this industry. Using the theoretical framework outlined in chapter two, this chapter highlights the importance of GI's for New Zealand cheese companies and how European influences have shaped these products.

Finally, chapter six brings together the concluding comments by discussing how the mechanisms of the CAP and European trade policy influence international trade, and the role that agriculture has played in shaping trade policy and international negotiations. Both New Zealand the EU have shown differing outlooks when considering the importance of GI's to promotion and marketing of agricultural activities. This chapter concludes with an analysis of the theoretical and practical implications that have been addressed within the thesis and offers concluding outcomes of the research.

1.1 Theoretical Overview & Research Question

This thesis presents a number of broad and complimentary theories to account for the differing but interconnected relationships between actors in the speciality cheese industry in New Zealand and how GI's in the EU have influenced the nature and development of this industry. It introduces economic theory based on the differing approaches to agricultural trade by the EU and New Zealand. Since its inception, the CAP has aimed to provide a higher standard of living for its farming communities whilst providing affordable food sources for its people. The EU has applied protective interventions to the trade of these products which has ultimately distorted the international market. This has had great implications for New Zealand agricultural products. The agricultural sector in New Zealand on the other hand has had virtually no government intervention since the mid 1980's. As such New Zealand has had to capitalise on its comparative advantage and especially in the dairy sector, exports of dairy products have become a competitive and dominant sector for the New Zealand economy. Conventional economic theory argues that comparative advantage is useful in determining what should be produced and what should be acquired by trade, and in comparative advantage firms or states compete to produce a good or service at a lower cost than a competitor. However, although the export dairy sector is a major part of the industry, speciality cheese producers make up a small but significant part of this sector. While economic theory may account for the commodity agricultural products covered by market forces, economic theory alone does not account for how speciality cheese producers attempt to add value to their products and convey this to their customers. The primary rationale of this thesis investigates the validity of the concept of quality in determining how speciality cheese producers in New Zealand differentiate their products from the commodity sector. Using geographical indications to identify these products is one way in which companies attempt to provide added value in their products as a way to increase a product's market value. Firms seek to differentiate their products from their competitors and there are a number of theories that account for this. The theory of attributes, according to Lancaster proposed that it is the properties or characteristics of a good that consumers derive utility from.² Utility is an abstract measure of satisfaction or happiness that a consumer receives from a bundle of goods. Therefore it is from these certain characteristics of the good that consumers derive utility, not just the good itself. Lancaster proposes that there are quality characteristics: search, experience and credence attributes. Some of these attributes cannot be determined until after the purchase has been made, and particularly credence attributes, such as organic, fair trade and free range which are growing in popularity by consumer groups but whose utility is difficult to ascertain. Akerlof suggests

² Kelvin J. Lancaster, "A New Approach to Consumer Theory," *The Journal of Political Economy* 74, no. 2 (1966).

the 'lemon' theory to account for this information asymmetry, whereby in certain markets the quality of a good or service is difficult to assess. The main issue being that quality is not assessable until after the purchase is made and as such the seller has an incentive to promote the product as being of a higher quality than it actually is. Therefore the seller possesses a greater level of information regarding a product than the buyer. It has been suggested that GI's and trademarks are one way in which sellers can grant a certain level of protection against lemon sellers based upon the producers quality and trademark name association. It can also protect buyers by allowing them a higher informational level of the product and thus giving them a means of distinguishing between good and poor quality products. Given that producers wish to differentiate their products in the market by adding value, how then is quality determined? Quality is difficult to define and varies between products, individuals, regions and countries. Quality standards convey information to the consumer about the attributes of a product. Ilbery and Kneafsey propose a chart for conceptualising the quality aspects of value added foods.³ Based on their study of speciality food producers in South West England, this chart conceptualises four factors which were identified as being intrinsic properties of quality which these food producers value. This chart is applied to the case study of speciality cheese producers in New Zealand to analyse how the use of GI's account for a company's ability to build brand differentiation.

This thesis proposes the main research question which is: *How do Geographical Indications used in the European Union influence New Zealand Speciality Cheese?* In order to examine this question a series of sub questions are proposed that may suggest insights into the main research question.

1. *How have GI's evolved as a tool for territorial branding in the EU and New Zealand?* - In order to gain a deeper understanding of how policy makers in the EU and New Zealand approach the definition of GI's and the role of GI's in international agricultural negotiations, an investigation of the current governmental and international policies to account for diverging rationale of New Zealand and the EU is discussed.

2. *What is the nature of the New Zealand speciality cheese industry?* - An overview of the New Zealand cheese industry is expressed through an in depth analysis of the New Zealand dairy industry in order to gain insights into the structure and operation of the industry and its international participation.

³ Brian Ilbery and Moya Kneafsey, "Producer Constructions of Quality in Regional Speciality Food Production: A Case Study from South West England," *Journal of Rural Studies* 16, no. 2 (2000).

3. *What role do GI's play in the New Zealand cheese industry?* – Using a case study analysis of the New Zealand speciality cheese industry with a view to understanding how European products have influenced the methods and strategies New Zealand cheese producers have employed to differentiate their products.

4. *What are the quality attributes of speciality cheese and how are they defined?* - Given the assertion that speciality cheese differs from commoditised cheese, the research will investigate what these quality attributes are and how they are distinctive.

1.2 Delimitations

This course of study aims to address the role of the EU's Protected Designation of Origin and Protected Geographical Indication (PDO/ PGI) system and the international influence this system has on New Zealand cheeses. Because the cheese industry is only one small part of the dairy industry it is important to include aspects of the entire dairy trade. However it must be acknowledged that the fluctuating nature of international dairy trade means that this thesis will be subject to limitations of time and space. Therefore it is not feasible to address the entire territory of the global dairy industry. This thesis focuses on the speciality cheese sector, but as the following definitions demonstrate, this is an ambiguous and ill defined sector of the industry. The complexity of categorisation of this definition results in a broad representation of products. Therefore this subject is limited to those products, whose focus is on the 'value added' aspects of the product, as opposed to generic or commoditised product.

1.3 Definition of Terms

The specific terms used in the research require definition. Geographical Indications are intellectual property claims that are based on the protection of certain traditionally produced products from their geographic origin. One of the most internationally recognised GI is "Champagne", which refers to wine produced in the French region of Champagne. There are many other examples covering a wide range of products and place names, including Scotch whisky, Stilton cheese, Prosciutto de Parma and Roquefort cheese. Regional speciality foods can be generally associated with foods such as those from Europe, although there are many from other parts of the world, such as Basmati Rice from India for example. Speciality foods convey notions of a particular production method; have a high degree of human input resulting in higher value items with higher than average qualities.

Attaching regional or territorial identifiers to agricultural products alludes to notions of quality or speciality food product attributes.⁴ Collectively known as 'values based labelling', these types of labels (such as fair trade, organic and geographical indications) have been explicitly aimed at providing a link the local and global components of the food system, while creating broader guarantees of quality for consumers.⁵ They are a social construction, not always definitive and not objective, therefore rendering definition difficult and subjective. GI's are however a form of intellectual property rights. Like trademarks and commercial names, they are used to identify products. They do not, however, protect products or production methods as such, but rather confer to all producers from a given geographical area the exclusive right to use a distinctive sign to identify their products.⁶ The World Intellectual Property Organization (WIPO) defines geographical indications as: 'a sign used on goods that have a specific geographical origin and possess qualities, reputation or characteristics that are essentially attributable to that origin. An appellation of origin is a special kind of GI.'⁷ Geographical Indications are intellectual property claims that are based on the protection of certain traditionally produced products from their geographic origin. A geographical indication designates where a product was produced *and* that the place was known to produce that item with particular desirable qualities.⁸

The notion of "speciality" cheese is less easily defined and difficult to measure. The Wisconsin Specialty Cheese Institute defines speciality cheeses as:

A general category of unique value-added cheeses, and are considered high quality and of limited quantity. As opposed to commodity cheese which is mass produced to a uniform size, standard, flavour and appearance. Specialty cheeses are made in small or large factories using techniques which preserve and enhance the cheese flavour, quality and appearance.⁹

Speciality cheeses belong to a speciality category of 'value-added' cheese, which requires further refining to in order to determine the quality aspects of the product. Although defining food quality is

⁴ A. E. J. Tregear, "Speciality Regional Foods in the UK: An Investigation from the Perspectives of Marketing and Social History" (University of Newcastle Upon Tyne, 2001).

⁵ Sarah Bowen and Amy B Trubeck, "Creating the Taste of Place in the United States: Can We Learn from the French," *GeoJournal* 73, no. 1 (2008), <http://www.springerlink.com/content/c62463278201701u/>.

⁶ F Addor and A Grazioli, "Geographical Indications Beyond Wines and Spirits," *The Journal of World Intellectual Property* 5(2002).

⁷ World Intellectual Property Organization (WIPO). "Geographical Indications Gateway," http://www.wipo.int/geo_indications/en/.

⁸ J. Hughes, "Champagne, Feta, and Bourbon: The Spirited Debate About Geographical Indications," *Hastings LJ* 58(2006).

⁹ Wisconsin Specialty Cheese Institute., "Defining Specialty Cheese," <http://www.wisspecialcheese.org/wicheese/specialty+cheese+information/default.asp>.

a difficult and ambiguous concept, the Wisconsin Specialty cheese Institute attributes a volume limit of 40,000 lbs (18 tonnes) to be considered 'speciality'. This could perhaps be considered an arbitrary volume amount. The word 'speciality' assumes certain connotations that the products are only to be consumed on a 'special' occasion or as a 'special' treat, not a product that is habitually consumed. This is potentially detrimental to small cheese producers as it could be limiting for the market. The same difficulty arises from the use of the words 'artisan' and 'boutique', as there is no clear and specific definition of what exactly these words mean with reference to cheese, in either production method or volumes supplied. The word "artisan" or "artisanal" implies that a cheese is produced primarily by hand, in small batches, with particular attention paid to the tradition of the cheese maker's art, thus using as little mechanisation as possible in the production of the cheese.¹⁰

1.4 Methodology and Research Design

This thesis analyses the relationship between New Zealand and the EU through a specific policy area of the EU, the CAP, more specifically the Framework for the Protection of Geographical Indications. Although a direct policy analysis comparison is impossible as there is no framework for comparison, as it does not exist in a New Zealand context. This thesis is carried out from a New Zealand perspective as the research is based at a New Zealand university and the researcher worked in the New Zealand cheese industry. This analysis uses qualitative research methods to address the cheese market in New Zealand. Therefore it carries a New Zealand centric focus, however using the EU PDO/ PGI system as a basis of analysis for GI's as a starting point for internationalisation of GI's as this is the most comprehensive system.

Due to the contemporary nature of this research topic, there was little secondary material available. However a thorough review of the literature in the agri-foods field is necessary to establish New Zealand's standing within the GI debate and to effectively analyse the rationale for this industry within the international context. This thesis employs an economic theoretical framework to explain the use of comparative advantage between countries trading in dairy products and to elucidate how companies strive for product differentiation in the market place to gain competitive advantage over competitors. This is further explained in chapter two. Early on in the research project, valuable experience and data was obtained through attending the EU-NZ Trade Conference 'Creating Opportunities in Markets', organised by the Auckland Chamber of Commerce, in conjunction with MFAT and New Zealand Europe Business Council held in Auckland on the 23rd February 2010 at the

¹⁰ Malinda Geisler, "Cheese Industry Profile," Agricultural Marketing Research Center, http://www.agmrc.org/commodities__products/livestock/dairy/cheese_industry_profile.cfm [Accessed 21/02/2011].

Hyatt Regency Auckland. Guest speakers at this conference included H.E. David Daly Ambassador to the Delegation of the European Union to Australia and New Zealand, Hon Tim Groser Minister for Trade (in a pre-recorded address), Mr Mauro Petriccione EU Trade Negotiator and Mr Peter Hamilton Deputy Secretary NZ Ministry of Foreign Affairs and Trade.

The International Dairy Federation (IDF) World Dairy Summit was hosted in Auckland in November 2010 and provided a rich account of the world dairy industry and contextual background information concerning the international trade of dairy provided by key industry informants and top class experts. Attending the New Zealand Cheese Awards in 2010 and 2011 was a valuable opportunity to gain access to the New Zealand cheese industry individuals and experts in this arena. Attending the Great British Cheese Festival in the UK in September 2011 provided an excellent opportunity to meet British cheese makers and gain interesting and new perspectives about the British speciality cheese industry. This was possible owing to the KEEENZ Exchange to the Centre for Rural Economy (CRE) at the Newcastle University's School of Agriculture Food and Rural Development which took place for three months from September to November 2011.

The contemporary nature of this research topic and its novelty factor indicated that it was necessary to collect data from primary sources conducting in-depth interviews with industry experts to effectively ascertain current data about the New Zealand cheese industry. Interviews were with a range of key-informant contributors within the cheese industry, from the very largest dairy company in New Zealand, Fonterra, to some of the smallest, such as Gruff Junction Goats Cheese, in order to get the widest possible scope for analysis. The size of the industry is an important factor to consider, as there is a sample size of approximately 30 boutique cheese companies in New Zealand.

Budgetary constraints meant that face to face interviews could only be conducted with South Island interviewees, the rest were conducted by telephone. Interviews were designed to be semi structured and a questionnaire containing open questions to prompt interviewees was used, however as interviews progressed the interviewees were encouraged to offer their opinions. Potential inaccuracies may arise in this case as deviation from the standard questionnaire is possible and encouraged as new and interesting topics for discussion occurred. Interviewer and interviewee bias must also be acknowledged. Interviews conducted in person were recorded and subsequently transcribed. Telephone interviews were not recorded, and as such a higher level of inaccuracy was possible. Notes were taken for all conversations which were written up and emailed to participants for final review and approval. Anonymity was discussed with all participants (see Appendix II, pp87). The primary analysis was from semi-structured, key informant interviews conducted between July 2010 and February 2011. University of Canterbury Human Ethics Committee approval was sought and granted prior to conducting the semi-structured interviews, and was regarded as low-risk.

The Canterbury earthquakes of 4th September 2010 and 22nd February 2011 had considerable impact on the writing and research capabilities of this thesis. There was considerable disruption to the University of Canterbury and personally, these two natural disasters have been extremely traumatic, causing the loss of accommodation and employment. Subsequently, relocation to Melbourne, Australia was necessary. Therefore, certain aspects of the research could not be carried out in New Zealand as had been initially anticipated. A considerable amount of time was lost due to the disruption and this affected the ability to write the thesis, and this would be considered a limiting factor. More interviews with dairy industry experts would have been beneficial to the research and provided a richer account of the industry.

Chapter TWO: Theoretical Considerations of Trade and Conceptualising Quality

In order to build a framework for explaining how New Zealand trades in the international market and speciality cheese producers in New Zealand brand and differentiate their products, this chapter identifies various theories to account for trade and considers how quality is an important aspect for definition, thus categorising the quality aspects for speciality foods. Economic theory is applicable to the supply and demand of food and the international trade of food products, therefore this chapter elaborates on the trade of international dairy products and puts this into theoretical context and accounts for the quality aspects of food attributes. By discussing macroeconomic theory, to account for the wider context of global trade, and microeconomic theory to explain consumer behaviour and consumer choices to best analyse the decision making processes that consumers use to make food choices. Basic economic theory of comparative advantage, what country's trade and why, explains how supply and demand allocate a country's scarce resources. Trade can also occur through competitive advantage, and the strategies firms employ to be competitive in an industry is also discussed. The following section discusses how resources are allocated through the market forces of demand and supply using basic economic theory. The elasticity and inelasticity of demand and supply to describe the relationship between income and the behaviour of buyers in the market place is also discussed, thus delving further into consumer choice theory when price is not the only factor that influences buying behaviour, demonstrating how firms seek to differentiate their products in a marketplace. The attributes of the goods themselves are then analysed to determine the characteristics of goods from which utility is derived and how they are determined. With a focus on the quality perceptions of goods and in particular speciality food products, a comprehensive analysis into how firms seek to offer quality products through branding as an indicator of quality is discussed. Thus, a conceptual framework for how determining quality can be evaluated which builds on attributes theory and asymmetric information which gives consumers a means to distinguish between high quality and low quality goods in an undifferentiated market place.

2.1 Comparative and Competitive Advantage

The concept of *comparative advantage* can be described as when an entity has the ability to carry out an economic activity if the opportunity cost of that activity, in terms of another activity is lower in that country than it is in other countries. In other words, it can produce the good more efficiently and at a lower cost than a competitor country. Each good should be produced by the country that has the smaller opportunity cost of producing that good. Comparative advantage is useful in determining what should be produced and what should be acquired through trade. International trade allows countries to specialise in producing narrower ranges of goods, giving them greater efficiencies of large scale production. Interdependence on trade allows consumers to enjoy a greater quantity and variety of goods and services. The principle of comparative advantage is used by economists to advocate free trade among countries. Countries trade for two economic reasons. Firstly they trade because they are different. They trade in products or services that they are relatively good at. Secondly, countries trade to achieve economies of scale in production. If each country trades a limited range of goods, it can produce them on a large scale and hence, relatively more efficiently than if they were trying to produce everything. An important theoretical concept in international economics is *gains from trade*. When countries sell goods and services between each other there is almost always a mutual benefit.

When two countries specialize in producing the goods in which they have a comparative advantage, both countries gain from trade.¹¹

The Ricardian model basically predicts that countries should tend to export those goods in which their productivity is relatively high. The Ricardian model shows how differences between countries give rise to trade and gains from trade. Countries will export goods that their labour force produces relatively efficiently and imports goods that they produce relatively inefficiently. However, the Ricardian model assumes that there is one factor of production- labour productivity. Trade however, also reflects differences in resources. A country that has a supply of one resource relative to its supply of another resource is abundant in that resource. The Heckscher-Ohlin theory of trade states that countries tend to export goods that are intensive in the factors with which they are abundantly supplied. International trade has strong income distribution effects. The owners of a country's abundant factors gain from trade, but the owners of scarce factors lose. Thus for comparative advantage firms or states compete to produce a good or service at a lower cost than a competitor. But trade can also occur through competitive advantage. The theory suggests that

¹¹ P.R. Krugman and M. Obstfeld, *International Economics: Theory and Policy* (Addison-Wesley, 2008).

competitive advantage occurs when firms can offer the same value as its competitors, but at a lower price, or can command higher prices by offering greater value through differentiation.

Competitive advantage grows fundamentally out of value a firm is able to create for its buyers that exceeds the firm's cost of creating it. Value is what buyers are willing to pay, and superior value stems from offering lower prices than competitors for equivalent benefits or providing unique benefits that more than offset a higher price.¹²

Competitive advantage can occur when a firm develops or acquires an attribute or resources to gain an advantage over its competitors. Porter suggests that there are two types of competitive advantage: cost leadership and differentiation. In a *cost leadership strategy*, a firm attempts to provide a product at a lower cost than its competitors. A cost leadership strategy aims to exploit scales in production, producing standardised products using advanced technology and efficient purchasing strategies. In a *differentiation strategy*, a firm attempts to be unique in their industry by selecting one or more attributes that many buyers perceive as important and uniquely positions itself to meet those needs. The reward for that uniqueness is a premium price.¹³

2.2 Supply Demand and Elasticity

Supply and demand are the forces that make markets work. Supply and demand determine the quantity of each good produced and the price at which it is sold,¹⁴ that is to say the market value of a good or service. Supply and demand determine prices in a market economy and how prices, in turn allocate the economy's scarce resources. The quantity demanded of any good is the amount of the good that buyers are willing and able to purchase. There are factors that affect individual demand for any good. The quantity demanded falls as the price rises and demand rises as the price falls. Therefore, there is a relationship between price and quantity demanded. However, price is not the only determinant of quantity demanded. Income, tastes, expectations and the price of substitutes and complements will affect the demand for a good. The quantity supplied of any good is the amount that sellers are willing and able to sell. When prices are high, selling is profitable and so a large quantity is supplied. Because the quantity supplied rises as the price rises and falls as the price

¹² M.E. Porter, "Competitive Advantage: Creating and Sustaining Superior Performance: With a New Introduction." (Free Pr, 1998).

¹³ Ibid.

¹⁴ N. G. Mankiw, *Principles of Microeconomics* (Dryden Press, 1998).

falls, the quantity supplied is positively related to the price of the good. The law of supply states that, *ceteris paribus*, the quantity of a good supplied rises when the price of the good rises. Price is not the only determinant of how much producers want to sell, including technology, expectations and the number of sellers in the market. When considering demand and supply it is also important to consider the elasticity of demand and supply. The price elasticity for demand measures how much the quantity demanded responds to a change in price. Demand for a good is said to be *elastic* if the quantity demanded varies considerably to a change in price. Demand for a good is considered *inelastic* if it the quantity demanded varies only slightly to a change in price. Elasticity reflects the sensitivity to the price of a good demanded as its price rises or falls. Therefore, elasticity is an important concept which reflects not only the economic, but also social and psychological forces that form consumer choices.¹⁵ *Necessity goods* are deemed to have small income elasticities as consumers will buy them regardless of their income level. *Luxury goods* on the other hand are considered to have large income elasticities as a consumer can do without those items when their income is too low. That is to say that a good or service is considered to be inelastic if it is something that they cannot do without. A luxury good or service will have a more elastic demand as it could be deemed to be something they can do without or find a close substitute for. However goods considered a luxury (for example alcohol) to one person may be considered a necessity to another.¹⁶ The price elasticity of supply is a measure of how much the quantity of a good supplied responds to a change in the price of that good. Supply of a good is deemed to be elastic if the quantity supplied varies considerably to changes in the price. Supply is considered inelastic if the quantity supplied differs only slightly to variations in the price. Price is not the only elasticity measure used to describe the behaviour of buyers in the market place. There are two possible categories for the relationship between change in income and change in demand: *normal goods* and *inferior goods*.¹⁷ Income elasticity of demand is a measure of how much the quantity demanded of a good responds to a change in consumers (or national) income. That is to say, high income elasticity suggests that when a consumer's income increases they are more likely to buy more of a particular good. Such goods are called *normal goods*. The opposite is true for low income elasticity, that there is little influence on demand due to a change in a consumers' income. *Inferior goods* are goods whose demand falls as income rises. A rise in income results in reduced purchases at any cost.¹⁸ Therefore, a consumer is

¹⁵ Ibid.

¹⁶ A. Layton, T. Robinson, and B. Tucker, *Economics for Today*, 3rd Asia Pacific ed. (Cengage Learning Australia, 2009).

¹⁷ Ibid.

¹⁸ Ibid.

able to purchase more of a good, but wishes to buy less of the good, as only a lower price will induce the consumer to buy any particular quantity.¹⁹

The theory of consumer choice describes how consumers make choices about the things they buy. There are two factors which must be considered when analysing how a consumer makes choices. Because consumers' finances are limited, they cannot buy everything that they want. When consumers make decisions about what to buy, they face *tradeoffs*. If they buy more of one particular good, they are less able to afford another. The budget constraint is the limit on consumption bundles that a consumer can afford. However, the consumer's budget constraint is not the only factor that determines choice; the second factor is a consumer's *preferences over goods*. The change in the price of a good can effect consumption in two ways. Firstly, an income effect, which is when a change in quantity demanded, is brought about by a change in a consumer's income. This is observed as a change in purchasing power.²⁰ A substitute effect is when there is an increase in the price of a good; a consumer (when income remains constant) buys more of a relatively lower priced product, and less of a higher priced one, as they attempt to maintain the same standard of living despite increasing prices.

2.3 Product Differentiation

Monopolistic competition is inconsistent with perfect competition. In *perfect competition*, a large number of firms produce identical goods, there are no economic or legal barriers to entry or exit of the market and each firm is a price taker, therefore no one firm can influence the market. In the long run the market is efficient and there is no economic profit. In *monopoly*, one firm is protected from competition by a barrier to entry and can make an economic profit in the long run. In *imperfect competition* markets operate where competing firms have to ability to set their prices. Monopolistic competition is one type of imperfect competition market structure whereby a large number of firms compete. Each firm produces a differentiated product and compete on product price, quality, marketing and branding. Firms are free to enter and exit the market.²¹ A *commodity* is a good perceived to be identical, no matter who supplies them. A *differentiated* product is a good, service or firm which a consumer believes to be somewhat unique.²² The difference between goods, services or firms is what consumers' value; what they pay extra for. As such, high rather than low

¹⁹ R.C. Guell, *Issues in Economics Today* (McGraw-Hill Irwin, 2007).

²⁰ Mankiw, *Principles of Microeconomics*.

²¹ D. McTaggart, M.T.F. Parkin, and C. Findlay, *Economics* 5th ed. (Pearson Education Australia, 2007). pp276

²² W. Boyes and M. Melvin, *Fundamentals of Economics* (Cengage South-Western, 2009).

prices are often attached to such products. Product characteristics such as quality, design and reliability are the basis of a firm's competitive advantage.²³ A differentiated product is one that is a close substitute, but not a perfect substitute for the products of other firms.²⁴ When consumer tastes change over time or a firm may be able to identify a new segment of the market, a firm may recognise a market niche. A *market niche* is a new market or part of a market that has not been filled by an existing brand or business.²⁵ When firms seek to differentiate their products from their rivals, they must consider between vertical and horizontal differentiation. *Vertical product differentiation* is where a firm's product differs from a rival's products in respect to quality.²⁶ Products differ in quality with some being perceived as superior and others inferior. Generally, the better the quality the more expensive the product will be. This can be determined in terms of quality of input materials and care spent making the product. Also, vertical quality differences between products will tend to reflect differences in production costs. *Horizontal product differentiation* is where a firm differs from its rival's products, although products are considered to be of similar quality.²⁷ This kind of differentiation refers to products that are not generally regarded as superior or inferior, but merely different. These variants reflect the different tastes of different consumers, such as colour, style, size, flavour. Although of comparable quality, such attributes are considered neither 'good' nor 'bad, just different.

The theory of attributes according to Lancaster was described as a new approach to how utility of goods is derived and which differed from the traditional economic approach that goods are the direct objects of utility.²⁸ Instead, Lancaster proposed that it is the *properties* or *characteristics* of the goods from which utility is derived.²⁹ *Utility* is an abstract measure of the *satisfaction* or *happiness* that a customer receives from a bundle of goods. Lancaster devised a method of analysing consumer preferences by considering a unit of any good as a bundle of attributes or characteristics. The theory claims that it is not the good itself that directly brings utility; rather that utility is derived from the *attributes* of that good. Furthermore, this approach assumes that one good can have more than a single characteristic. Any given good will possess a 'bundle' of attributes. Consumers will select the bundle of attributes they most prefer.³⁰ Consumption, as an activity of that one good can be made up of more than just a single input as one good can be made up of many characteristics,

²³ J. Sloman and M. Sutcliffe, *Economics for Business*, 3rd ed. (Pearson Education, 2004).pp145

²⁴ McTaggart, Parkin, and Findlay, *Economics*

²⁵ Sloman and Sutcliffe, *Economics for Business*. pp147

²⁶ Ibid. pp145

²⁷ Ibid.

²⁸ Lancaster, "A New Approach to Consumer Theory."

²⁹ Ibid.

³⁰ Sloman and Sutcliffe, *Economics for Business*. pp145

and it is from these characteristics in combination that consumers derive utility. Goods may also share characteristics even if they are apparently unrelated.

Lancaster summarises the assumptions as follows:

1. The good per se does not give utility to the consumer; it is the characteristics that the good possesses that give rise to utility.
2. Generally, a good will possess more than one characteristic, and many characteristics will be shared by more than one good.
3. Goods in combination may possess characteristics different from those pertaining to the goods separately.³¹

Attributes can be classified depending on the ease with which they can be measured. When consumers purchase a good, they evaluate the characteristics of that good. These characteristics include its cost, functionality, newness, colour, etc. There are three popular sets of quality characteristics. *Search* attributes are those that can be verified at the time of the transaction (the style of cheese such as hard or soft, for example). *Experience* attributes can be assessed only after the transaction has taken place (flavour of the cheese). *Credence* attributes cannot be objectively verified and are based on trust (whether vegetarian rennet has been used).³² A credence good is one whose utility is difficult for a consumer to ascertain. Consumer interest is growing in popularity for goods with credence attributes, such as organic, fair trade or free range.

The quality of a product is determined by its physical attributes, including design, reliability, and service provided to the buyer, plus ease of access of the product to the buyer. Quality lies on a spectrum that runs from high to low.³³ Firms may offer products that are high quality, well designed, reliable and offer the buyer efficient service. Other firms offer low quality, poorly designed products which may not be so reliable.³⁴ Branding is the main way in which firms seek to establish quality differences. To many consumers, the brand name is an indicator of quality or reliability. Customer value is determined by the product's perceived quality (and hence utility) relative to price.³⁵ The management of quality may be also seen as a question of competition and/or co-operation between actors in the same value chain, each one having only partial access to and control of information on

³¹ Lancaster, "A New Approach to Consumer Theory."

³² Stefano Ponte and Peter Gibbon, "Quality Standards, Conventions and the Governance of Global Value Chains," *Economy and Society* 34, no. 1 (2005).

³³ McTaggart, Parkin, and Findlay, *Economics*

³⁴ Ibid.

³⁵ Sloman and Sutcliffe, *Economics for Business*. pp158

the product and its related production and process methods.³⁶ Consumers may be interested in buying a differentiated product that may differ in standard from a commodity good, and may in fact be willing to pay a premium for a product. So long as consumers are offered a commodity product, they will make decisions based solely on price.³⁷

2.4 Information Asymmetries and Conceptualising the Quality Aspects of Value Added Products

Using Akerlof's³⁸ economic theory to explain the theory behind trademarks and GIs; the "lemon" theory referred to in Akerlof's paper is based on the assumption of *information asymmetries*; whereby in certain markets it is difficult to assess the quality of a product or service. The seller may have more information about the quality of a product or service than the buyer. The main issue is that as quality is not assessable before the purchase, sellers have the incentive to promote the product as being of a higher quality than it actually is. Buyers will generally know this and take this into consideration when purchasing by paying the average market price for a good.

There are many markets in which buyers use some market statistic to judge the quality of prospective purchases. In this case there is incentive for sellers to market poor quality merchandise, since the returns for good quality accrue mainly to the entire group whose statistic is affected rather than to the individual seller. As a result there tends to be a reduction in the average quality of goods and also in the size of the market.³⁹

Nieuwveld has directly applied this theory to both trademarks and GI's, as they grant product sellers a level of protection in the market against lemon sellers, allowing for a relevant price discrepancy between the good and bad sellers based upon the product's quality and trademark name association. It also protects buyers allowing them to have a higher informational level as to the type of product they are buying based on the trademarks reputation or previous purchasing experience with that seller.⁴⁰ GIs are protected in the EU allowing consumers to associate these goods with their

³⁶ Ponte and Gibbon, "Quality Standards, Conventions and the Governance of Global Value Chains."

³⁷ D. J. Hayes, S. H. Lence, and A. Stoppa, "Farmer-Owned Brands?," *Center for Agricultural and Rural Development, Iowa State University*(2003), http://www.agmrc.org/media/cms/CARD02BP39_5AFB75A83D43C.pdf [Accessed 30/05/2011].

³⁸ George A. Akerlof, "The Market for "Lemons": Quality Uncertainty and the Market Mechanism," *The Quarterly Journal of Economics* 84, no. 3 (1970).

³⁹ Ibid.

⁴⁰ L. B. Nieuwveld, "Is This Really About What We Call Our Food or Something Else-the WTO Food Name Case over the Protection of Geographical Indications," *International Law*. 41(2007).

actual geographical source and, possibly the processing method.⁴¹ Brand names give buyers a means of distinguishing good and poor qualities amongst products.⁴² A value added product is a good which has been modified or enhanced by a firm before the product is offered to the customer that results in an increase to its market value. Quality can be considered as being above the minimum standard, giving the product an advantage over its competitors. Firms seek to provide additional value added in their products as a way of differentiating them from competitors. A broad definition of value added is;

To economically add value to a product by changing its current place, time and from one set of characteristics to other characteristics that are more preferred in the market place.⁴³

In their study of speciality food producers in South West England, Ilbery and Kneafsey attempted to explain ways in which notions of 'quality' are constructed, regulated and marketed by speciality food producers. They have conceptualised the quality aspects of value added products in the following format and divided them into four categories. The authors argue that at least four points must be taken into consideration when conceptualising food quality. These four quality indicators can be identified as intrinsic properties of quality food products which producer's value.

⁴¹ Ibid.

⁴² Akerlof, "The Market for "Lemons": Quality Uncertainty and the Market Mechanism."

⁴³ M. Boland, "What Is Value-Added Agriculture?," Agricultural Marketing Research Center, http://www.agmrc.org/business_development/getting_prepared/valueadded_agriculture/articles/index.cfm [Accessed 14/07/2011].

Conceptualising the Quality Aspects of Value Added Products

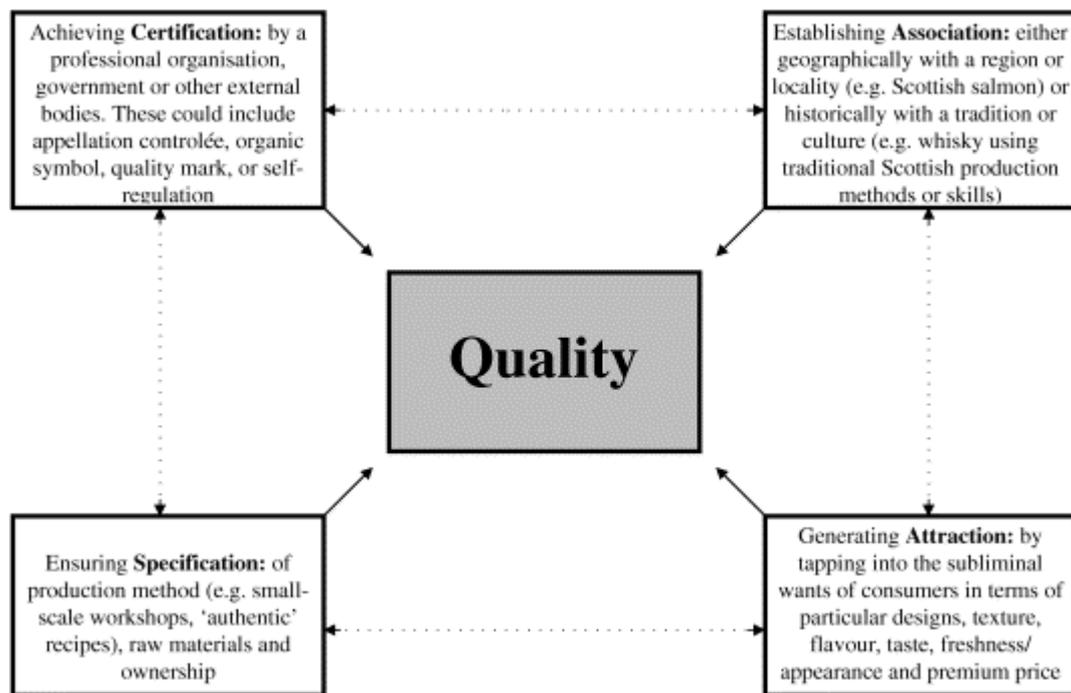


Figure 2.01 Conceptualising the Quality Aspects of Value Added Products (p.219)

Intangible capital

Attraction: generating attraction by tapping into the wants of consumers, designs, textures, taste, freshness, price and consumer perceptions. From a consumer perspective, quality can be generated from subliminal motivations for a product. These could be taken to mean the subjective indicators of quality.

Specification: ensuring specification of production method or use of raw materials or ownership in order to ensure authenticity. Specification of products relates to the recipes used or production methods which can ensure consistency.

Certification: achieving certification by a professional organisation, government or other accrediting body, for example quality marks organic symbol, self-regulation, and appellation, PDO, PGI or TSG. Certification creates recognition and is interlinked with Association.

Association: establishing association either geographically with a place or historically with a tradition or culture, for example using traditional methods in the preparation of a product, such as a

traditional product or link to a place.⁴⁴ This article focused on the importance of quality perceptions through the eyes of speciality food producers in South West England. The authors concede that although this model is a useful analytical tool, the indicators outlined above are *socially constructed* which raises an important conceptual point about quality, that is that because quality is a social construct, it is therefore dependant on the socio-cultural, political and economic contexts within which production-consumption relations exist. For niche market producers, this framework offers an attempt to define quality and ways in which notions of quality are constructed, regulated and marketed by producers in South West England.

Using macro and microeconomic theory, this chapter has outlined how firms and states trade and why. By applying basic economic theory of supply and demand, the principle of comparative advantage and competitive advantage that firms employ to distinguish their products from competitors, offers an explanation of how firms and states compete in the international market. Supply and demand determine prices in a market economy and how in turn allocate the economy's scarce resources. However, the consumer's decision making process when purchasing goods and services is a complicated one. Price is not the only factor customers consider when making the decision to purchase a good. Lancaster's theory of attributes has identified that it is the characteristics, or attributes of a particular good that also influences decision making. The quality aspects of goods must also be considered for as aforementioned, if price is not the only factor to take into account and attributes of the good itself have been identified and discussed; there remains the quality aspects consumers consider. Ilbery and Kneafsey have identified and conceptualised the quality aspects of speciality foods. These are intangible attributes which add to products standards. The concept of quality is therefore a constructed notion by actors attempting to build stable relationships and network between themselves and others in the market.⁴⁵ Furthermore, product differentiation must be achieved for quality products when selling in niche markets. Consumers choose between products that they may not have all the information available to them. Asymmetric information about the attributes of goods exists. Therefore it is often difficult for consumers to make informed decisions about the goods they purchase. It is difficult for the consumer to gather information about the product from general observation alone, aside from the physical attributes, such as price, weight, colour, texture, size, brand etc. As discussed earlier in this chapter, since there are attributes of a good that the customer cannot see, the seller is information rich and the customer is information poor. By starting with the broadest topic of international trade theory to

⁴⁴ Ilbery and Kneafsey, "Producer Constructions of Quality in Regional Speciality Food Production: A Case Study from South West England."

⁴⁵ Ibid.

explain the way the market place works, then on a more specific level, attributes theory lends itself to explaining that it is not the goods alone that consumers choose when purchasing, but bundles of characteristics that make up the purchase. There has been a focus on niche market opportunities and quality aspects of products to explain how product differentiation is vital to increasing value for products.

The theories consider the differing perspectives among various actors, namely producers whether they are countries or companies, large or small and consumers in an attempt to outline differing relationships ranging from broad economic theory to consumer choice and producer attempts to define quality. As this chapter has identified, GIs are one way in which producers aim to differentiate their products. Producers use GI's in order for consumers to associate these goods with their actual geographical source. As the following section will demonstrate, the qualitative research delves into the contextual issues of GI's from a wider social perspective to examine the literature surrounding how GI's are perceived and the implications for regional food associations for New Zealand speciality food products. It analyses the growing trends and changing attitudes amongst actors. Some consumers are increasingly concerned with the origins of, ingredients used and production methods of the foods they buy and consume. This will be highlighted through the evolving international debate about GI's and the influence various international policies have on small producers. Particularly for the New Zealand case, GI's are an increasingly important factor in international food production therefore a comprehensive discussion of the subject will be thus investigated.

Chapter THREE: Geographical Indications in a Changing Landscape

The previous chapter discussed differing theories to account for trade and quality aspects of specialty products and how quality can be defined. However, as this chapter will highlight, there are differing perspectives on the nature of specialised food products and their importance to differing actors. It expands the theoretical considerations of the previous chapter to illustrate differing attitudes in the GI debate. This literature review draws on research from many different fields. The extent to which food and agriculture permeates through so many domains means that an overall view of this topic is only possible by including research from wide ranging fields of academia and industry. Spanning, geography, intellectual property law, politics and social science, this literature review takes a multi-disciplinary approach to cover a large and extensively researched area.

Firstly this literature review analyses the literature related to the agri-foods field. The literature surrounding agri-foods is extensive. It discusses current scholarly thought concerning the international food system and emerging trends concerning consumer food choices. The EU and New Zealand perceive GI's very differently. As a form of consumer protection, the EU engages in attempting to expand its regional speciality foods and beverages through the WTO and the extension of the TRIPS agreement. The EU believes that there is a need for a scheme that protects and informs consumers by protecting some regional foods through the protection of geographical indications. New Zealand on the contrary is opposed to any further extension of the TRIPS agreement beyond wine and spirits. This review highlights the view of the New Zealand government regarding GI's but also how New Zealand tends to focus on the negative aspects of GI's and overlooks the potential benefits. Considering the importance of sustainability of food attributes in key overseas markets for New Zealand export companies, New Zealand agricultural exporters may consider the changing attitudes of these markets to new trends in consumer food choices to capitalise on niche market opportunities. As outlined in chapter two, GI's are one way that producers can communicate the quality of their products. Defining quality is a difficult task and a complex notion. There is a trend toward the consumption of certain types of food as being considered more desirable, attributed to their origin or production method. Terroir is another important aspect of the food location debate. Not entirely translatable into English, terroir raises important questions of geographical coherence and has become a factor of differentiation and value added for food companies, which may not be readily understood or researched in the New Zealand context.

Food safety and traceability issues have given rise to consumers' awareness and desire to consider carefully the origins of their food and this affects their decision making when choosing products to buy. Health issues in certain societies, contaminants in food chains and rising food prices internationally are causes for concern in the food sector. Out of this concern for food production, supply chains and corporatisation of food comes a preference by some consumers who are conscious of environmental, animal welfare and sustainability practices when making food choices. Ponte and Gibbon have described that consumption is increasingly characterised by food and or user safety awareness, the parallel processes of globalization and localization of consumer tastes, and social and environmental concerns.⁴⁶ Murdoch *et al.* have outlined a 'qualitative shift' in the global food trade which has been centred on industrialisation, commoditisation and standardisation, towards a new 'alternative geography of food' whereby there is a renewed interest in 'quality' of food.⁴⁷ Other commentators have echoed this view of a reshaping of agricultural processes by consumers and government policies through which there are regulatory norms and new notions of quality.⁴⁸ Morgan *et al.* have identified 'two distinctions in the agri-food system. Firstly, the conventional food system which is dominated by productivist agriculture by large companies who produce, process, package and distribute or retail large quantities of food on a national or global scale. The other, alternative system tends to be more ecologically concerned and associated with smaller companies producing and retailing for a localised market.'⁴⁹ There is increasing public interest in 'alternative' food systems of consumers increasingly concerned with the geographical origins, production processes and the ecological 'footprint' associated with their food choices. The rise of the (celebrity) chef and popular food media has played a role in increasing the awareness to the consumer about their food sources and promoting regional and local quality food choices when considering their purchasing decisions. As an avenue for exchange for small producers, a study into media perceptions of farmers markets in New Zealand provides a valuable insight into the public discourse in New Zealand relating to alternative food systems. Farmers markets are an emerging avenue for trade in differentiated food products of local provenance.⁵⁰ In New Zealand media perceptions of these alternative food systems such as farmers markets are considered as 'novelty' or

⁴⁶ Ponte and Gibbon, "Quality Standards, Conventions and the Governance of Global Value Chains."

⁴⁷ Jonathan Murdoch, Terry Marsden, and Jo Banks, "Quality, Nature, and Embeddedness: Some Theoretical Considerations in the Context of the Food Sector," *Economic Geography* 76, no. 2 (2000).

⁴⁸ David Goodman and Michael J. Watts, *Globalising Food: Agrarian Questions and Global Restructuring* (Routledge, 1997).

⁴⁹ K Morgan, T Marsden, and J Murdoch, *Worlds of Food: Place, Power, and Provenance in the Food Chain* (Oxford University Press, USA, 2006).

⁵⁰ Lex. Chalmers, Alun E. Joseph, and John Smithers, "Seeing Farmers' Markets: Theoretical and Media Perspectives on New Sites of Exchange in New Zealand," *Geographical Research* 47, no. 3 (2009).

food festival 'experiences', as a commodity in and of itself to be enjoyed⁵¹ and not considered in this case as mainstream consumption experiences. Farmers markets are an important avenue to connecting consumers with agri-producers and in considering alterity to conventional food systems. Farmers markets offer diversity whereas supermarkets specialise in uniformity.⁵² Guthrie *et al.* discovered in their analysis of farmers markets in New Zealand, that farmers' markets offer an alternative for fresh produce and a contrasting shopping experience to the sameness of many supermarket environments.⁵³ However, supermarkets are also an important avenue and play a significant role in the food chain and in shaping retail food policy and in overseas markets, supermarkets are increasingly becoming the 'gatekeepers' of food choices and 'choice editing' is becoming increasingly common, whereby large retailers do not stock foods that do not meet certain standards.⁵⁴

There is a trend of increasing consumer demand for quality food products and products with traceable geographic origins. At the same time, while there is a wide diversity of products in the market whose characteristics are often determined by their geographic origin, the information available to consumers is often unclear. In this context, the EU believes there is a need for a scheme that can signal this information to consumers in a way that is clear and succinct. Harmonisation of consumer information across the EU is also needed to ensure that consistent information is being provided to consumers and to protect the integrity of the scheme.⁵⁵ The protection of Geographical Indications is an example of the market placing value on more than just economic factors.⁵⁶ Consumer protection is not just about food or user safety, but supplying reliable information that facilitates consumer choice. Elizabeth Barham has described the use of GI's in France, and how they 'challenge conventional agricultural practice due to their explicit reference to place or territory.' She also considers how GI's 'reconnect people, production and place within the context of rural development, and points out some underlying causes of differing national positions on GI's at the WTO level'.⁵⁷

⁵¹ Ibid.

⁵² J. Guthrie et al., "Farmers' Markets: The Small Business Counter-Revolution in Food Production and Retailing," *British Food Journal* 108, no. 7 (2006).

⁵³ Ibid.

⁵⁴ C. Saunders, M. Guenther, and T. Driver, "Sustainability Trends in Key Overseas Markets: Market Drivers and Implications to Increase Value for New Zealand Exports," (Lincoln University, 2010).

⁵⁵ London Economics., "Evaluation of the CAP Policy on Protected Designations of Origin (PDO) and Protected Geographical Indications (PGI)," (London2008).

⁵⁶ R. Williams, "Do Geographical Indications Promote Sustainable Rural Development?" (Lincoln University & BOKU University, 2007).

⁵⁷ Elizabeth Barham, "Translating Terroir: The Global Challenge of French AOC Labeling," *Journal of Rural Studies* 19, no. 1 (2003).

The reforms of the Common Agricultural Policy have meant that European farmers are now more than ever reliant on obtaining the best financial return from the marketplace. It acknowledges that a constantly increasing number of consumers attach greater importance to the quality of foodstuffs in their diet rather than to quantity. This quest for specific products generates a demand for agricultural products or foodstuffs with an identifiable geographical origin. Geographical Indications and their influence have been widely researched in the fields of Intellectual Property law.⁵⁸ There are essentially two diverging positions in the international debate about GI's. Much of the literature related to GI's is focussed in Europe than from the new world where GI's are considered a relatively new concept in terms of its applicability to food products other than wine. Europe is interested in extending the Geographical Indications register through the ambit of the WTO beyond wines and spirits. However, many countries including, the USA, Canada, Australia, and New Zealand among many others consider the extension unnecessary and costly. Geographical indications do not sit very comfortably in the agricultural debate in New Zealand. New Zealand has followed a free trade agenda since the fourth Labour Government of the 1980's and as such, a formal register for GI's outside the wine industry would appear to be incompatible. However, there may be some merits to protecting or at the very least recognising some of the unique regional and national variations of agricultural products in New Zealand. In New Zealand, regional food product associations exist, such as Ohakune Carrots, Akaroa Salmon, West Coast Whitebait, Bluff Oysters, Coromandel Scallops, Central Otago Cherries, Hawke's Bay Stone fruit, Canterbury Lamb and Marlborough Sauvignon Blanc. In each case a geographic assertion is made. There are potentially opportunities for exploring the role that GI's play in developing rural diversification. However, short of recognising the important role that farmers markets play in providing an avenue for small local food producers to sell their products, a gap in the literature exists for explaining the regional attachment to New Zealand place names and their link to developing regional food distinctions. New Zealand has however made its own concessions within the international GI debate. In 2006 New Zealand Parliament passed the Geographical Indications (Wine and Spirits) Registration Act 2006 which is a voluntary geographical indications registration system for New Zealand wine and spirits.⁵⁹ The Act was passed in 2006 however it has not yet come into force. The Act is designed to meet New Zealand's international obligations of the TRIP's agreement. The Act was met with criticism in parliament from the Maori Party for lack of consultation and potential of the misuse and failure to

⁵⁸ G.E Evans and Michael Blakeney, "The Protection of Geographical Indications after Doha: Quo Vadis?," *Journal of International Economic Law* 9, no. 3 (2006), <http://jiel.oxfordjournals.org/cgi/content/abstract/9/3/575>.

⁵⁹ Ministry of Economic Development., "Geographical Indications for New Zealand Wines and Spirits - Associate Minister of Commerce Media Statement," http://www.med.govt.nz/templates/MultipageDocumentTOC____24873.aspx.

protect place names of Maori origin. It opposed the Act as it was viewed as global intervention reducing the capacity of nation-states over indigenous affairs, and ignores Maori rights.⁶⁰ The intention of this Act was to protect 'New Zealand's reputation as a quality wine producer because New Zealand and international customers are recognising distinctions between our wines from different regions.'⁶¹ To qualify as a GI, the term used to identify where goods are from must have acquired or developed a quality, reputation or other characteristic due to the place of origin. This indicates that goods with a particular GI are a product of a certain region for example and they can expect those goods to be of a particular standard, quality or reputation.⁶² New Zealand has a predominantly export orientated economy, and as such has not been immune to nor silent on the issue of GI's. References to New Zealand's position on the use of GI's by the New Zealand Government website makes it very clear that New Zealand is opposed to any extension of the WTO's TRIPS Agreement beyond that of Article 22 of the Agreement covering wines and spirits. The New Zealand government considers that 'extension of Article 23 protection to all products would impose considerable costs upon producers, consumers and, potentially, governments. It is opposed to the extension of the higher level of protection afforded to GIs for wines and spirits to GI's for other products'.⁶³ This view was echoed by The Global Dairy Alliance,⁶⁴ a group of national dairy industries from Chile, Uruguay, Australia, New Zealand and Brazil. It has stated that this organisation is concerned with establishing a fair and market orientated global dairy system. It is representative of large players in the global dairy trade typically representing countries of large dairy exports and in favour of free trade, and regards GI's as another intervention in the prevention of the free trade agenda. The economic and political importance of the New Zealand dairy industry cannot be underestimated. The majority of the milk supply in New Zealand is contracted to Fonterra Co-operative for processing and sale for the export market. As the largest dairy exporter in the world, Fonterra is keenly aware of the impact of farming practices on its international customers, and their influence therefore cannot be ignored. It is not always easy for farmers wanting to diversify to create opportunities for developing niche products. There are three main reasons why farmers typically find it difficult to differentiate their products:

⁶⁰ Te Ururoa Flavell, "Flavell: Geographical Indications Bill Speech: The Maori Party Geographical Indications (Wines & Spirits) Registration Bill Third Reading,;" 14th November, 2006.

⁶¹ Ministry of Economic Development., "Geographical Indications for New Zealand Wines and Spirits - Associate Minister of Commerce Media Statement."

⁶² ———, "Trade Mark FAQ's," Intellectual Property Office New Zealand, <http://www.iponz.govt.nz/cms/contact/ask-a-question/trade-mark-faqs> [Accessed 13/03/2012].

⁶³ New Zealand Ministry of Foreign Affairs and Trade., "New Zealand and the World Trade Organisation: Intellectual Property," New Zealand Government, <http://www.mfat.govt.nz/Trade-and-Economic-Relations/NZ-and-the-WTO/Strengthening-trade-rules/0-tripsintellpropnegs.php>.

⁶⁴ Global Dairy Alliance., "Doha Policy Paper, March 2006," <http://www.globaldairyalliance.org>.

- In a commodity-based system, farmers may not receive price incentives because of commingling.
- Even when wholesale buyers provide farmers with price incentives to produce higher-quality products, competition from other farmers quickly eliminates the profitability of doing so.
- The scale of any individual farmer's output is too small to justify the costs of 'creating' and 'maintaining' a brand that is recognisable by consumers and that cannot be easily imitated.⁶⁵

However, Williams has argued in her thesis that Geographical Indications are linked to rural sustainability and uses two case studies of GI protected agri-foods in the UK to demonstrate her argument. This thesis claimed that New Zealand has tended to focus primarily on the negative aspects of Geographical Indications protection and by doing so overlooks the potential benefits or opportunities for sustainable rural development. The negative aspects of GI's include for example the prohibiting of products which have become considered generic names such as feta or cheddar, which have been produced outside of their country of origin and traded in these products for many years. The administrative cost of GI extension would be likely to affect developing countries that are less able to afford the likely legal and administration costs associated with providing an increased level of protection sought by the EU.

Moreover it has been argued that adopting GI regulations could encourage countries (such as New Zealand) to diversify from predominantly bulk commodity production, reducing the necessity for intensive production methods and reducing pressure on natural resources.⁶⁶ There are many quality products that can be linked to New Zealand's unique geography and high environmental standards with potential to become GI's.⁶⁷

3.1 Consumer Trends and Terroir

Studies that have been conducted regarding sustainability trends in key overseas markets for increasing value for New Zealand exports have identified the key drivers for sustainability attributes on food labels and environmental labelling on agricultural products. It is important for New Zealand companies to recognise trends happening in overseas markets. These studies have identified many attributes of labelling of food products.⁶⁸ These attributes have been identified as current consumer concerns regarding attitudes towards consumer food purchases and can be divided into categories. *Sustainability attributes* such as price, water efficiency, carbon/ greenhouse gas emissions

⁶⁵ Hayes, Lence, and Stoppa, "Farmer-Owned Brands?."

⁶⁶ Williams, "Do Geographical Indications Promote Sustainable Rural Development?."

⁶⁷ Ibid.

⁶⁸ Saunders, Guenther, and Driver, "Sustainability Trends in Key Overseas Markets: Market Drivers and Implications to Increase Value for New Zealand Exports."

reductions, biodiversity and wildlife, animal welfare and packaging are identified as potentially having an effect on New Zealand exports. Existing research has also identified emerging concerns and trends, regarding functional and fortified foods, ethical production of food, nutritional value and emerging markets.⁶⁹ Saunders *et al.* have applied this to their empirical research which identifies the sustainability attributes in the context of consumers' willingness to pay for, and what these credence attributes are and changing consumer behaviour in the context of the New Zealand agricultural goods for key New Zealand overseas markets.

Environmental concerns in the dairy industry within New Zealand due to increasingly intensive farming practices have been widely commented on. The drivers of production and efficiency in this case have been the de-regulation of the dairy industry in the mid 1980's and the subsequent exposure of New Zealand farmers to market competition in the global marketplace. In contrast to the slow reform of the CAP, New Zealand's agricultural total support was removed within a few years. It is estimated that the effective rate of assistance to agriculture was 50 per cent in 1982 and had dropped to a negative figure by 1990.⁷⁰ The industry has responded to political pressure to improve its environmental performance, and was discussed by Mairi Jay, who characterised New Zealand's dairy system as being focussed on quantitative outputs and expansion of production and economic efficiency.⁷¹ Environmental aspects of food production are becoming an increasing concern for many consumers, with carbon foot printing and water consumption and foot printing having the ability to affect New Zealand agricultural exports.

GI's are one way in which producers can indicate quality or intrinsic properties of their products to their customers. The evolution of the role of quality standards in shaping access to global value chains (and thus international trade) should be understood in relation to changing features of consumption in industrialized economies.⁷² However, there are more to GI's than just considering the economic benefits or attributes when evaluating their desirability or effectiveness. Quality standards communicate information about the attributes of a product. These attributes can be classified depending on the ease with which they can be measured.⁷³ As has been outlined in the previous chapter, defining quality is a difficult and ambiguous task. The meaning of *quality* is a complex notion and is varied for specific products, between individuals, regions and countries. Consumption of certain types of food has become an indication of cultural capital, good taste and

⁶⁹ Ibid.

⁷⁰ A. Bollard and D. G. Mayes, "Lessons for Europe from New Zealand's Liberalisation Experience," *National Institute Economic Review* 143, no. 1 (1993).

⁷¹ Mairi Jay, "The Political Economy of a Productivist Agriculture: New Zealand Dairy Discourses," *Food Policy* 32, no. 2 (2007).

⁷² Ponte and Gibbon, "Quality Standards, Conventions and the Governance of Global Value Chains."

⁷³ Ibid.

sophistication.⁷⁴ Quality is coming to be seen as inherent in more “local” and more “natural” foods.⁷⁵ Various facets of globalisation have affected the production and consumption of food so it is that those same dimensions can be used to promote local food ways, identity and economic development.⁷⁶ Consumers are increasingly concerned with from where products originate and how they are produced, and that they crave certain ‘nostalgia’ for the past, a time when food was more ‘wholesome’ and ‘simple’.⁷⁷ Geographical Indications are by their very nature linked to the territory in which a product originates. The French term *Terroir* refers to the geological, geographical characteristics and climatic conditions associated with agricultural products connected with the land such as wines, cheeses, meats and other food products. It is not accurately translatable into English however the concept of *terroir* is primarily associated with the wine industry but can be applied to any product whose origins are from the land. The possibility of cheese *terroir* raises important questions of geographical coherence, for example how is one ‘place’ differentiated from another? Including the history of land use, taste education, marketing and so forth.⁷⁸ Barham defines *terroir* as a term which:

‘historically, refers to an area or terrain, usually rather small, whose soil and microclimate impart distinctive qualities to food products...terroir also reflects a conscious and active social construction of the present by various groups concerned with rural areas in France (social and economic organizations, state agency personnel, academics), who jostle for position in their efforts to recover and revalorize elements of the rural past to be used in asserting a new vision of the rural future.’⁷⁹

Translated to cheese making, “terroir” could include pastures whose flora are selected for by ruminant grazing and human management, practices of animal husbandry, ambient microorganisms which are directly or indirectly selected for by hygienic practices that make their way into cheese; and recipes and artisan methods of making cheese.⁸⁰ In terms of defining *terroir*, there are three characteristics common across a number of proposed definitions:

⁷⁴ Ilbery and Kneafsey, "Producer Constructions of Quality in Regional Speciality Food Production: A Case Study from South West England."

⁷⁵ Murdoch, Marsden, and Banks, "Quality, Nature, and Embeddedness: Some Theoretical Considerations in the Context of the Food Sector."

⁷⁶ CM Hall and L Sharples, *Food Tourism around the World: Development, Management, and Markets* (Butterworth-Heinemann, 2003).

⁷⁷ Ilbery and Kneafsey, "Producer Constructions of Quality in Regional Speciality Food Production: A Case Study from South West England."

⁷⁸ H Paxson, "Post-Pasteurian Cultures: The Microbiopolitics of Raw-Milk Cheese in the United States," *Cultural Anthropology* 23, no. 1 (2008).

⁷⁹ Barham, "Translating Terroir: The Global Challenge of French AOC Labeling."

⁸⁰ H. Paxson, "Locating Value in Artisan Cheese: Reverse Engineering Terroir for New World Landscapes," *American Anthropologist* 112, no. 3 (2010).

- A product made of local raw materials, this characteristic constitutes a necessary condition in the PDO quality signal;
- A localized and traditional recipe or know-how, bearing on the reputation, culture and history of the place of production;
- A product, where the only link to the terroir is the location of the firm in the region for a long time.⁸¹

Reference to origin and *terroir* has become a factor of differentiation and added value for food product companies because it enhances perceived quality and transfers the image and attitude toward the region to the promoted products. *Terroir* products are perceived as natural and authentic because they make reference to a limited area where natural conditions and know-how of producers provide special characteristics to the product.⁸² Paxson has asserted that as a value added marketing label, terroir may enhance a cheese's cultural capital and price per pound through promoting place-based distinction.⁸³ *Terroir* is also being translated to suggest that the gustatory values that make artisan cheeses taste good to consumers are rooted in moral values that make the cheeses ethically good for producers to make.⁸⁴ There is evidence to suggest that cheese terroir is an important concept recognised within the New Zealand cheese industry, but it is perhaps a concept that is not readily understood by New Zealand consumers particularly outside the wine industry. "Kiwis don't understand or value terroir and associated naming implications..."⁸⁵ Terroir encompasses the regional characteristics of the cheese, but as a social construct in New Zealand, regional geographical distinctions are not well defined or embedded. From an American perspective Paxson describes the U.S. artisan cheese makers as engaging in "reverse engineering" terroir. That is to say that they think backward from European ideal types of cheeses suited to the environment of their fabrication, of communities centred on food making to fashion innovative models of cheese, and terroir, suitable to the nature and culture.⁸⁶ The French concept of terroir cannot be recreated in the USA or New Zealand for that matter because of differing ideological contexts. As in Europe, this sort of collective, regionally circumscribed practice, codified throughout the European Union

⁸¹ P. Aurier, F. Fort, and L. Sirieix, "Exploring Terroir Product Meanings for the Consumer," *Anthropology of Food*, no. 4 (2005).

⁸² Ibid.

⁸³ Paxson, "Locating Value in Artisan Cheese: Reverse Engineering Terroir for New World Landscapes."

⁸⁴ Ibid.

⁸⁵ Kris Noiseux (Personal Communication). 2010.

⁸⁶ Paxson, "Locating Value in Artisan Cheese: Reverse Engineering Terroir for New World Landscapes."

under the Protected Designation of Origin label, is not gaining much traction among cheese producers in the United States, who are disinclined to embrace this degree of bureaucratic control.⁸⁷

3.2 Unpasteurised Cheeses: Navigating the Microbial Minefield

The speciality cheese industry cannot be adequately addressed without the inclusion of the most controversial of dairy policy debate: raw milk or unpasteurised cheese. This section gives an overview of the current debate surrounding raw milk cheese. It highlights the historical importance and origins of cheese making. It then elucidates the importance and politics of milk pasteurisation for modern cheese making and how it is an essential part to understanding the controversy surrounding raw milk cheese, and also for explaining the current developments in the New Zealand industry. The development of regulating raw milk cheese in Europe is also addressed as it is the basis for regulatory reform in other countries, where in some European countries raw milk cheese production forms an important part of the agricultural economy.

The origin of cheese making began as a simple way of preserving milk for periods when milking animals was not in season. Cheese was made to provide a tasty and nutritious food source, but over time has become more than just a form of physical nourishment. Cheese became an expression of skill, pasture, animal and microbe.⁸⁸ The evolution of cheese possibly began around 5,000 years ago in central Asia and the Middle East. These peoples learnt they could preserve curdled milk by draining off whey and salting the remaining curds. They also discovered that the curds became more pliable and cohesive if the curdling took place in an animal stomach. This basic technique of curdling milk with the assistance of the stomach extract of young ruminant animals is now called rennet. It is believed that the earliest cheeses may have resembled modern brine-cured feta which is still an important cheese found in the Mediterranean and Balkan regions today.⁸⁹

It is unknown exactly where modern cheeses originated, but it is suggested that it was in pre-Roman times, although throughout the ages cheese has been written about by many numerous authors. However during the 10 or 12 centuries after the Roman Empire, cheese making progressed and developed throughout villages and monasteries, where mountain pastures and grazing lands were able to be cleared for grazing herds. Villages and communities were widely dispersed and thus

⁸⁷ Ibid.

⁸⁸ Harold. McGee, *Mcgee on Food & Cooking: An Encyclopedia of Kitchen Science, History and Culture* (Hodder & Stoughton, 2004).

⁸⁹ Ibid.

developed their own cheese making techniques to suit their local climate, materials and markets.⁹⁰ Households consumed mainly soft cheeses from the small holding of animals, and what was left over quickly sent to the local market as the shelf life was limited. Traditionally, farmers and shepherds made cheese from raw cows', goats' or ewes' milk on a small scale, using naturally occurring lactic acid bacteria. Cultures of these bacteria were produced by incubating the milk or whey from the previous day under specific conditions.⁹¹

The development of hard cheeses which required far larger volumes of milk for production, meant that large cheeses such as Emmental, Comté, Gruyère and Beaufort or Parmesan of Italy required so much milk- up to 1000 litres for one single cheese, that ever since they have been produced in the twelfth century they have been produced by a village or regional co-operative.⁹² These hard cheeses were easier to transport due to their durability and thus able to be transported to markets further afield. The medieval French word for cheese was *formage*, from the Latin *forma*, meaning mould, in which it was made whence modern French *fromage*, while the English word *cheese* comes from the Latin *caesus*, the foodstuff itself.⁹³ The 'Golden Age' of cheese production and appreciation in Europe was in the 19th century. The art of cheese making was at its height, and along with the advent of the railways throughout Europe, cheese was able to be transported quickly and efficiently to many different, discerning markets.

McGee sums up the 'modern decline' of cheese making at the beginning of the 21st century with the rise of industrialisation, standardisation of food products and scientific advancements in the interests of mass food production and food security in the post war era.

At the beginning of the 21st century, most cheese is an industrial product, an expression not of diverse natural and human particulars, but of monolithic imperatives of standardisation, and efficient mass production.⁹⁴

3.3 Pasteurisation Politics

The advent of pasteurisation of milk has greatly benefited modern cheese production. Pasteurisation has aided in standardising milk by eliminating almost all harmful bacteria found in raw milk. In the modern age of industrial cheese production, whereby milk is collected, transported and

⁹⁰ Ibid.

⁹¹ Jan T. M. Wouters et al., "Microbes from Raw Milk for Fermented Dairy Products," *International Dairy Journal* 12, no. 2-3 (2002).

⁹² Maguelonne Toussaint-Samat, *A History of Food, New Expanded Edition*, trans. Anthea Bell (Chichester: Wiley-Blackwell Publishing Ltd, 2009).

⁹³ Ibid.

⁹⁴ McGee, *Mcgee on Food & Cooking: An Encyclopedia of Kitchen Science, History and Culture*.

pooled in tanks collected from many different farms and from thousands of animals; by pasteurising the milk it has significantly reduced the risk of bacterial contamination. Unpasteurised dairy products have been banned or heavily restricted in many countries around the world for fear of outbreaks of food borne illnesses associated with raw milk and raw milk products such as E.Coli, *Listeria monocytogenes*, Salmonella and Tuberculosis. Largely as a consequence of scares associating *Listeria* with raw-milk cheese, the young, aged, people with compromised immune systems and especially pregnant women are frequently advised to forego raw-milk products.⁹⁵ The pasteurisation of milk is essentially a policy of modern protection of the population from food borne illness. In the USA for example, in most cases raw milk cheeses are required to be aged for a minimum of 60 days in order to protect against pathogenic microbes which generally do not survive in the drier environment during the aging process. The aging requirement for raw-milk cheese represents a case of regulating from the exception—the exceptional consumer, pregnant or immunocompromised. Paxson discusses the role of microbes and microbiopolitics in linking land and food, place and taste. Her paper argued that in the USA, there is a ‘post-pasteurian’ society. Pasteurianism in the realm of food safety has suggested a medicalization of food and eating, post-Pasteurians want to invest in the potentialities of collaborative human and microbial cultural practices.⁹⁶ She has argued that, pasteurianism is a biopolitics predicated on the indirect control of human bodies through direct control over microbial bodies. While the Food and Drug Administration (FDA) views raw-milk cheese as a potential biohazard, riddled with bad bugs, aficionados see it as the reverse: as a traditional food processed for safety by the action of “good” microorganisms—bacteria, yeast, mould—on proteins found in milk.⁹⁷ Pasteurisation ostensibly allows the industrial producer to eliminate external risk factors and to focus on factors under their control. Pasteurised milk also affords predictability and control during the productive process, allowing industrial cheese makers to reduce wastage, maximize output, and insure price competitiveness.⁹⁸ Food scares may damage a particular brand, but may also damage the entire sector. To the industrial producer, who focuses more on market share than on product differentiation, the viability of the sector is of paramount concern.⁹⁹ In the USA for example, these fears, and related values, explain why industrial producers work with pasteurised milk, but not why they seek to make pasteurised milk mandatory for all cheese makers.¹⁰⁰ Two different ways can be followed for making cheese. The most common way is to standardize the physicochemical and microbiological characteristics of milk, using

⁹⁵ H. G. West, "Food Fears and Raw-Milk Cheese," *Appetite* 51, no. 1 (2008).

⁹⁶ Paxson, "Post-Pasteurian Cultures: The Microbiopolitics of Raw-Milk Cheese in the United States."

⁹⁷ Ibid.

⁹⁸ West, "Food Fears and Raw-Milk Cheese."

⁹⁹ Ibid.

¹⁰⁰ Ibid.

technological means, such as skimming, ultra filtration, pH adjustment, calcium addition, pasteurisation, maturation of milk, etc., in order to standardize the process and to produce cheeses with uniform sensory characteristics.¹⁰¹ The other approach is completely different. The approach used in making traditional raw milk cheese has limited or no standardisation of the milk, thereby keeping the natural characteristics of the milk that originated from the specific area of production. The cheese is usually made in small to medium sized operations and the make process is adjusted according to the characteristics of the milk.¹⁰² If this lack of uniformity, or more precisely this diversity of sensory characteristics of the cheese, is a direct consequence of the variability of the conditions of milk production and transformation, it is important to keep in mind that such a diversity is sought by both the producers and the consumers, because it is considered as a special feature of traditional cheeses.¹⁰³

Whilst this thesis does not concentrate on the science of microbiology, it is however the micro organisms found in cheese that is perhaps the most important aspect of the raw milk cheese debate. For many the protection of diverse micro cultures in raw-milk cheeses is bound up with the protection of diverse macro-cultures in the form of human communities and component livelihoods. Raw-milk cheese enthusiasts also relate distinctive flavour to diverse natural ecologies.¹⁰⁴ The use of standardised starters (whether undefined or defined) of strictly hygienic processing methods and of well-controlled ripening conditions has had an enormously positive effect on cheese quality. However, as a consequence of the constant quality, the diversity of flavour varieties in any one type of cheese has diminished. The consumer market of today requires instead an increase in product diversification which calls for innovations, by which novel starter strains are needed.¹⁰⁵ Wouters has also argued that the consumption of raw-milk cheese has lately been associated with health hazards and the associated exaggerated concern for food safety has driven agency officials to consider the possibility of requiring that the milk from which cheeses are made must be pasteurised. If this were to become the policy, the artisanal cheeses would no longer taste the same and their uniqueness would be in danger of being lost.¹⁰⁶ In testing the sensory qualities of ripened raw milk cheese versus pasteurised cheese, Grappin and Beuvier found that:

¹⁰¹ R. Grappin and E. Beuvier, "Possible Implications of Milk Pasteurization on the Manufacture and Sensory Quality of Ripened Cheese," *International Dairy Journal* 7, no. 12 (1997).

¹⁰² P. Dixon, "European Systems for the Safe Production of Raw Milk Cheese," in *A report Presented to the Vermont Cheese Council* (2000).

¹⁰³ Grappin and Beuvier, "Possible Implications of Milk Pasteurization on the Manufacture and Sensory Quality of Ripened Cheese."

¹⁰⁴ West, "Food Fears and Raw-Milk Cheese."

¹⁰⁵ Wouters et al., "Microbes from Raw Milk for Fermented Dairy Products."

¹⁰⁶ Ibid.

When making cheese from raw milk, the introduction of a large diversity of unknown and variable microorganisms will generate variable and often higher levels of flavour compounds, making raw milk cheese flavour less uniform and atypical for a taste panel trained to assess pasteurised milk cheeses.¹⁰⁷

Europe has long been considered the home of finely crafted cheeses. Many of the cheeses available today were created in Europe using traditional recipes developed over many centuries. Cheese aficionados and enthusiasts alike agree that unpasteurised cheeses are the most highly prized of all cheeses. For hygienic reasons, most cheeses in Europe are produced from pasteurised milk; however, with a production of 700,000 tonnes per year, raw milk cheeses represent a significant proportion of ripened cheeses produced in Europe, particularly in Italy, France and Switzerland.¹⁰⁸ However even within Europe there is disagreement over the pasteurisation of milk products. There is essentially a North/ South divide on the pasteurisation of milk and milk products. Some of the northern European countries wanted to prohibit the production of raw milk cheeses for sanitary reasons, pointing toward the reduced health risk from pasteurized milk cheeses.¹⁰⁹ In France, where raw milk cheese amounted to one quarter of their total cheese production, and in other countries, particularly Southern European ones, and raw milk cheese represented a significant and important contribution to the agricultural economy.¹¹⁰ From 1990-92, the European Union debated the safety of raw milk cheese and the Codex Alimentarius, which provides standards for the international trade of cheese, was considering the mandatory pasteurization of all dairy products.¹¹¹ The FAO/ WHO Codex Alimentarius Commission, whose food safety standards are used as a basis to settle trade disputes, provides for unpasteurised products to be manufactured under its *Code of Hygienic Practice for Milk and Milk Products*. In recent years, the EU has been persuaded that raw-milk cheese constitutes an important economic niche in which its producers enjoy competitive advantage. In 1998, the EU began enforcement of two Directives (92/46 and 92/47) establishing the parameters in which raw-milk cheese production would continue to be permitted and mandating cheese producers themselves to play a significant role in monitoring the safety of their products.¹¹² These Directives are important because they lay the foundation for the regulatory systems, which member states developed to safeguard the production and sale of dairy products, including raw milk cheese. The concept of HACCP (Hazard Analysis and Critical Control Points) is a dominant part of the

¹⁰⁷ Grappin and Beuvier, "Possible Implications of Milk Pasteurization on the Manufacture and Sensory Quality of Ripened Cheese."

¹⁰⁸ Ibid.

¹⁰⁹ Dixon, "European Systems for the Safe Production of Raw Milk Cheese."

¹¹⁰ Ibid.

¹¹¹ Ibid.

¹¹² West, "Food Fears and Raw-Milk Cheese."

regulations and competent authorities are instructed to carry out controls to assess whether the necessary monitoring and verification procedures are being used by producers at critical control points in their processes. The Directives instructed the EU member states to develop their own laws, regulations, and administrative provisions to comply with the new regulations.¹¹³ However within EU law interpretation of the regulations has been left to the individual authorities, which has led to vast differences in interpretation, disparate throughout Europe.

3.4 Policy Development: New Zealand and Unpasteurised Cheese

Recent developments to the sale and importation of unpasteurised cheeses in the New Zealand market has led to the relaxation of importing and allowance for domestic production of raw milk cheeses in New Zealand. This has been a significant development for the cheese industry in New Zealand and will be especially important for small to medium sized speciality cheese companies, as previously unpasteurised cheeses were prohibited for production in New Zealand. For many years, imported cheeses that were unpasteurised were prohibited to be sold or made in New Zealand. The New Zealand Government body for food safety regulations is the New Zealand Food Safety Authority (NZFSA) has reviewed and outlined changes to the legal policy framework surrounding food safety of raw milk products. In October 2009 the legal framework changed to allow raw milk products of an acceptable level of safety to be produced, sold, exported, and imported into New Zealand. Unpasteurised milk cheeses can only be imported from an exporting country that operates a production programme that has been assessed as meeting New Zealand's animal and public safety outcomes. A country-to-country arrangement will be agreed where production programmes have been recognised as being equivalent to, or complying with New Zealand standards.¹¹⁴ The Animal Products (Raw Milk Products Specifications) Notice 2009 describes the criteria for domestic production of raw milk products. The Food (Imported Milk and Milk Products) Standard 2009 provides an opportunity for greater variety of raw milk products to be imported into New Zealand.¹¹⁵ The EU applied to New Zealand for recognition of their unpasteurised milk production systems. Confirmation of equivalence of production systems has been completed. This allows a wider range

¹¹³ Dixon, "European Systems for the Safe Production of Raw Milk Cheese."

¹¹⁴ New Zealand Food Safety Authority., "Raw Milk Products - Importer Advisory," New Zealand Food Safety Authority, http://www.foodsafety.govt.nz/elibrary/industry/imported_food_requirement-sets_Clearance.pdf [Accessed 21/02/2011].

¹¹⁵ Ibid.

of products able to be exported from the EU.¹¹⁶ Impacts of the new regulations regarding the importation of unpasteurised cheeses from Europe into the New Zealand market may have implications for the domestic market. The increase of supply of unpasteurised cheese into the New Zealand market, gives consumers a greater variety of cheeses. With greater education from retailers and information provided by the industry about raw milk product choices, there is a large opportunity to increase customer awareness and engage consumers with these specialised products. It has also been argued that the milk supply in New Zealand is harvested in such a hygienic fashion, and cheese production is also subject to such strict hygiene and sanitation controls that the bacteria so desired as conveyors of unique flavour profiles in unpasteurised cheeses may not in fact be present in the milk. As an export food producer, at the heart of this issue is the protection of New Zealand's food industry. New Zealand enjoys an enviable reputation for food standards, hygiene and quality, which cannot be compromised.

This section has explained the value of pasteurisation as a governmental policy for protecting the general population from food borne illnesses which can be attributed with the consumption of raw milk and associated products. Milk pasteurisation for cheese making has given industrial producers the ability to control and standardise their products, to create uniform flavour profiles, minimise wastage and risk. The approach for traditional raw milk producers is far different. For the traditional raw milk cheese producer, it is the micro flora that are destroyed through pasteurisation that are the celebration of animal and pasture and human technique and skill that results in its unique flavour profiles is most valued by raw milk cheese consumers. At the heart of this argument is the issue of pasteurised versus unpasteurised cheese. Celebrating regional differences and individuality is pointless unless there is something by which to differentiate it by. Cheese aficionados will argue that without the unique microbial interaction between land, animal and human, that the very differences sought are lost through the sterilisation of milk. In Europe there is also friction over the production and sale of raw milk and raw milk products. In southern Europe raw milk cheese production is seen as a making a valuable contribution to the agricultural economy. Navigating the microbial minefield in this case will be a difficult task considering the regulatory boundaries and scrutiny for the first domestic New Zealand raw milk cheese producer. New Zealand made raw milk cheeses will face challenges as the production of raw milk cheese is a new occurrence. Only once New Zealand starts to make its own raw milk cheese will it then have the opportunity to develop new and unique flavour profiles and styles by exploiting the indigenous micro flora so highly desired among raw cheese consumers, without compromising the food safety reputation that New Zealand already has.

¹¹⁶ Ibid.

While finely crafted cheeses will always be a minority industry, it is seeing a revival amongst increasingly affluent consumers and those concerned with regional foods. There is a shift by consumers increasingly concerned with the origins of, ingredients used and production methods of the foods they buy and consume. The European Union believes that there are benefits for farmers and food producers as well as consumers. The EU believes that with these quality logos it has been able to enable the agri-food sector to inform wholesalers, distributors and consumers both inside and outside the EU of the existence and value of its quality systems. New Zealand and the EU have differing perspectives on the value of GI's. For new world agricultural producers, and especially small cheese producers, much of the research surrounding geographical indications is centred in the USA. As the literature highlights, there is a gap in New Zealand academic discourse into the prospective importance of regional foods as differentiated products and an underutilised market potential which offer advantages for small producers. This literature review does not discount that New Zealand is not a producer of high quality agricultural and dairy products. Because New Zealand is a producer of high quality agricultural products greater investigation into developing regional and high quality speciality food products for domestic or international consumption could be evaluated. As the following chapter will highlight, the New Zealand dairy industry is a dominant global exporter of bulk dairy products. However, the focus of this thesis is on the speciality cheese market, which although small, is also a significant and under researched area in New Zealand. Much of the literature surrounding this topic in the New Zealand context is attributed to the nature of the dairy industry in New Zealand and its global influence. There is much research to be done on the nature of the speciality cheese market in New Zealand, as from preliminary observations there is a growing attachment to the use of New Zealand place names for many speciality cheeses. As identified in the literature, some consumers are increasingly concerned with the origins of, ingredients used and production methods of the foods they buy and consume which the current literature highlights. GI's and their applications to the New Zealand speciality cheese industry is the primary focus of this research and aims to contribute to the apparent gap in the current literature within this industry. As the following chapter demonstrates, New Zealand's comparative advantage for dairy has been capitalised on and as such the export focus of the dairy industry and the history of dairying and cheese making in New Zealand is discussed. This is important to gaining an overview of how New Zealand has evolved its dairying systems and necessitated the industry to seek out new markets, but also how this influences international trade relations considering New Zealand's position in the WTO and the TRIP's agreement.

Chapter FOUR: New Zealand Dairy Exports and International Dairy Trade

New Zealand has a long tradition of dairying. This chapter will discuss the history of dairying in New Zealand and the reasons for exportation of dairy products from New Zealand initially to the export markets of Australia and the UK. It is important to provide background contextual information about the evolution of the New Zealand dairy industry and how the dairy industry in New Zealand has become one of the most important export sectors of the economy. Without an overall context of the dairy industry in general it would be difficult to analyse the cheese industry specifically as it is linked to milk prices. For this reason, a wider contextual approach is required to address the current status of the dairy industry as a whole in order to examine the current trends in the dairy industry in New Zealand and the industry structure. This section considers the global dairy industry and the challenges and opportunities it faces in light of growing environmental concerns over the dairy industry and the rise of Asia and other emerging economies (Brazil, India, Russia) and the impact and opportunities that they may present. This chapter then analyses the role of EU Common Commercial Policy and the Common Agricultural Policy as they influence international trade of agricultural products. It discusses the differing perspectives of agriculture regarding the rationale of the CAP and recent policy reforms. This chapter examines the role that agriculture has played in the context of international trade negotiations with regards to its sensitivity in certain markets. Thus explaining how Geographical Indications are framed within the international trade negotiations and the diverging rationales between differing actors. Finally, this chapter concludes with an in depth analysis of the Protected Designation of Origin (PDO) and Protected Geographical Indication (PGI) scheme of the EU as a tool for protecting the intellectual property rights of agricultural producers in the EU, and its expansion into the WTO and consequences for New Zealand.

4.1 New Zealand Dairy

The dairy industry, like many other industries in New Zealand has had to adapt and innovate in order to maintain competitive. Dairying in New Zealand has traditionally had an export focus and as such has needed to be innovative in order to remain competitive. New Zealand is dependent on trade and has limited export products therefore the main focus for New Zealand exports has traditionally been agricultural goods. New Zealand strongly favours open trade, and although New Zealand processes only 2% of the world's milk, its exports make up more than 35% of all dairy products traded on the international market, making New Zealand the world's largest trader of dairy products internationally.¹¹⁷ Milk powder, butter, and cheese are New Zealand's largest exports and dairy comprises 25% of total exports. Currently, Australia is the largest market for exports, with almost a quarter of total exports and over twice the value of exports as China – New Zealand's second-largest market.¹¹⁸ New Zealand's dairy farming system is predominantly pasture based grazing and is the 8th largest dairy producing nation in the world, supplying over 16 billion litres of milk annually. Milk pricing is based on the international milk price and there are no tariffs or government income support for farmers. Over a period of approximately 9 months, August 2010 through to April 2011, (the spring and summer milk production season in New Zealand) more than 2 million tonnes of product will have been made in New Zealand and exported to 140 countries across the globe. Cheese will be approximately 13% of that total product.¹¹⁹ In the 2010/11 season, the New Zealand dairy industry will have processed more than 13 million kg of milk solids; domestic New Zealand consumes around 5% and the remaining 95% processed and exported.¹²⁰ The New Zealand dairy industry is highly deregulated. The New Zealand Government policy towards agriculture has been to rely heavily on the operation of markets and to minimise government intervention.¹²¹ The key to New Zealand's competitive position has been the industry's ability to employ a cost leadership strategy to produce products at a low cost. The development of cheese making technology and mechanisation has defined New Zealand's cheese making capacity as a commodity focussed export orientated industry. Reducing the cost of production has remained the key focus of the industry in

¹¹⁷ K. Johnston, A. Barclay, and C. Honoré, "A Brief History of Innovation in New Zealand Cheesemaking," *Australian Journal of Dairy Technology* 65, no. 3 (2010).

¹¹⁸ Statistics New Zealand., "New Zealand in Profile: 2011," http://www.stats.govt.nz/browse_for_stats/Corporate/Corporate/nz-in-profile-2011/imports-exports.aspx [Accessed 31/01/2011].

¹¹⁹ Johnston, Barclay, and Honoré, "A Brief History of Innovation in New Zealand Cheesemaking."

¹²⁰ Ibid.

¹²¹ New Zealand Ministry of Foreign Affairs and Trade., "New Zealand Government Paper for the European Union High Level Experts Group on Milk," (Wellington: New Zealand Government, 2010).

an effort to remain competitive.¹²² This necessity for competitiveness and innovation is due to New Zealand being the only developed country in the world to have totally deregulated the agricultural sector and as such is totally exposed to the international market. Therefore the agricultural policies of the EU, along with the USA and Japan, have a profound effect on New Zealand. The elimination of subsidies, import tariffs and tax concessions has meant that since the 1980's there is no protection from the price fluctuations of international markets for New Zealand farmers. New Zealand is a small isolated country in the South Pacific and because of this distance from markets and a small population it has necessitated the export of its agricultural goods. Dairy cattle were first brought to New Zealand by the early settlers to provide milk, cream and butter for local supply. In 1874, total exports from New Zealand of dairy products produced by individual farmers were valued at £700,000.¹²³ As there was only a small population there was no real market for fresh cheese in New Zealand, exports of hard cheeses were necessary. The first cheese company was started on the Otago Peninsula in 1871, and the first refrigerated shipment of butter; cheese and lamb were successfully sent to the UK in 1882. Early New Zealand cheese makers made the cheese they knew such as cheddar and Cheshire and as primary exports were back to England it was logical to call the cheeses something that customers would identify with. During the first and second World Wars, the New Zealand Government took control of the industry and sold all dairy products to the UK in order to support the war effort.¹²⁴ After the Second World War, Dutch immigrants provided alternative cheese styles, such as Gouda, Leyden and Maasdam. Then other immigrant groups to New Zealand brought the cheeses they knew such as Greek style cheeses. Goat and sheep cheeses started emerging in the late 1980's and 1990's. The UK remained the most important market for New Zealand up until the 1970's. The New Zealand Dairy Board initially sold all butter and cheese to the UK until the early 1970's when Britain joined the European Economic Community (EEC).¹²⁵ As a result, the New Zealand dairy industry had to diversify its products and develop new markets. The UK has been surpassed as the largest export market by the United States, Japan and Asia which have become the largest markets for New Zealand's dairy products. The New Zealand Dairy Board (NZDB) was formed in 1961 and became a multinational dairy food company with 80 subsidiaries and joint ventures in 30 countries.¹²⁶ Until June 2001, the NZDB had a statutory monopoly over the export of dairy products established by the Dairy Board Act of 1961. Processing companies could export independently of the NZDB if they obtained a license. Licenses were mostly granted for products

¹²² Johnston, Barclay, and Honoré, "A Brief History of Innovation in New Zealand Cheesemaking."

¹²³ G Richards and J Richards, *And Then There Was One (a History of the Taranaki Dairy Industry)* (New Plymouth: TNL Print and Graphics, 1995).

¹²⁴ Johnston, Barclay, and Honoré, "A Brief History of Innovation in New Zealand Cheesemaking."

¹²⁵ Ibid.

¹²⁶ Ibid.

that the NZDB had little interest in developing and for markets where the products would not come into direct competition with other products exported by the Dairy Board.¹²⁷ The rationale for the statutory power of the NZDB was that through a single-desk seller, the dairy industry as a whole could compete more effectively with large industry players, such as Nestlé, on the international market.¹²⁸ With increasing volumes of milk production, diversification of products became necessary. From primarily butter and cheese manufacturing, technological innovation and mechanisation led to expansion of the industry to whole and skim milk powder products, speciality food ingredient products and manufactured dairy commodity, to reduce costs and maintain economies of scale. From the outset, the structure of the dairy industry in New Zealand has had a strong preference for farmer owned co-operative structure, which as in other parts of the world such as the US and Europe is a successful model for enabling the pooling of resources to create greater market share and power. Advancements in technology and transportation networks and on farm milk refrigeration have meant increasing consolidation within the industry. In 1935 there were approximately 500 dairy farm co-operatives in New Zealand. By 1985 this had reduced to approximately 100 and by 2000 there were only four. In 2001, the New Zealand Dairy Board merged with the New Zealand Dairy Group and Kiwi Co-Operative Dairies to form Fonterra Co-Operative Group Limited. Fonterra is the largest co-operative dairy processing company and accounted for 92% of the milk collected in the 2008/09 season. The structure of the cooperative model is such that farmers seem to be mostly interested in innovation and investment directed to local growth and providing immediate or near-immediate returns. Most key industry players seem to support an evasive innovation strategy of quantitative growth.¹²⁹ However, one of the biggest challenges for the dairy industry is the issue of environmental protection, sustainability and effective management of natural resources. The global population is increasing and the dairy industry is under increasing pressure to supply more whilst under scrutiny to provide sustainably produced products that are safe and traceable throughout the supply chain. For 2010, there is was 2.5% demand growth for dairy which was driven by developing countries such as Brazil and India.¹³⁰ This demand is mainly met by domestic production. However, the challenge is to consistently supply high quality product. There are opportunities for growing supply, but it cannot be fulfilled from New Zealand or Australia, as such the USA and EU are filling the gaps in supply. Land availability in New Zealand is limited and

¹²⁷ J. K. Sankaran and P. Luxton, "Logistics in Relation to Strategy in Dairying: The Case of New Zealand Dairy," *International Journal of Operations & Production Management* 23, no. 5 (2003).

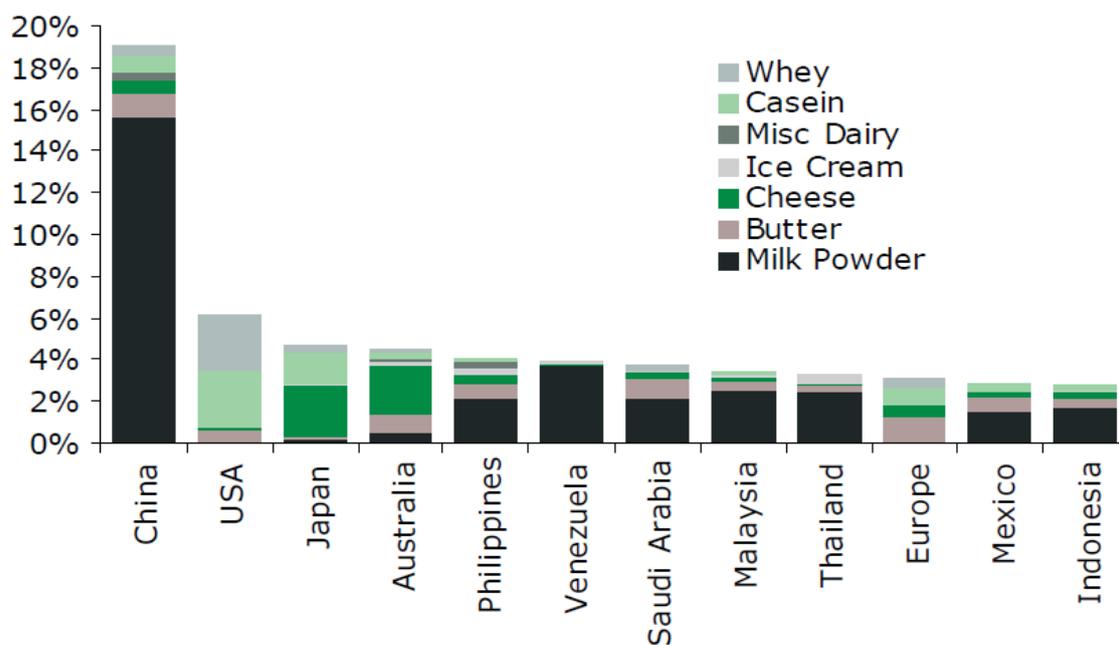
¹²⁸ Ibid.

¹²⁹ S. A. Kesting, J. Courvisanos, and P. Wells, "Political Aspects of Innovation in the New Zealand Dairy Industry," in *Appropability, Proximity, Routines and Innovation* (Copenhagen, Denmark: DRUID 25th Celebration Conference 2008).

¹³⁰ Jaqueline Pieters, "World Dairy Leaders Forum. Markets: Challenges and Opportunities" (paper presented at the International Dairy Federation- World Dairy Summit, Auckland, New Zealand, 2010).

the major challenge for Australia is water availability.¹³¹ Dairy is a premium product and this is its natural advantage plus there are limitations to its substitution. However, globally there is increasing competition for land, labour and investment. Consumers are increasingly aware of and have perceptions about the environmental aspects of the dairy supply chain and sustainability. Particularly in New Zealand, perceptions about the dairy industry are mixed, and there are concerns especially about waste management and pollution of waterways. New Zealand dairy exporters are continuing to target high growth markets. These areas are experiencing high growth particularly due to increasing incomes and a desire for westernised diets. As the graph below illustrates, China now takes approximately 20 percent of New Zealand's dairy supply, up from 5 percent in 2008 and is therefore a very important market.¹³² Japan and Australia take the majority of New Zealand cheese exports.

Top 10 destinations for NZ dairy exports, 2011



Sources: ANZ, National Bank, Statistics NZ

Table 4.01 Top Ten Destinations for NZ Dairy Exports 2011¹³³

¹³¹ Ibid.

¹³² C. Bagrie et al., "New Zealand Economics Nbnz Focus," ANZ National Bank Limited, http://www.nbnz.co.nz/rural/information/AgriFocus/pdfs/AgriFocus_Nov11.pdf [Accessed 10th March 2012].

¹³³ Ibid.

4.2 The Global Dairy Industry

As noted already, 95% of New Zealand's dairy products are exported and New Zealand accounts for around 35% of global dairy trade. Due to the export nature of the New Zealand dairy industry, it is exposed to volatile price changes in the international market. Globally the dairy industry is expected to grow to try to meet the needs of growing populations, and demand for dairy products is being driven by developing countries such as China, Brazil and India. Value added dairy products, such as cheese, are also expected to grow. New Zealand dairy farmers compete on the international dairy market mainly through the Fonterra Cooperative Group, one of New Zealand's largest companies. Dairy prices in New Zealand are linked to export prices, so when international prices rise or fall they are generally reflected in the domestic prices for dairy products.¹³⁴ In more recent times there has been a rapid increase in the price of dairy products for New Zealand consumers as there has been an imbalance in global demand and supply. New Zealand dairy farmers have also been affected by rising production costs. Rising fuel prices have been attributed to increasing costs of production in the agricultural sector. Use of non- fossil fuel sources have also been increasing. Ethanol from bio-fuels substitutes made from corn and grain products have become popular and thus reduced feed supply alternatives for livestock consumption. The rising price of dairy products has been attributed to adverse climatic conditions in some dairy producing nations, therefore decreasing supply to the international dairy market. Increased demand for dairy from emerging economies such as China has also increased demand as dairy products become more affordable as their incomes rise.

4.2.1 The EU

The Common Agriculture Policy has protected the EU dairy industry from the price volatility associated with the international dairy markets. Europe is capped by its milk quota system until 2015 when it is to be abolished as part of the 2008 CAP Health Check. The EU milk quota system was originally introduced in 1984, in order to limit public expenditure on the sector, to control milk production, and to stabilise milk prices and the agricultural income of milk producers.¹³⁵ However, the outlook appears favourable for higher value added dairy commodities which is being driven by

¹³⁴ Statistics New Zealand., "The Rising Cost of Food in New Zealand," [newzealand.govt.nz, http://www.stats.govt.nz/browse_for_stats/economic_indicators/prices_indexes/rising-cost-of-food-in-nz.aspx](http://www.stats.govt.nz/browse_for_stats/economic_indicators/prices_indexes/rising-cost-of-food-in-nz.aspx) [Accessed 17/01/11].

¹³⁵ Directorate-General for Agriculture and Rural Development. European Commission., "Economic Impact of the Abolition of the Milk Quota Regime – Regional Analysis of the Milk Production in the EU " http://ec.europa.eu/agriculture/analysis/external/milkquota/ex_sum_en.pdf [Accessed 10/03/2012].

growing demand for cheese and fresh dairy products. The production of fresh dairy products (including drinking milk, cream, yoghurts, etc.) is projected to increase by about 8% (from 2009 to 2020) and cheese output is also expected to grow by about 10%. Cheese exports from the EU to all of their main export destinations rose in 2011, with volumes exported to Russia which the largest buyer of EU cheese, increasing by 38%. Meanwhile exports of whole milk powder (WMP) have decreased by 4% whilst the reverse trend is showing for skim milk powder (SMP) which has gained 70% in 2010.¹³⁶ Currently 40% of EU cheese exports go to Russia and the USA.¹³⁷

4.2.2 The USA

Another significant player in the global dairy market is the USA. The USA is the largest economy in the world and New Zealand's second largest export destination after Australia. The Trans-Pacific Strategic Economic Partnership Agreement (The Trans-Pacific Partnership) or (TTP) currently being negotiated will pave the way for more liberalised trade between New Zealand and the USA with gradual reductions in import tariffs. This will be a vital step towards liberalisation of agricultural trade. The United States is New Zealand's most important individual country market for agricultural exports. New Zealand's major agricultural exports to the United States are beef, dairy products and lamb, with horticultural products increasing in importance.¹³⁸ In terms of international cheese production, only the EU-27 continues to produce more cheese than the United States.¹³⁹ In 2009 U.S. imports of cheese were 162,622 Metric tonnes, valued at \$US 1 billion. Other main sources of imported cheese to the USA include New Zealand and France.¹⁴⁰ In 2008, cheese consumption in the USA was 32.4lbs (14.7kg) per person, a slight decrease from the previous year. Cheddar cheese and mozzarella cheese remain the most popular varieties of cheese. Americans typically consume 10lbs (4.5kg) of cheddar and 10.6lbs (4.8kg) of mozzarella per year.¹⁴¹ The US dairy industry is characterised by year round dairy production using state of the art technology, and high product safety standards, which makes it one of the most efficient milk producers in the world. The state of Wisconsin is the largest speciality cheese producer in the USA accounting for 26% of production. The European Union has been a major producer of cheese in the international market. Since 2001,

¹³⁶ The Dairy Trader., "Dairy Commodity Prices Firm," NZX Agrifax Limited, http://nzxfutures.com/system/dairy_reports/reports/74/original/The%20Dairy%20Trader%2020110117.pdf?1295207595 [Accessed 24/01/2011].

¹³⁷ NZ Exporter., "EU Eyes More Dairy Exports to Russia," NZ Exporter, <http://nzexporter.co.nz/2010/06/eu-eyes-more-dairy-exports-to-russia/> [Accessed 31/01/2011].

¹³⁸ New Zealand Ministry of Foreign Affairs and Trade., "United States of America," New Zealand Government, <http://mfat.govt.nz/Countries/North-America/United-States.php> [Accessed 21/02/2011].

¹³⁹ Geisler, "Cheese Industry Profile."

¹⁴⁰ Ibid.

¹⁴¹ Ibid.

European countries have produces on average around 13.7 billion lbs (6.2 million tonnes) of cheese every year. The United States and Japan are the two largest importers of cheese, importing 455,000lbs (206 tonnes) and 454,000 (205 tonnes) respectively every year.¹⁴²

4.2.3 BRIC¹⁴³

The New Zealand export focus is unique. The ability by New Zealand to produce vast amounts of milk powder enables it to reduce the volume for shipping and prolong the life of the product. Increasing demand for animal protein and increasing affluence in Asia has boosted demand for New Zealand dairy products. Increasing market opportunities and challenges for New Zealand dairy products exist from emerging economies such as Brazil, Russia, India and China. The New Zealand Government has recognised these opportunities for exporters and as of 2008 successfully negotiated a Free Trade Agreement (FTA) with the Peoples' Republic of China and recently announced their intentions of a completing an FTA with Russia by 2012. New Zealand also began talks on a bi-lateral free trade agreement (or Closer Economic Cooperation Agreement - CECA) with India in April 2010 and the fourth round of negotiations took place in March 2011 in New Delhi.

In 2011 New Zealand and Russia were preparing to commence negotiations towards an FTA. Russia already has a customs union with Kazakhstan and Belarus, and an FTA would be a unique opportunity for New Zealand dairy exporters. Russia is the 5th largest importer of food in the world, and the largest butter and cheese importer in the world. An FTA between the two countries would be seen as complementary as New Zealand exports mainly agricultural goods and Russia exports are mainly energy and machinery. New Zealand's exports to Russia have increased 267% from \$NZ51 million in 2000 to \$NZ187 million in 2009.¹⁴⁴ Russia is already a significant importer of New Zealand butter and NZ has the largest share of butter imported into Russia, last year supplying 28,600 tonnes which was over 50% of Russia's internationally imported butter.¹⁴⁵ Russian dairy consumption has risen due to increased consumer spending power, increased consumption of imported dairy products, greater brand recognition of imported dairy products and positive attitudes toward dairy

¹⁴² "Specialty Cheese Report: Executive Summary," Agricultural Marketing Resource Center, http://www.agmrc.org/commodities__products/livestock/dairy/speciality_cheese_report_executive_summary.cfm [Accessed 21/02/2011].

¹⁴³ Brazil, Russia, India, China

¹⁴⁴ Nevil Gibson, "NZ, Russia Agree to Launch FTA Negotiations," The National Business Review, <http://www.nbr.co.nz/article/nz-russia-agree-launch-fta-negotiations-123931> [Accessed 31/01/2011].

¹⁴⁵ Dairy Companies Association of New Zealand., "Russia F.T.A. Smart Strategy and Good Business for New Zealand Dairy Exporters," 'Scoop' Independent News- Business, <http://www.scoop.co.nz/stories/BU1011/S00395/russia-fta-smart-strategy-for-nz-dairy-exporters.htm> [Accessed 31/01/2011].

products being an important part of a healthy diet.¹⁴⁶ Russia is also a key trading partner for the European Union, and an important market for European dairy and cheese products. In 2009, the EU exported 67,000 tonnes of processed cheese, 63,000t (tonnes) of Gouda, 45,000t of Edam, 31,000t of Cheddar, 13,000t of Blue Vein cheese, and 11,000t of Brie/Camembert.¹⁴⁷ Since 1994 the framework for Russia- EU trade relations is the Partnership and Co-Operation Agreement (PCA). It is the legal basis for the bilateral trade and investment relations between Russia and the EU. One of its main objectives is the promotion of trade and investment as well as the development of harmonious economic relations between the parties. EU imports from Russia are to a very large extent not subject to any restrictions. However the existing rules provide more flexibility to Russia to adopt unilateral tariff measures.¹⁴⁸

India is the largest milk producing country in the world, producing more than 112 million tonnes in the 2009/10 season. The Indian dairy industry accounts for more than one sixth of world production and has 20% of the world's bovine population. India is competitive in economic terms as cost of production is lower than in many developed nations, although productivity is low due to a large number of unproductive animals, poor services and low genetic potential. Indian farms are predominantly small, less than 2 hectares of land with 1-2 animals. However, there are approximately 70 million producers.¹⁴⁹ Projected demand for milk is expected to grow in India to between 180-200 million tonnes by 2021/2022, and demand for milk and milk products is expected to grow rapidly. For the Indian dairy industry to meet this demand, production must increase by approximately 4% per annum.¹⁵⁰ Most of the milk produced in India is consumed in the domestic sector. However, with the improving financial situations of the middle class and a population approaching one billion with a preference for brand names, there are opportunities for foreign investors.¹⁵¹ NZ is currently negotiating an FTA deal, which would be beneficial for NZ dairy exports as India has high tariffs on dairy imports.

In 2008 New Zealand signed a Free Trade Agreement with China, and China has become New Zealand's second most important export market. Dairy products are New Zealand's largest export to China, valued at \$NZ1.83 billion in 2010.¹⁵² The Chinese economy is still experiencing rapid per capita

¹⁴⁶ NZ Exporter., "EU Eyes More Dairy Exports to Russia."

¹⁴⁷ Ibid.

¹⁴⁸ European Commission- Trade., "Bilateral Relations: Trade: Russia," <http://ec.europa.eu/trade/creating-opportunities/bilateral-relations/countries/russia/> [Accessed 31/01/2011].

¹⁴⁹ D. Tikku, "Developments in the Indian Dairy Industry" (paper presented at the International Dairy Federation, World Dairy Summit, Auckland, 2010).

¹⁵⁰ Ibid.

¹⁵¹ Andaleeb Ahmed, "Upwards for India," *Dairy Industries International* 71, no. 1 (2006).

¹⁵² New Zealand Ministry of Foreign Affairs and Trade., "People's Republic of China," New Zealand Government, <http://www.mfat.govt.nz/Countries/Asia-North/China.php> [Accessed 18/10/2011].

income growth and increasing urbanisation of rural Chinese will increase the demand for fresh milk and short life dairy products. There is a strong demand in China for imports, although the Chinese government is cautious about product safety and production standards, product supply and traceability issues,¹⁵³ in light of the Sanlu milk powder scandal in 2008. However the Chinese market is a sophisticated growth market and in demand are premium quality foods. China spent twice as much on New Zealand dairy products than the 27 EU member states combined. This is driven largely by milk powder imports. The challenge for the future for dairy will be growing consumer confidence through value added products, particularly cheese, providing reliable supply chains and long term sustainability. As a fast growing economy, Chinese consumers are able to bypass cheap alternative products in favour of high-end, high quality products.

Brazil is a net importer of dairy products. The Brazilian dairy industry is dominated by two multinationals, Nestlé and Parmalat and to a lesser extent by major Brazilian cooperatives and companies. Milk production is highly seasonal and is produced mostly in Minas Gerais, São Paulo, and Paraná.¹⁵⁴ In Brazil, the cheese industry is strongly influenced by the European industry with a great number of varieties of Dutch, Italian, Swiss cheeses on the market.¹⁵⁵ The Brazilian cheese industry is now in a transitional phase of producing artisanal to semi-industrial or industrial cheeses, although with great technological deficiencies, which makes production more expensive and to consistently attain quality products more irregular.¹⁵⁶ New Zealand's exports to Brazil have been traditionally dominated by dairy products; however trade has declined significantly in value following Fonterra's investment in processing facilities through its joint venture Dairy Partners Americas (DPA), which was launched in 2003.¹⁵⁷

¹⁵³ Pieters, "World Dairy Leaders Forum. Markets: Challenges and Opportunities".

¹⁵⁴ Economic Research Service / USDA., "Brazil," US Foreign Direct Investment in the W. Hemisphere Food Industry / AER-760, http://www.usp.br/unicetex/geagro/biblioteca/Brazil_agribusiness.pdf [Accessed 14/02/2011].

¹⁵⁵ Alexandre J. Cichoski et al., "Characterization of Prato Cheese, a Brazilian Semi-Hard Cow Variety: Evolution of Physico-Chemical Parameters and Mineral Composition During Ripening," *Food Control* 13, no. 4-5.

¹⁵⁶ Ibid.

¹⁵⁷ Ministry of Foreign Affairs & Trade., "Federative Republic of Brazil," New Zealand Government, <http://www.mfat.govt.nz/Countries/Latin-America/Brazil.php> [Accessed 14/02/2011].

4.3 Trade Policies

New Zealand and Europe have not always enjoyed a harmonious relationship when it comes to international trade in agricultural products. Since the 1980's New Zealand has deregulated its agricultural sector and as such income support mechanisms are no longer available to New Zealand farmers. Agriculture in international trade negotiations has historically been a contentious part of trade negotiations, with many countries placing trade restrictions such as tariffs on agricultural exports. The Common Commercial Policy, (EU trade policy), is one of the original competencies of the EU laid out in the original Treaty of Rome, as was the Common Agricultural Policy (CAP). Both are key policy areas of the EU. Gradual reform of the CAP has altered the role of the CAP to meet changing environmental needs of the European countryside. Within the WTO framework, GI's are covered by The Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS). This section discusses the diverging attitudes towards the protection of GI's within the WTO framework, and then discusses the key features of the PDO/PGI system within the EU. Trade in the EU is governed by the Common Commercial Policy of the European Union Article 206, (Ex Art. 131 TEC) one of the original EC policies of the 1957 Treaty of Rome.

Article 206 contains the ambition that:

By establishing a customs union in accordance with Articles 28 to 32, the Union shall contribute, in the common interest, to the harmonious development of world trade, the progressive abolition of restrictions on international trade and on foreign direct investment, and the lowering of customs and other barriers.¹⁵⁸

The establishment of the common internal market by logical extension requires a common external tariff (CET). The establishment of the single market has inexorably meant dealing with non-common market members. The EU has used tariffs as a means to impose restrictions on imported goods into its market. Traditionally, imports of 'sensitive' goods have attracted high tariffs rates on goods such as trucks, cars, textiles clothing and footwear, and most importantly, the agricultural sector. Tariffs on agricultural goods imported into the EU continue to be a problematic part of the EU- NZ trade relationship. Liberalisation of markets to Europe has been slow but gradually leaning towards easier access to the EU. Although it will be some time before New Zealand will be able to sell agricultural products freely to the EU, the focus of the European Union trade policy has been tending towards trade liberalisation. The EU has begun to focus on attaining regional trade agreements for example

¹⁵⁸ Official Journal., "OJ C 83 of 30.03.2010 P. 140."

ASEAN, the Gulf Cooperation Council and Mercosur, as well as bilateral agreements with Korea, India, and Russia, which it has recognised these as potential new preferential trade partners.¹⁵⁹

The CAP is a key policy area in the European Union and reflects the general concern with the effects that international trade can have on domestic industries, and the perceived need to protect domestic industries from foreign competition. The CAP is one of the oldest and most contentious policies, created in the 1957 Treaty of Rome. The policy itself was designed to guarantee a better standard of living for farmers, provide consumers with quality food at a fair price, and to maintain and preserve rural heritage. As was globally common at the time, the founding six members of the EU all had strong state intervention in their agricultural sectors, and were not prepared to allow free market forces to rule in an integrated economy. It was expected that the example of a more integrated policy for agriculture would encourage other sectors to do the same. Importantly, competence in this area was transferred to the Commission. The CAP is governed by Article 39 (ex Article 33 TEC) which states that the objectives of the Common Agricultural Policy shall be:

- (a) To increase agricultural productivity by promoting technical progress and by ensuring the rational development of agricultural production and the optimum utilisation of the factors of production, in particular labour;
- (b) Thus to ensure a fair standard of living for the agricultural community, in particular by increasing the individual earnings of persons engaged in agriculture;
- (c) To stabilise markets;
- (d) To assure the availability of supplies;
- (e) To ensure that supplies reach consumers at reasonable prices.

The final decision making power of the CAP lies with the Council of Ministers. The national composition of the Council has been criticised as can impede impartiality when the main political support lies in a country with a special interest group.¹⁶⁰ The farming lobby in many European countries are traditionally vocal and well organised. Therefore historically it has been for the most part difficult to reform the CAP, although more recent political pressures have seen the CAP undertake reform. Thus the CAP has gone through many changes since its inception and the support system has become remarkably complicated. At its peak the CAP represented up to 48% of the EU budget. Reforms, most notably in the 1990's and more recently in 2003 have attempted to bring expenditure under control. Currently the CAP consumes 40% of the EU budget. One of the main

¹⁵⁹ M. Brühlhart and A. Matthews, "EU External Trade Policy," in *The European Union: Economics and Policies* ed. A.M. El-Agraa (Cambridge: Cambridge University Press, 2007).

¹⁶⁰ U. & El-Agraa Koester, A.M., "The Common Agricultural Policy," in *The European Union- Economics and Policies*, ed. A.M. El-Agraa (Cambridge: Cambridge University Press, 2007).

objectives of the CAP is to provide income support for farmers. The main instrument for this is through price support. The price support mechanism means that prices for domestic products are higher than imported or exported products.¹⁶¹ Initially the CAP offered subsidies to farmers to increase production, guaranteeing high prices. However, the CAP has been a contentious policy for the EU, both internally and externally. The divergence of national interests among the member states during the price negotiations of agricultural products has meant that the CAP is not always as harmonious as it was initially anticipated. The CAP has been blamed for creating inflated prices within the EU and thus distorting prices in the international marketplace, and trading partners have often complained about restricted market access to the EU. The 2003 reforms signalled a radical change to the way in which farmers were paid subsidies in Europe. The introduction of the Single Farm Payment (SFP) has moved away from market based support towards direct payments for farmers based on social and environmental criteria, a change of policy broadening to include wider environmental issues. The CAP 'health check' in 2008 also aimed to improve the CAP in order to make it more market orientated. The key features of the health check were to 'decouple' direct aid to farmers, whereby payments are no longer linked to the production of a particular product, phasing out of milk quotas by 2015 and diversion of direct aid payments to the rural development budget. In 2013 the CAP is again due for reform. The October 2011 CAP reform proposals include a stronger environmental focus by making 30% of the 'direct payment' income support payments received by farmers dependent on environmental criteria, capping large farm subsidy payouts while offering incentives for young farmers and organic growers. However its detractors claim that the reforms are inadequate and do not go far enough to protect the environment and are still discriminatory against developing countries as no reductions in export subsidies are proposed.

¹⁶¹ Ibid.

4.4 World Trade Organisation (WTO) and Geographical Indications

Agriculture was long excluded from trade liberalisation agreements on account of its 'exceptionalism'.¹⁶² That is to say, although its exceptionalism may vary between countries, for agriculture wherever it is produced; the end result is that it is consumed by humans or livestock, essential to existence, and this is what sets agriculture apart from other industries. Agriculture was first incorporated into the GATT (General Agreement on Tariffs and Trade) system in 1993, at the conclusion of the Uruguay Round of international trade talks.¹⁶³ GATT's original aims were the abolition of quotas and reduction of tariffs among member nations. The most important principle of GATT was that it supported trade without discrimination. The Uruguay round was the final round of trade talks conducted within the GATT framework. Concluded in 1994, the Uruguay Round was most notable for making small steps in including agricultural trade reform to restrict trade protection in agriculture. GATT was superseded by the World Trade Organisation (WTO) in 1995. It is the Commission of the EU who negotiates on behalf of the member states in the WTO and in third party trade negotiations. The Commission is empowered to negotiate in consultation with a special committee appointed by the Council of Ministers for this purpose.¹⁶⁴ One of the weaknesses of the CAP in terms of negotiating power at the international level is that Council of Ministers is unable to decide a clear path for the future of the CAP. It is important to note that it is not the goal of the EU to deregulate agricultural markets. The principle of *multifunctionality* is an important concept to understand the rationale of the CAP. Farmers in Europe are considered to have a greater role than mere food producers. Farmers are perceived also to have the capacity of environmental stewardship and this plays an important role in the model of European sustainable agriculture.¹⁶⁵ Sovereign countries are free to choose their own economic policy. However, in an integrated world economy, one country's economic policy affects another. Since 1995 trade rules have been enforced by the World Trade Organisation. The purpose of the WTO is to establish and monitor the rules for trade policymaking in its members and to encourage the liberalisation of trade through successive rounds of trade negotiations to reduce tariffs and other barriers to trade in goods and services.¹⁶⁶

Within an international context, in 1995, the Agreement on Trade Related Aspects of Intellectual Property Rights (TRIPS) came into force under the WTO, establishing standards for international property protection and enforcement. All products are covered under Article 22 of the Agreement.

¹⁶² K Morgan, T Marsden, and J Murdoch, "The Regulatory World of Agri-Food: Politics, Power and Conventions," in *Worlds of Food: Place, Power and Provenance in the Food Chain*, ed. Andrew Goudie Gordon Clark, Ceri Peach (Oxford: Oxford University Press, 2006).

¹⁶³ Ibid.

¹⁶⁴ Brühlhart and Matthews, "EU External Trade Policy."

¹⁶⁵ Morgan, Marsden, and Murdoch, "The Regulatory World of Agri-Food: Politics, Power and Conventions."

¹⁶⁶ Brühlhart and Matthews, "EU External Trade Policy."

Article 23 provides a higher level of protection for geographical indications for wines and spirits. There are two issues under debate within the current Doha mandate, which are both related in different ways to the higher (Article 23) level of protection. They are the creation of a multilateral register for wines and spirits; and extending the higher (Article 23) level of protection beyond wines and spirits.¹⁶⁷ Geographical Indications and their influence have been widely researched in the fields of Intellectual Property law.¹⁶⁸ There are essentially two diverging positions in the international debate about GI's. Europe is interested in extending Article 23 of the TRIPS agreement beyond wines and spirits. However, many countries including, the USA, Canada, Australia, and New Zealand among others consider the extension unnecessary and costly. Convinced of the economic benefit and great trade potential inherent in GIs, many countries around the world, among them developed, developing and least-developed countries, are actively working within the WTO to have the existing protection granted by the TRIPS Agreement to GIs for wines and spirits extended to cover GIs identifying all products.¹⁶⁹ The EU would prefer words such as 'Parmesan' (for cheese) and 'Parma' (for ham) 'returned' to Europe. However, the New World producers who advocate a less centralised, more market-driven approach to geographical indications are not enthusiastic to 'return' words that have become considered generic product names in many countries.¹⁷⁰

The Cairns Group was formed in 1986 and is an interest group made up of 19 agricultural exporting countries accounting for one-third of the world's agricultural exports. The goals of the Cairns Group are to bring about liberalisation of the global trade of agricultural exports. The issue of extension of the TRIPS Agreement is of particular interest not only to developed countries but also developing countries because of the importance of the remunerative marketing of their agricultural, handicraft and artisan production. In addition, GIs have features that respond to the needs of indigenous and local communities and farmers. GIs:

- are based on collective traditions and a collective decision-making process;
- reward traditions while allowing for continued evolution;
- emphasize the relationship between human efforts, culture, land, resources and environment; and
- are not freely transferable from one owner to another.¹⁷¹

¹⁶⁷ World Trade Organisation Secretariat., "Geographical Indications: Background and the Current Situation " http://www.wto.org/english/tratop_e/trips_e/gi_background_e.htm.

¹⁶⁸ Evans and Blakeney, "The Protection of Geographical Indications after Doha: Quo Vadis?."

¹⁶⁹ Addor and Grazioli, "Geographical Indications Beyond Wines and Spirits."

¹⁷⁰ Hughes, "Champagne, Feta, and Bourbon: The Spirited Debate About Geographical Indications."

¹⁷¹ Addor and Grazioli, "Geographical Indications Beyond Wines and Spirits."

Advocates for GI's argue that the unique qualities of certain products derive from a combination of features of the natural environment and traditional practices of the people living there. It is claimed that the combination of these practices and environmental conditions cannot be replicated elsewhere.¹⁷² The difference in the label of origin debate between the USA and the EU is that European countries point out that 'labels of origin "belong" to the region itself and are only administered by state governments, the latter preventing consumer fraud by overseeing certification systems and other controls.'¹⁷³ The vast majority of the world's GI foods are located in Europe, and member states such as France and Italy have had significant influence in shaping the agricultural policies of the EU as they have a long history of subsidising their agricultural producers. To this end, in 1992 the EU introduced a system to protect and promote traditional and regional food products. It is inspired by existing national systems, for example the French AOC (appellation d'origine contrôlée) and the Italian DOC (Denominazione d'origine Controllata). The origins of appellation labelling began to protect French winegrowers from fraud.¹⁷⁴ The French *appellation d'origine* system defines an area specific to the products, especially the wine industry, which has classified and defined the areas where they can be produced but has been applied broadly to other products. Principally four aspects of production are usually specified: variety of plant or species of animal, yield per unit area, agricultural production method and methods of processing the product.¹⁷⁵ Prior to 1992 these appellation rules were quite disparate throughout the EU and as they sought to complete the internal market, they needed to establish an EU-wide solution. Under European Union law, the protection of Geographical Indications is ensured by the Protected Geographical Status Framework. Council Regulation (EEC) No 2081/92 on the protection of geographical indications and designations of origin for agricultural products and foodstuffs ensures that only products originating from a particular town, region or country are allowed to trade in that product. It has been superseded by Council Regulation (EC) No 510/2006 of 20 March 2006 on the protection of geographical indications and designations of origin for agricultural products and foodstuffs. It was designed to prevent unfair competition and protect customers from misleading or non-genuine products. The EU system of geographical indications and the protection of specialised food and agricultural products has enabled companies to build strong reputations in the global marketplace and also within the internal market in order to charge premium prices for these protected products.

¹⁷² Warren Moran, "Rural Space as Intellectual Property," *Political Geography* 12, no. 3 (1993).

¹⁷³ Barham, "Translating Terroir: The Global Challenge of French AOC Labeling."

¹⁷⁴ Andrew Jefford, "Rise of the Terroiristes Appellations Began in 1935 to Protect French Winegrowers from Fraud. Now They Are Found on Everything from Cheese to Fruit to Hay. They Are Not Just a Brand for the Brandless, Writes Andrew Jefford, but a Way of Sensually Mapping the World," *Financial Times* 2007.

¹⁷⁵ Moran, "Rural Space as Intellectual Property."

The key features of the PDO/PGI scheme are the following. It:

- Establishes a register for Geographical Indications (subject to conditions set out in Regulation 510/2006 (and its predecessor Regulation 2081/92));
- Creates two definitions of origin names (PDO and PGI) for all agricultural and food products except wines and spirits drinks;
- Provides for wide scope of protection;
- Provides for Community approach;
- Foresees enforcement of protection by administrative means at Member State level;
- Provides for use of specific symbols on packaging; and
- Defines a national procedure (after 2006).¹⁷⁶

It defines two different types of geographical description, namely *protected geographical indications* and *protected designation of origin*. These EU symbols provide guarantees of authenticity that the food products concerned are made in a specific region or use particular production methods. A Traditional Speciality Guarantee (TSG) highlights traditional character, either in the composition or means of production. The EU promotes these systems to encourage the diversification of agricultural production, protect the product names from misuse and imitation and help consumers by providing information and on the specific characteristics of the products.

¹⁷⁶ London Economics., "Evaluation of the CAP Policy on Protected Designations of Origin (PDO) and Protected Geographical Indications (PGI)."

EU Speciality Products Logos



Figure 4.02: EU Speciality Products Logos

A Designation of origin relates to a product or 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. A protected Geographical Indication relates to a 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. For a product name to be protected as a PDO there must be an objective and exclusive link between the features of the product and its geographical origin. Further, all stages of the production process must take place in the defined geographical area.¹⁷⁷ The purpose of the regulation is to protect geographical names used for products meeting certain very precisely defined requirements.¹⁷⁸ The regulation provides a harmonised EU-level system protecting rights in the domain of intellectual property and falls within the ambit of the TRIPs Agreement in terms of the protection of geographical indications.¹⁷⁹

¹⁷⁷ Ibid.

¹⁷⁸ Hall and Sharples, *Food Tourism around the World: Development, Management, and Markets*.

¹⁷⁹ Ibid.

Percentage Turnover for PDO/PGI Agricultural Products

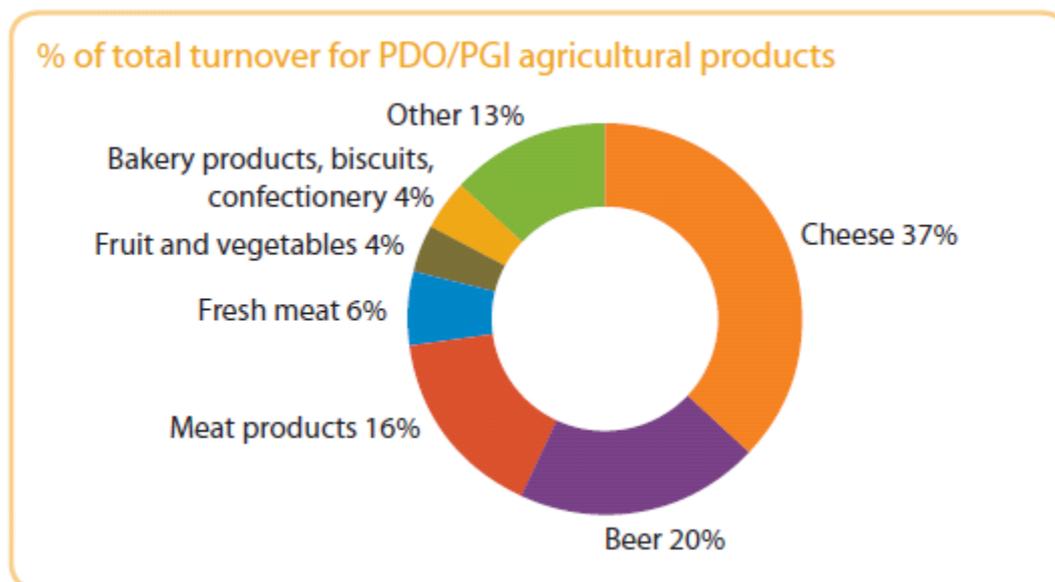


Figure 4.03: Percentage of Total Turnover for PDO/PGI¹⁸⁰

A study carried out by the European Commission's Directorate General for Agriculture and Rural Development in 2007 estimated PDO and PGI agricultural products, of which there are more than 800 registered products, had a wholesale value of €14.2 billion. It is estimated that part of the production of 30% of PDO and PGI is exported outside the European Union, valued at €700 million. Cheese accounts for over one third of total PDO/PGI turnover and 8% of the cheese produced in the EU is protected, (approximately 3-4% of global production).¹⁸¹

This chapter has provided a contextual overview for dairy production as well as considering the general overall importance of dairy. Such is the global importance of dairy, dairy produce is in as high demand as ever has, if not more so. A continually growing global population, coupled with dairy technology and efficiency has meant that dairy is conveniently transportable around the world. This chapter has discussed the importance that the rising economies of Brazil, Russia, India and

¹⁸⁰ European Commission: Agriculture and Rural Development., "Geographical Indications and Traditional Specialities- Quality Policy," European Commission, http://ec.europa.eu/agriculture/quality/schemes/index_en.htm [Accessed 25/10/2011].

¹⁸¹ Ibid.

China in the global dairy industry and the implications and opportunities that will impact New Zealand. As New Zealand continues with its liberalised trade agenda, dairying and agriculture remains a highly protected and controversial area of trade in many other parts of the world. Seeking out new markets in the BRIC countries presents great opportunities for the New Zealand dairy trade. This section has provided an overview of the dairy industry structure in New Zealand and it is this wider view of the global context in which the New Zealand export industry operates that will facilitate a better understanding of the current situation of the speciality cheese industry. Commodity dairying has become an economic success for New Zealand. By employing a cost leadership strategy the dairy industry has been able to exploit economies of scale to produce standardised products at a lower cost than competitors. This was highlighted in chapter two. Industry consolidation and organisation has led to farming and production efficiency, and has allowed for bulk production of dairy products to be sold and transported around the world to its various markets. There are aspects of this system however that could lead to opportunities for niche producers operating in conjunction with bulk dairy suppliers, without compromising standards. Within the wider context of global trade, agricultural markets have been distorted through protectionist trade policies. Agriculture has been a policy area which has been notoriously difficult to reform. The EU and New Zealand differ greatly from an agricultural trade policy perspective. The current Doha round of trade negotiations in the WTO has reached an impasse. New Zealand has advocated for the abolition of trade restrictions which it perceives as distorting to international agricultural markets. The EU is committed only to gradually reducing agricultural tariffs and export subsidies, and CAP reform is still contentious and slow. This chapter has examined closely the diverging paths of New Zealand and the EU regarding agricultural trade and in the protection of GI's which New Zealand perceives as a protectionist barrier to free trade. Conversely, the EU highly values its geographical protection scheme and believes that it adds value to agricultural products and has created value to the tune of more than €14 billion in 2007.¹⁸²

¹⁸² Ibid.

Chapter FIVE: What's in a Name? Creating Unique Identities

The main research question of this thesis examines GI's and how they influence New Zealand speciality cheese producers. The case study was conducted to interview New Zealand speciality cheese producers to test the quality aspects of which GI's are one example of as how producers add value to their products. Therefore, the quality conceptualisation chart is applied to the data that was collected. This is relevant to the study as it addresses producer perspectives to GI labelling of products and finds common threads between the producers' perceptions of location labelling. This section provides a practical examination of the impact that Europe has had in influencing New Zealand cheeses. It addresses the key issues and influences for cheese makers as to the opportunities and challenges that exist for them when naming their products and the influence that the European appellation system has had on this industry. This section aims to critically analyse the responses from cheese producers and industry experts to understand how European cheeses have influenced New Zealand cheeses. It also examines how regional cheese names have developed in New Zealand and the importance that regional '*terroir*' has on these products. The case study analysis is expressed through the producer experience of quality chart outlined in Ilbery and Kneafsey's study into producer values of quality. This is used as a valuable tool to categorise how New Zealand speciality cheese producers attempt to differentiate their products through the quality aspects of their products. The purpose of this analysis chart is to highlight and link the four points that the authors recognise as quality indicators for speciality food producers. This is easily compatible with this study as it considers a small sample size essentially producing similar products. The qualitative case-study involved a total of seven interviews which were conducted with industry experts in New Zealand and one from the UK, who was visiting to New Zealand. Each of the face to face interviews and telephone interviews had duration of approximately forty-five minutes. Potential interview participants were chosen for their selected expertise in the New Zealand cheese industry. Five interview participants and/or their companies were members of the New Zealand Specialist Cheese Makers Association: one, resided in the UK, was an international expert on cheese, and another was a cheese importer from Australia. The analysis of this qualitative material generated a set of relevant variables that were divided into themes. This provided the basis for a functional analysis chart (see Appendix I). This was then created and was applied to each interview to create a matrix to allow for cross checking. It allows for the identification of common words or recurrent topics which are presented in this chapter. The data was then divided into the headings outlined in the conceptualising quality chart under the four key points, to allow for cross referencing

and explanation. To review the quality conceptualisation chart, there are four points which producers value when assessing quality;

Attraction: generating attraction by tapping into the wants of consumers, designs, textures, taste, freshness, price and consumer perceptions. From a consumer perspective, quality can be generated from subliminal motivations for a product. These could be taken to mean the subjective indicators of quality.

Specification: ensuring specification of production method or use of raw materials or ownership in order to ensure authenticity. Specification of products relates to the recipes used or production methods which can ensure consistency.

Certification: achieving certification by a professional organisation, government or other accrediting body, for example quality marks organic symbol, self-regulation, and appellation, PDO, PGI or TSG. Certification creates recognition and is interlinked with Association.

Association: establishing association either geographically with a place or historically with a tradition or culture, for example using traditional methods in the preparation of a product, such as a traditional product or link to a place.¹⁸³

When applied to the case study for New Zealand speciality cheese producers, there are common themes and identifying how these companies perceive the use of geographical indications and the role the European cheeses have had in influencing their branding choices.

5.1 Attraction

Some cheese makers use European identifiers for their cheeses which they believe aids in the recognition of their products for their customers. "Some of these cheeses in Europe have been around for so long, and are widely known all over the world so by using this name for your own cheese, people will recognise that name and they will identify with which kind of cheese it is."¹⁸⁴ Using existing GIs makes identification and labelling easier as well as helping with consumer recognition. However, products using GIs can also be blocked from sale in some regions for non-compliance, for example "feta must be made in Cyprus therefore our products we label feta cannot be sold in the EU."¹⁸⁵ Seasonality is also an important factor to consider when naming cheese. For example, 'Sumner' which is soft white mould goats milk cheese named so because, "Sumner is a beach side area, and Brie perhaps is a kind of cheese that one would eat in the summertime, and so

¹⁸³ Ilbery and Kneafsey, "Producer Constructions of Quality in Regional Speciality Food Production: A Case Study from South West England."

¹⁸⁴ Anna (Personal Communication). Moorhead, 2010.

¹⁸⁵ Kris Noiseux (Personal Communication).

it was a name that suited the cheese well". It is a seasonal cheese which is only available during the spring and summer months. The support of regional speciality foods through special events which aim to promote regional foods and beverages are necessary for small and local businesses. Group marketing in this way can help minimise advertising costs and often similar businesses can complement each other to stimulate awareness in the local community. For example the 'Feast of Canterbury' held in Christchurch, New Zealand in September is aimed at promoting regional food and beverages in coordination with farmers markets and restaurants. Another example for increasing food tourism is through the promotion via food festivals as an avenue whereby specialised producers can promote their products and stimulate local awareness. Social and cultural events can aid in supporting the significance of a product to a region. Food production impacts on the surrounding countryside- transformation of the local landscape.¹⁸⁶ As already discussed, farmer's markets are also an important avenue for exchange for small cheese producers. One of the biggest challenges for cheese producers is building up recognition of their speciality products. The names of New Zealand regions are by and large unknown in an international market and often difficult to pronounce. New Zealand does not have centuries of cheese making behind it, therefore companies are building a reputation in a young market. There are difficulties in communicating the brand to the consumer.

5.2 Specification

Established European cheese names are the basis for naming New Zealand cheeses, however as new styles and techniques emerge, producers are looking to differentiate their products. Innovative names which reflect the local landscape and environment are developing. Developing unique flavour profiles is an important aspect also. As cheese makers develop and improve original recipes, new flavour profiles emerge which reflect the local terroir; a reflection of the animal, the cheese making techniques and the land. Starting a new GI is incredibly difficult, as widely used existing GI's (such as Brie) have taken centuries to develop.¹⁸⁷ Within the European system, and identified in the case of Parmigiano -Reggiano, as production takes place in a restricted area, new market demand can only be met by increasing milk yield per cow and/or the number of cows in the area. This may lead to more roughage being imported from outside the area; under new production regulations this is

¹⁸⁶ Hall and Sharples, *Food Tourism around the World: Development, Management, and Markets*.

¹⁸⁷ Kris Noiseux (Personal Communication).

limited to 25% of total need.¹⁸⁸ Since the actual geographical region is restricted the only way to increase production is to produce more milk without increasing land use.

GI's could discourage innovation or diversification by allowing for only certain production methods or technological methods to be used. Setting up a voluntary register for GI's in New Zealand could be costly to administer and difficult to maintain. It could create a barrier to entry in terms of regulatory requirements. Because GI's are a type of collective property arrangement, therefore the system does not work well for new producers as it opens up brands to be imitated. For example, the difficulty of the PDO system for the likes of the UK lies in that their 'traditional' Cheddar, Lancashire or Wensleydale cheeses which are made everywhere in the UK. They are no longer produced exclusively in their villages or regions. Cheddar for example has no protection, although there have been attempts to protect it as a PDO.¹⁸⁹ If the likes of Cheddar were to be a designated PDO, then it would mean that other cheese makers in different regions who make this style of cheese could be put out of business.

5.3 Certification

Cheese makers believe that naming cheese for their regions helps to create an association for the area and enables the company to build brand differentiation. Cheeses in New Zealand have developed their own identity and cheese makers strive to create interesting names to reflect the uniqueness of the products and to recognise the heritage of their region. GI's can be used as a way to tell a story about how the product is different or special. When considering what to name their cheeses, there are many factors which the cheese maker must consider. Ultimately each brand strategies dictate a certain approach to naming. There are strong advantages in terms of regulatory compliance and labelling if using a recognised identifier (i.e. Cheddar or Gouda). Problems arise in certain markets when using an "original type" like 'Egmont' or 'Taupo'. The Kapiti cheese range is true to its roots of Maori names, based largely in local geography, but the names have little meaning in terms of cheese types or identifiers.¹⁹⁰ "We generally approach naming a cheese by first identifying key market and emotional drivers for purchasers."¹⁹¹ In New Zealand, country of origin labelling is voluntary and suppliers (usually manufacturers, transporters or sellers) may choose not

¹⁸⁸ Kees De Roest and Alberto Menghi, "Reconsidering 'Traditional' Food: The Case of Parmigiano Reggiano Cheese," *Sociologia Ruralis* 40, no. 4 (2000).

¹⁸⁹ Juliet Harbutt (Personal Communication). 2011.

¹⁹⁰ Kris Noiseux (Personal Communication).

¹⁹¹ Ibid.

to display these details. But they must have contact details for distributors or manufacturers in New Zealand.¹⁹² Small producers are perhaps too small to compete on the international market alone, however as the cooperative system demonstrates, that when many small producers band together, their share gets larger. The European model for cheese production with the likes of the great European cheeses of Parmigiano Reggiano, Comté, Roquefort all operate under a cooperative system, which through many producers can make a quality product on a large enough scale to export and compete with a speciality good on the international market. That their brand is protected by European Union legislation only enhances their marketing ability of a 'quality' product. Consistency is the key, and a highly regulated and strictly controlled quality control system ensures that only the premium quality products are allowed to be branded with the trademark name. What makes their products unique is that they specify the production method, type of milk that must be used, specific breed of animal and even what or where they are fed. All these specifications are specifically laid down.¹⁹³ Quality must not be compromised for increased volumes of production as it can compromise prices. For New Zealand, individual cheese companies or dairy farmers may not be able to supply enough products for international markets. A cooperative system, which New Zealand farmers are not unfamiliar with, and in fact embrace readily, can overcome this.

5.4 Association

One of the key drivers for cheese companies in New Zealand to name their products for the regions in which they are made is to provide a point of difference for their products. In a sense it creates an identity for the cheese. Essentially though, naming of speciality cheese products depends on the target end market. There are marketing reasons also, but the importance of naming cheese for their regions is more complex than that. GIs are typically used two ways, specifically:

1. They indicate *terroir* of the cheese. Consumers in general can associate value with craftsmanship and GIs are a way of telling a story of why the cheese is different and special.
2. They also are a traditional way of relaying, to the consumer, the location, method and style of cheese. For example 'Roquefort' implies a cheese made from certain milk from a certain animal, produced using certain methods and having a particular sensory profile.¹⁹⁴

¹⁹² Food Standards Australia New Zealand (FSANZ). "Country of Origin Labelling in Australia- Information for Consumers," Food Standards Australia New Zealand (FSANZ) <http://www.foodstandards.govt.nz/scienceandeducation/factsheets/factsheets2011/countryoforiginlabel5054.cfm> [Accessed 13/09/2011].

¹⁹³ Juliet Harbutt (Personal Communication).

¹⁹⁴ Kris (Personal Communication). Noiseux, 2010.

Many cheese companies look to local identifiers to name their products. Mountains, rivers, towns and people all reflect the diverse styles and types of cheese in New Zealand. European cheeses are the base for most cheeses produced in the world, with a few noted exceptions. They have shaped international regulations, markets, consumer tastes and expectations and it is therefore almost obligatory that European cheese styles and GIs must be used by any mainstream manufacturer.¹⁹⁵ In the late 1980's there was a deliberate move towards naming cheeses locally. Cheese makers took the name of the original recipes they had but added their own variations. However, GIs do not necessarily add value. "It must be part of a holistic marketing approach that conveys the added value to the consumer. For example, calling cheese "Brie" in NZ indicates only that it is a white mould cheese. If, in contrast it was labelled as "being made in the traditional brie style..." "It adds value to the product because it provides a story and perceived consumer value i.e. a point of difference. Hopefully they provide a story, a point of difference and put the cheese into a culinary context."¹⁹⁶

Tourism and food can be used as a potential source of economic development for rural areas. There is economic potential from tourists. Opportunities exist for rural diversification¹⁹⁷ using the local names helps to give the cheese an identity, and particularly in New Zealand, when customers come and buy the cheese, they can see that name and they can identify it, recognise it, and they will therefore know where that cheese was made, and within that sense gives the cheese a real identity.¹⁹⁸ Cheese makers in New Zealand started off using recipes from Europe. Over time, and as technology and techniques have changed, they have developed their own styles and techniques, which no longer represent the original products. The products have diverged. Significant observations can be made from the data collected during the qualitative research into the naming of New Zealand speciality cheeses and the influence of European cheeses on the New Zealand industry. Key findings of the research indicated the European cheese names and recipes have had a significant influence in New Zealand. European cheeses have been the basis for most cheese produced in the world, shaping consumer tastes and expectations. Using European identifiers, cheese makers believe aids recognition for their customers. Although, using already established names has its difficulties in certain markets whereby a name has been used and possibly protected for some time. European cheese products which are protected by European Union legislation enhance their marketing ability of a 'quality' product. A highly regulated and restricted controlled quality control system enables that only premium quality products are able to be branded with a trademark name.

¹⁹⁵ Kris Noiseux (Personal Communication).

¹⁹⁶ Ibid.

¹⁹⁷ Hall and Sharples, *Food Tourism around the World: Development, Management, and Markets*.

¹⁹⁸ Moorhead.

However over time New Zealand cheese makers have developed their own recipes and recognise the importance of regional influences on their own products along with regional, territorial influences to produce diverse and unique cheeses and create customer associations. Careful consideration is taken by cheese companies in considering the key target markets to naming their products. The key drivers for naming their products for the regions in which they are made is to provide a point of difference for their products. Creating cheese identities and sensory profiles is what companies strive for to build brand recognition and creating uniqueness for their products, therefore identifying with the specification indicator on the quality model. Using GI's is a way for cheese makers to tell a story about their products and how they are different or special.

Building advantage for territorially specific products can provide branding and place promotion for regional food and beverage products in regional areas. Tourism and food have a potential to build regional strength and provide a source of economic development for rural areas. With agricultural products which are inherently connected to the land in which they are produced, the concept of *terroir* is an important consideration when referring to the meaning of imparting distinctive qualities to agricultural products. Referring to origin and *terroir* is becoming an important aspect of agricultural food marketing and a factor of differentiation and value added for food product companies in terms of enhancing perceived quality and transferring the image and attitude towards the region. As a value added marketing label, *terroir* products may enhance a cheese's cultural capital and its price through promoting a place based distinction, which links attraction and association. It can also translate to suggest that these gustatory values may be perceived as being morally and ethically good for consumers to buy and for producers to make. However as evidenced in the previous chapter for the USA artisan cheese makers, which has also been echoed by New Zealand cheese makers, *terroir* has taken on a new meaning encompassing innovative models of cheese production and focusing on cheeses suitable to the nature- culture not necessarily of cheeses suited to the environment of their fabrication or (nature to culture) tradition. Evidence would suggest that a prescribed system like that of the PDO is unsuitable and undesirable for new world cheese producers who are forging their own identities and definitions of *terroir* free of extra bureaucratic hindrance and control.

Chapter SIX: Conceptual and Practical Outcomes

The thesis has aimed to answer the main research question, *how do Geographical Indications used in the European Union influence New Zealand Speciality Cheeses?* This chapter is divided into two sections to address the conceptual outcomes and the practical outcomes of the research. This thesis determined how the New Zealand dairy industry operates within the global context. New Zealand is dependent on exports and influenced by the trade policy decisions of its partners. This thesis has analysed the mechanisms of the CAP and European trade policy as they influence international trade, and the role that agriculture has played in shaping trade policy and international negotiations. Both New Zealand the EU have shown differing outlooks when considering the importance of GI's to promotion and marketing of agricultural activities. However, GI's used by the EU have influenced the New Zealand cheese industry on many levels. Through the WTO, the EU has campaigned to extend the TRIP'S agreement beyond wines and spirits. New Zealand has been opposed to this extension. Although, as the research has demonstrated there are increasing opportunities for New Zealand's value added cheese products in overseas markets. The changing policy frontier of the EU in terms of agriculture has indicated that the reduction of price support for farmers means they are becoming more reliant on market forces to remain profitable. However they are still governed by the CAP which through its reform is approaching agricultural management to further encompass regional development and environmental considerations. This thesis has demonstrated that although international agricultural and dairy trade is dominated by large companies, a trend in some consumers' behaviour is changing how consumers choose their food products and the desire to consider carefully the origins of their food. This affects decision making when choosing products to buy. Chapter three highlighted the current scholarly thought concerning the international food system and emerging trends concerning consumer food choices. The review considered the importance of sustainability of food attributes in key overseas markets for New Zealand export companies. New Zealand agricultural exporters may consider the changing attitudes of these markets to new trends in consumer food choices. Unpasteurised cheeses are also an important aspect of the dairy industry to consider as was also alluded to the economic benefits of unpasteurised cheese in some economies in Europe and the implications of policy development in New Zealand.

The New Zealand government's view regarding GI's has been inclined to focus on the negative aspects of GI's and has overlooked the potential benefits. The EU however believes that while there is a wide diversity of products in the market whose characteristics are often determined by their

geographic origin, the information available to consumers is often unclear. In this context, the EU believes there is a need for a scheme that can signal this information to consumers in a way that is clear and succinct. Harmonisation of consumer information across the EU is also needed to ensure that consistent information is being provided to consumers. The EU's PDO/PGI scheme has been the policy for providing that guarantee to consumers. The EU considers that with its PDO and PGI quality logos it has been able to enable the agri-food sector to inform wholesalers, distributors and consumers both inside and outside the EU of the existence and value of its quality systems. GI's as a means of promoting the quality aspects of food products has also been emphasised. Quality standards communicate information about the attributes of a product, and GI's are one way in which producers can indicate quality or intrinsic properties of their products to their customers. Reference to origin and *terroir* has become a factor of differentiation and added value for food product companies because it enhances perceived quality and transfers the image and attitude toward the region to the promoted products.

The changing environment in cheese production for New Zealand is augmented by the introduction of the sale and production of raw milk cheeses into the New Zealand market. Pasteurisation of milk has aided in standardising and significantly reducing the risk of bacterial contamination from milk. Unpasteurised dairy products have been banned or heavily restricted in many countries around the world for fear of outbreaks of food borne illnesses associated with raw milk and raw milk products. However, many of the cheeses available today were created in Europe using traditional recipes developed over many centuries. Cheese aficionados and enthusiasts alike agree that unpasteurised cheeses are the most highly prized of all cheeses. In recent years, the EU has been persuaded that raw milk cheese constitutes an important economic niche in which its producers enjoy competitive advantage. For many, it is the cultivation of the micro flora present in raw milk that are the celebration of animal, pasture and human technique and skill that result in unique flavour profiles most valued by raw milk cheese consumers. Chapter five has provided a practical examination of the impact that Europe has had in influencing how New Zealand cheese companies name their cheeses through the various theories identified in chapter two in order to account for trade and consider how quality is an important aspect for definition thus categorising the quality aspects for speciality foods. This analysis discovered that in New Zealand, cheese makers believe that naming cheese for their regions helps to create an association for the area and has enabled companies to build brand differentiation. Cheeses in New Zealand have developed their own identity and cheese makers have strived to create interesting names to reflect the uniqueness of the products and to recognise the heritage of their region. GI's have been used as away to tell a story about how the product is different or special. However, one of the biggest challenges for cheese producers has been in

building up recognition of their speciality products. The names of New Zealand regions are by and large unknown in an international market and often difficult to pronounce. Therefore, while using the local names helps to give cheese an identity, European cheeses have been the basis for most cheese produced in the world, shaping consumer tastes and expectations.

6.1 Conceptual Outcomes

This thesis has attempted to explain how the EU influences New Zealand cheeses in the field of GI's and considered a spectrum of theories as potential explanatory frameworks. First, macro and micro economics as a means of employing a theoretical framework applicable to the international dairy industry were considered. This helped to identify how New Zealand speciality cheese producers aim to differentiate their products from the commodity sector.

While this thesis is neither conclusive nor does it provide a comprehensive analysis of the entire industry, it does offer up important observations regarding how international markets are responding to the challenges of a globalised food system and evidences how specialist cheese producers in New Zealand are developing and adapting to these changing markets.

While the producer aspects of quality have been addressed through the case study, some of the theoretical insights derived from the literature review have been particularly useful. When consumers make choices about the products they buy, they face tradeoffs. Consumers are limited by their budget, but that is not the only factor they consider when making a purchase. The laws of supply and demand determine the quantity of each good produced and the price at which it is sold. It determines the market price for the good. Without the price support that farmers in Europe receive from the EU, New Zealand farmers have had to adapt and innovate in order to remain competitive in the international market. Lancaster's theory of attributes asserts that it is the properties or characteristics of a good from which utility is derived. Utility is the measure of satisfaction that a consumer receives from a bundle of goods. As highlighted in the case study, quality association for consumers derived from a product is an important factor for determining quality. The case study outlined that consumers associate with producers who wish to provide a story, a point of difference for their products, in order to create relationships with their customers. Therefore, it is not the good itself that directly brings utility, but other factors which contribute to an overall feeling of satisfaction. Lancaster's theory illustrates that it is the attributes of goods that consumers evaluate when they purchase a good. There are different characteristics that consumers evaluate. These characteristics are not always immediately evident for a consumer.

Therefore producers will know more about the quality of a good or service than the consumer. This is called information asymmetries. The main issue is that consumers know less about the quality of a product than a producer, as it is not generally assessable before the purchase. Information asymmetries exist between the producer and the customer. Furthermore, sellers have an incentive to promote the product as being of a higher quality than it actually is. This is called the 'lemon' theory. Buyers will take this into consideration when purchasing by paying the average market price for the good. When this theory is applied to trademarks and GI's they grant the seller of a product a level of protection against 'lemon' sellers. The codification of the PDO and PGI system in the EU has meant that for producers, they are able to prevent their products from fraud, and to protect their customers from imitation goods. It also protects buyers by allowing them to have a higher informational level of the product they are buying based on the trademark reputation or previous purchasing experience with that seller. In the EU, GI's are protected allowing consumers to associate these goods with their actual geographical source and thereby offering some kind of assurance to give buyers a means of distinguishing between good or poor quality products. The lemon theory accounts for how the EU protects buyers and sellers by the PDO/ PGI quality assurance system, however does not account for producers who are not governed by that system. The difference in the label of origin debate between the USA and the EU is that European countries point out that 'labels of origin' "belong" to the region itself and are only administered by state governments, the latter preventing consumer fraud by overseeing certification systems and other controls.¹⁹⁹ The vast majority of the world's GI foods are located in Europe, and member states such as France and Italy have had significant influence in shaping the agricultural policies of the EU as they have a long history of subsidising their agricultural producers.

Economic theory confirms that when firms seek to differentiate their product from a competitor, they must consider between horizontal and vertical differentiation. Vertical differentiation is where a firm's product differs from a competitor's product in respect to quality. This is evidenced in the case study which New Zealand speciality cheese producers strive to create quality through their processes and recipes to develop unique products that cannot be substituted. The case study revealed the key drivers for New Zealand cheese producers naming their products for the regions in which they are made, which is to provide a point of difference for their products. This is achieved through a focus on niche market opportunities and quality aspects of production to increasing value added for cheese products. Over time New Zealand cheese makers have developed their own recipes and recognise the importance of regional, territorial influences on their own products to produce diverse and unique cheeses. Careful consideration is taken by cheese companies in view of

¹⁹⁹ Barham, "Translating Terroir: The Global Challenge of French AOC Labeling."

their key target markets to naming their products. The European cheese names and recipes have had a significant influence in New Zealand. European cheeses have been the basis for most cheese produced in the world, shaping consumer tastes and expectations. Using European identifiers, cheese makers believe aids recognition for their customers. In terms of quality attribute indicators for cheeses in New Zealand, GI's are used as a means to differentiate products from competitors. Innovative names which reflect the local landscape and environment are developing. The quality attributes of food products were identified in chapter five which conceptualised the quality aspects of speciality food products. These are intangible attributes which add to products standards. Furthermore, product differentiation must be achieved for quality products when selling in niche markets.

6.2 Practical Outcomes

While this thesis is neither definitive nor comprehensive in its analysis of the entire dairy industry, it does however offer some practical outcomes to the influence that GI's have on the New Zealand speciality cheese industry. This thesis aimed to put industry observations into an academic context. New Zealand is a producer of high quality agricultural and horticultural products targeting export markets in affluent and emerging affluent countries. Increasingly affluent consumers in emerging economies are hungry for high-quality food products, which New Zealand is able to supply. Evidence suggests that despite the global recession, demand for high value, ethical and sustainable food products is still growing. New Zealand can take advantage of comparative advantage its fertile soils, temperate climate, ability to produce goods efficiently and safety, technological investment and enhancement. New Zealand has a tradition of small scale production and entrepreneurs, with the exception of dairy. Cheese makers understand the process and the importance of the animal breeds, the starters and cultures used to make their products, however this may not be effectively communicated to their customers. The emergence of the use of labels of location in the cheese sector has come about in an ad hoc and informal nature. There is no initiative from the government level. Unlike the wine industry which has a formalised albeit voluntary register. Referring to origin and terroir is becoming an important aspect of agricultural food marketing and a factor of differentiation and value added for food product companies in terms of enhancing perceived quality and transferring the image and attitude towards the region. As a value added marketing label, terroir products may enhance a cheese's cultural capital and its price through promoting a place based distinction. For many cheese companies, both large and small, problems arise in certain markets whereby they use an original name. In some markets using existing GIs dictates product

composition, process and labelling requirements. Negative outcomes for specialist cheese producers with using GI labelling may include: milk that is harvested from farms in regions which are drought prone. Many New Zealanders are acutely aware of water quality and availability issues related to particular regions in New Zealand; specifically Northland and Canterbury. Identification of these regional cheeses may affect the overall products perceived quality or ecological and environmental credibility.

Opportunities and advantages exist for speciality cheeses using GI's to brand their products. There are opportunities for New Zealand to tell the story of the people behind the brand and to give a tactile experience to their customers. The relationship between food, wine and tourism is extremely significant at a regional level through the contribution that rationality provides for product branding, place promotion and, through these mechanisms economic development.²⁰⁰ Wine & food tourism rely on regional branding for market leverage and promotion, thus the appellation, or regional 'brands' become an important source of differentiation and value added for rural regions.²⁰¹ GI's can encourage biodiversity by introducing rare breed or new animals for cheese making, such as buffalo and sheep. Cheese makers can also to take advantage of special micro flora which may be present in the natural environment. GI's can help to communicate the story of New Zealand. New Zealand's temperate climate favours outdoor grazing. That is to say that because New Zealand relies on pasture based farming, have excellent farming practices, animal welfare standards and natural lactation cycles. This is what gives New Zealand cheeses their unique qualities. Promoting regions can communicate this to the consumer. It can allow producers to communicate the underlying stories behind the product and find out about regional industry. Tourism and food have a potential source of economic development for rural areas. There is economic potential from tourists who visit regional areas. This can also encourage an opportunity for rural diversification. From the seeds of globalisation the development of strong local food identities and sustainable food systems have substantial potential to grow, with tourism playing a significant role.²⁰²

²⁰⁰ Hall and Sharples, *Food Tourism around the World: Development, Management, and Markets*.

²⁰¹ G Wessler, "The EU Systems for the Protection of Food Names," *Environmental labelling and certification initiatives in the agri-food sector—a way of marketing agricultural sustainability* (2009).

²⁰² Hall and Sharples, *Food Tourism around the World: Development, Management, and Markets*.

6.3 Policy Implications

The policies of the EU have had implications for New Zealand in terms of agricultural trade. The diverging trade policies have been outlined in chapter two. New Zealand's deregulated agricultural sector has meant that farmers are reliant on market forces and being competitive in order to make profits. Overall, for the New Zealand dairy sector this has been very profitable in recent years as commodity prices have been favourable as new markets have been sought and increasing demand these has increased prices. For smaller cheese companies who may not export, they are also affected by international pressures and for the case of the New Zealand cheese market are particularly influenced by Europe, but also large competitors in the domestic market. This thesis has shown that New Zealand is dependent on exporting to ensure its economic success. There is an opportunity for small to medium sized enterprises in New Zealand to capitalise on developing interesting niche products, therefore enhancing regional differences and rural development. However this could work to disadvantage New Zealand cheese companies who are non compliant with environmental or animal welfare standards. Environmental aspects of food production are becoming an increasing concern for many consumers, with carbon foot printing and water consumption and foot printing having the ability to affect New Zealand agricultural exports. The global population is increasing and the dairy industry is under increasing pressure to supply more whilst under scrutiny to provide sustainably produced products that are safe and traceable throughout the supply chain. NZFSA policy reform on raw milk and raw milk products is a positive step towards allowing New Zealand's cheese producers to make high quality, low volume specialised cheeses which require strict guidelines to adhere to. Cheese makers can only work within the parameters of the food safety laws which govern them. The strict nature of the raw milk and milk products policy ensures public health assurances, whilst allowing for these products to be developed and tested in the market. A policy that is too prescriptive will not allow for the freedom of expert cheese makers to craft their speciality products and will indeed be prohibitive to the industry. As advancements in the legislation take effect, cheese makers however are more cautious and many are taking a 'wait and see' stance. Potential growth in emerging markets in Asia, Eastern Europe and Latin America can create opportunities for New Zealand speciality cheese producers. Chapter four highlighted the importance of these emerging markets for New Zealand dairy companies. It has been acknowledged that these markets are expected to grow. As New Zealand continues with its liberalised trade agenda, dairying and agriculture in general is still a highly protected and controversial area of trade in many parts of the world. Seeking out new markets in the BRIC's

countries presents great opportunities for the New Zealand dairy trade. More research could be conducted in these markets to assess the potential for speciality cheese and dairy products.

6.4 Further Research

This research cannot possibly cover all the aspects of this field, and further research into this topic is necessary. The novelty of the raw milk policy outlined in this thesis means that more research and analysis into the policy itself is required to determine advantages for New Zealand producers.

Market research needs to be conducted as to the marketability and demand for New Zealand raw milk speciality cheese products and into developing industry strategy to allow for integration of raw milk cheeses into the New Zealand consumers shopping basket. Internationally market analysis must be performed to test the acceptability and perceptions of New Zealand's speciality and raw milk cheese appeal to international consumers.

GI's can help develop regional specialities. During the course of the research it has been suggested that an in-depth analysis of the regional variations concerning the temperature, climate, soil and grass type be conducted to establish the best style or type of cheese for a particular region or province would be useful for the industry.

Research into the nature of speciality regional products and their importance to the rural economy outside of the dairy industry would be advantageous to other speciality food and beverage producers. Tourism and food have a potential to build regional strength and provide a source of economic development for rural areas. With agricultural products which are inherently connected to the land in which they are produced, the concept of *terroir* is an important consideration. Terroir is not a concept that is readily understood outside the wine industry in New Zealand; however cheese makers view it as an important potential point of difference for naming cheeses. Many cheese companies have looked to using local identifiers to name their products. Mountains, rivers, towns and people all reflect the diverse styles and types of cheese produced in New Zealand.

6.5 Conclusion

Quality food products are being increasingly demanded by consumers. New Zealand cheese companies have an opportunity to take advantage of changing consumer attitudes towards food choices by providing product differentiation and value added for cheese products. As a value added marketing tool territorially branding cheeses is considered as a way of creating unique identities for these products. It is also a means for producers to communicate the quality aspects of their products. For the EU this has been codified in the PDO/ PGI system. This thesis has illustrated how

the EU has used the protected geographical indications framework to influence markets in food trade at the highest international level, through the WTO. While extension of the TRIPs agreement is incompatible with the free trade commitment New Zealand has made, speciality food producers must look at all avenues for guaranteeing quality, for as this research has highlighted, in key New Zealand markets, changing attitudes towards food choice is a consumer driven phenomenon, one which new Zealand cheese producers are well positioned to capitalise on.

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Appendix 1: Functional Analysis Chart of Industry Interviews

Cheese Companies	Why name cheeses for their regions?	What influences your decision to name your product?	Creating Regional Identities	Opportunities	Challenges
Whitestone	<p>Recognises the uniqueness of the product</p> <p>Acknowledges the heritage of the region</p>	<p>Difficult to honour regional difference when product isn't recognised internationally</p> <p>Establishing a brand</p> <p>Seasonality</p> <p>Naming comes down to end market</p>	<p>Adding value to North Otago Cheeses by paying a premium price</p> <p>Managing milk quality</p> <p>Characteristics of the milk</p> <p>Climatic Conditions Reflected in the cheese and can't be replicated</p> <p>Parochial association</p> <p>Building regional Strength by supporting local products</p>	<p>Developing new flavour profiles from the region</p> <p>Creating new recipes</p> <p>Unique products</p> <p>Winning at Cheese Awards</p> <p>Using Free Range milk</p> <p>Promote NZ cheeses through NZ Restaurants</p>	<p>NZ Cheese market is very young</p> <p>European markets are already established</p> <p>Communicating the brand to the customer</p> <p>Supermarket control</p> <p>NZ Cheese makers not recognising regional strengths</p> <p>Fonterra bulk supply</p> <p>Awareness of Regional produce lagging behind Europe</p>
Fonterra Brands	<p>Strong advantages to using a regional identifier</p> <p>Consumers can associate value with craftsmanship, GI's tell the story why the product is different/ special</p>	<p>Identifying key market and emotional drivers for purchasers</p> <p>Marketing reasons but also: Terroir</p> <p>GI's form part of a holistic marketing approach that conveys added value to the consumer</p>	<p>Kapiti range true to its roots using Maori names</p> <p>Provides local pride especially if the area has a dairy past.</p>	<p>GI's as a way of telling a story/ providing a point of difference</p>	<p>Kiwis don't understand or value terroir and associated naming implications</p> <p>Problems arise in certain markets using 'original type' names</p> <p>Starting a new GI is difficult as existing ones have taken centuries to develop</p>

	Why name cheeses for their regions?	What influences your decision to name your product?	Creating Regional Identities	Opportunities	Challenges
Gruff Junction Goats Cheese	Using local names to give a point of difference Creates an identity for the cheese Creates an association with an area Builds brand differentiation	Using a local and an established name together provides a point of reference for the consumer Using European names helps customers know what kind of cheese it is	Honouring the local people/ area by naming a product for the place Customers at the market can identify with and recognise the name of the cheese	Customers know where the cheese is made Using traditional recipes and then adapting them to make a unique, new cheese	One day perhaps we won't be allowed to use the European names Internationally, these cheeses would not be recognised. Recognition takes a long time to build up to become an advantage
Ross McCallum Founder Kapiti Cheese	Used the name Kapiti to reflect where the cheese was made (Kapiti Coast) Originally named cheese for the European styles, but over time developed their own identity	As products developed they were no longer replicas they started out to be In Europe emphasis was placed on terroir, animal used and this influenced the cheeses- Kapiti built on this to celebrate NZ Looked to Local landscape for inspiration	Praised for using local Maori names attempt to keep the language alive Maori Language use unique and a first for NZ Create a new profile Using GI's is important or else there is no point of difference	NZ companies supporting other NZ companies e.g. restaurants and Air NZ. Celebrate NZ and where we come from Cultivate new relationships with new and interesting products Create a their own profile Growing trend towards local promotion- but this is a niche market If a customer knows about your product and the story behind it they can make a connection with the product	Many European names not available for use anyway Initially there was no consumer reference for naming cheese locally No point naming a cheese already in use as there is no point of difference International mutual recognition is not robust International registration is expensive Small cheese makers it is difficult to reach economies of scale Cheese is difficult to trade due to restrictions and barriers

Cheese Experts	Terroir	European Cheeses	New Zealand Cheeses
Juliet Harbutt, Cheese Expert & Author	<p>The French recognised the terroir of their products. Terroir takes into account geology/ geography is specific and defines that area as the only place where that particular product is made</p>	<p>The great European cheeses were named after the markets where they were sold, or the region where they were made. The French AOC system evolved to ensure what they were producing was authentic and unique. What makes their products unique is that they specify the production method, type of milk, breed of animal and/or what they are fed. PDO & PGI system created in the EU for countries that didn't have an AOC or DOC system. Problematic for the UK, whereby traditional cheeses have been made everywhere. The system doesn't work well for new producers- potential to put cheese companies out of business. Opens up brands to be imitated.</p>	<p>There has been a trend in the NZ dairy industry to eliminate regional differences in the milk supply to produce a homogenous, undifferentiated product. There is little education and inspiration from the industry or retailers, so there is a lack of understanding to differentiate between artisan and factory cheeses, therefore NZ consumers reluctant to pay more for better cheeses. European cheese names such as Brie/ Camembert/ Stilton et that bear little resemblance to the original have confused the customer.</p>
Dianne Kenderdine Secretary of the NZSCA	<p>NZ terroir is unique. Animals graze on grass. No forced lactation. Seasonal herds. Mild winters. All this gives cheeses their qualities. Emerging- farmers markets and internet mail order.</p>	<p>During the world wars, NZ supplied cheap food and wool. Post WW2 Dutch immigrant groups brought the influences other than British traditions. Refrigeration was a big development.</p>	<p>Late 80's/90's goats and sheep cheeses emerged. Creating own variations manipulating products to create something unique. Diaspora in NZ. Originally Cheese makers made the cheeses they knew and sold them under the names they knew i.e. Cheddar/ Cheshire. Parallel to the wine industry. Late 1980's move towards naming cheeses locally. Deliberate use of Maori names after the peaks in the area. Coming of age.</p>

			<p>NZSCA Cheese Awards</p> <p>Competition</p> <p>Consolidation</p> <p>Exposure to markets</p> <p>Supermarket Duopoly</p> <p>Exporting became necessary as there was limited local population</p> <p>No market for fresh cheese and therefore a high level of wastage</p>
<p>Will Studd</p> <p>Cheese</p> <p>Importer</p> <p>(Australia)</p>			<p>Unpasteurised cheese will become important</p> <p>Currently there is no point of difference in NZ</p>



HUMAN ETHICS INFORMATION SHEET

Dear Participant,

My name is Kirsty Schmutsch and I am currently studying towards a Masters Degree at the National Centre for Research on Europe (NCRE) at the University of Canterbury (UC), under the supervision of Professor Martin Holland.

Please read the following before participating in the interview.

NOTE: You are invited to participate in the research project: **Whyeing Up the Options: How does the application of Geographical Indications by the European Union influence the trade of specialty cheeses made in New Zealand** by participating in this semi-structured interview. The aim of this project is to determine whether the use of Geographical Indications like those in the European Union has any influence on the names given to New Zealand's specialty cheeses.

My interest in this topic came about through working part-time as a cheese maker's assistant at Gruff Junction Goat's Cheese at Lincoln. This research has been reviewed and approved by the NCRE, UC and the UC Human Ethics Committee low risk review process. The report of the study will be a Master of Arts which is a public document via the UC library database.

Data from this study can only be used by the NCRE for a period of five years, after which it will be destroyed. The information you provide will be securely stored and accessed only by me and Professor Holland. We value your expert knowledge and opinion in this research, however if you would like to remain anonymous, please inform me before commencement of this interview. I will provide a copy of the transcript of the interview for your review. You may withdraw your participation, including withdrawal of any information you have provided. You may do so up until the **31st October 2010**, after which time collation of data and writing of the thesis will have commenced.

By participating in this interview, it will be understood that you have consented to participate in the project, and that you consent to publication of the results of the project with the understanding that anonymity will NOT be preserved unless you specified.

For more information about the project please contact myself at kirsty.schmutsch@pg.canterbury.ac.nz or Professor Martin Holland martin.holland@canterbury.ac.nz +64 3 364 2348.

Thank you for your time and participation!

A handwritten signature in black ink that reads 'KSchmutsch'.

Kirsty Schmutsch