

Assessing Geographic Branding Strategies: Lessons for Country-of-Origin Labeling

Colin Carter, Barry Krissoff, and Alix Peterson Zwane

We draw on the economics of product differentiation in a trade context and use three case studies to assess country-of-origin labeling (COOL) as a branding strategy for farm produce. Lessons are drawn from Vidalia onions, Washington State apples, and Florida orange juice, which suggest that the use of geographic identifiers to achieve differentiation could be profitable in the short run, but any hope that such differentiation will prove useful at the country level for farm produce seems likely to be misplaced.

In the 2002 Farm Bill, the United States Congress introduced country-of-origin labeling (COOL) requirements on certain meats (beef, lamb, and pork), fish and shellfish, fresh and frozen fruits and vegetables, and peanuts. Supporters of mandatory COOL argue that the legislation will give domestic producers an advantage, since surveys show that U.S. consumers prefer “made in USA products.” We present three case studies of ongoing geography-based branding efforts in the U.S. produce sector to highlight the criteria necessary for successful branding based on geographic origin. These criteria include product differentiability, promotional efforts, supply controls and entry restrictions.

Our findings largely support the conclusions of the U.S. Food Safety and Inspection Service that there is no evidence that, “a price premium engendered by COOL will occur, and if it does, [that it] will be large or persist over the long term.” First of all, differentiation is simply not an option for many goods based on the nature of the products in question. Second, successful differentiation requires a level of control over product supply and market entry that is unlikely to be achieved for a good produced over a large geographic region. Finally, advertising and promotion contribute to the success of any differentiated goods campaign, and many agricultural industries may not be able to generate the necessary funds for promotion given recent U.S. court decisions.

Background and Policy Context

Mandatory COOL requires that retailers inform consumers of the country of origin for the covered commodities. The major direct costs of a program like COOL include the costs of segregation along the marketing channel and tracking product origins, the physical cost of labels, and enforcement costs. The U.S. Department of Agriculture’s Agricultural Marketing Service estimates that domestic producers, food-handlers, and retailers would spend \$582 million on

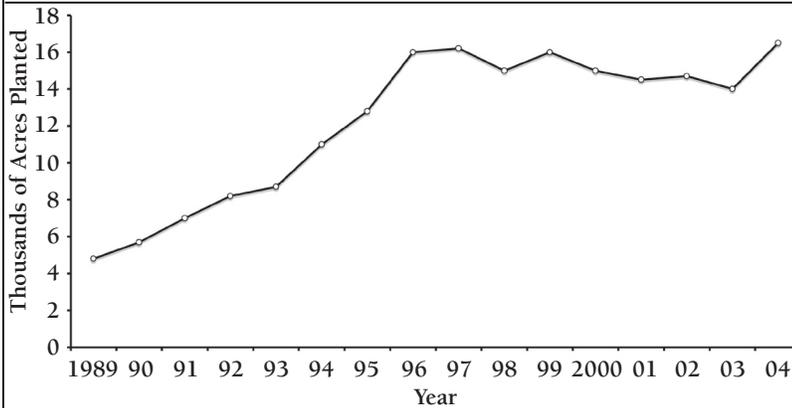
COOL recordkeeping in the first year alone. The Food Marketing Institute estimates that compliance by fruit and vegetable suppliers will cost \$1.3 billion annually.

The fact that producers have not found it profitable to voluntarily provide COOL to customers for fresh produce, meats, and fish is strong evidence that willingness to pay for this information does not outweigh the cost of providing it. In other words, if the benefits outweighed the costs, profit-maximizing firms would have already exploited this opportunity.

Even if the cost of providing country-of-origin information is low or negligible, and the legislation indeed results in higher prices for U.S. products, unexploited willingness to pay for U.S.-grown products may be insufficient to generate increased profits for domestic producers. This is likely to be the case if produce markets are monopolistically competitive and the marketing of differentiated products involves economies of scale. There is strong evidence of intra-industry trade in agriculture, which is consistent with the premise that produce markets are monopolistically competitive.

The effect of mandatory COOL on domestic producers’ market share and price depends on whether the consumer thinks the additional information differentiates the domestic product further from its substitute goods. If this is the case, domestic producers may realize an increase in market power as a result of COOL. However, the increase in market power can only be exploited if the domestic industry can restrict entry or otherwise control supply. Price premiums for fruits and vegetables depend critically on a product’s differentiability and producers’ ability to control its supply. Under monopolistic competition, origin labeling may raise profits in the short run if labels distinguish attributes that consumers care about. But permanent gains in profit require supply controls. The lessons from the case studies of origin-based labeling below broadly support these conclusions.

**Figure 1. Georgia Spring Onions:
Acres Planted from 1989 to 2004**



Source: National Agricultural Statistics Service

Case Study 1: Vidalia Onions

The existence of a price premium for Vidalia onions has been documented, which suggests that Vidalia onion growers have been extremely successful in defending their brand even as acreage planted has risen. Table 1 shows grower prices of spring onions in Georgia (mainly Vidalia) compared to spring onions grown in California, Arizona, and Texas. Georgia onion prices are on average over 100 percent higher than California prices, 200 percent higher than Arizona prices, and over 50 percent higher than Texas prices

The passage in 1986 of the Vidalia Onion Act in the Georgia state legislature delimited very specifically a qualified production area for onions that could be marketed as Vidalia onions. The Vidalia Onion Act required growers to register with a central authority, allowed the Georgia Commissioner of Agriculture to set standards, mandated inspections, and set criminal penalties for the violation of identification and sales restrictions.

The Vidalia Onion Committee has the authority to restrict supplies through both direct and indirect means. The Committee has the authority to coordinate planting decisions, including acreage reductions. Indirect evidence of successful coordination comes from NASS data on prices and harvested area for Georgia spring onions. Even in the face of rising acreage (Figure 1) the price of Vidalias remain relatively high (Table 1).

Vidalia onion growers have a differentiated product which they have been able to distance from its substitutes by creating and promoting the “Vidalia onions” label. They have been able to maintain this distance through supply controls. However, our next case study illustrates that not all products which are geographically specialized can maintain a successful brand.

Case Study 2: Washington Apples

Although many states in the U.S. grow apples, the state of Washington has produced more than one-half of the country’s apples for many years. Like Vidalia onion growers, Washington apple producers have historically used promotional activities to inform consumers of the distinguishing characteristics of their product. The Washington Apple Commission (WAC) has invested hundreds of millions of dollars over the past decades into research and marketing, in an attempt to preserve the state’s reputation for quality.

Unlike Vidalia onion growers, Washington apple growers have not been able to maintain coordination over funding for those activities. Notably, organic apple growers and specialty cultivar growers have successfully sued to allow them to opt out of generic advertising efforts, severely restricting the activities of the WAC. These growers contend that the Washington apple label is too broad for their own branding purposes. Instead, they hope to capture price premiums above and beyond that afforded by the regional brand.

Washington apple growers are not in a position to follow the Vidalia strategy of limiting supply or restricting entry and therefore are unable to maintain price premiums. Compared to annual crops like onions, tree crops are slower in responding to market signals. Attempts by the state or WAC to reduce supply would be problematic. Unlike the Vidalia growers, Washington apple growers do not coordinate on acreage restrictions or supply constraints via quality standards. As the controversy over advertising expenditures illustrates, these growers are too diverse to have either the means or inclination to control supply to raise prices over marginal cost.

Case Study 3: Florida Orange Juice

The Florida orange juice industry brings \$9 billion annually to the state of Florida. Recently, there has been a major shift in consumer demand away from frozen concentrate orange juice (FCOJ) toward not-from-concentrate juice (NFC). NFC juice is made almost exclusively with domestically grown oranges, while FCOJ is produced with a blend of concentrates from domestic and foreign sources.

Within the FCOJ category, differentiation opportunities are extremely limited. Processors mix crops to engineer a quality product, seeking to achieve a desired

flavor, color, acidity, and viscosity. As a result, processors encourage consumers to regard foreign and domestic products as equivalent. This seriously limits the ability of domestic FCOJ to distance itself from foreign FCOJ.

In the NFC sub-category, the gains from increased demand due to promotion should accrue almost exclusively to Florida growers. Indeed, Florida growers have until recently been able to maintain a coordinated advertising effort. Unlike the Washington apple promotional efforts, which led to disagreements among producers of different apple cultivars, promotional activities by the Florida Department of Citrus have touted the health benefits of orange juice in general, without any conflict among growers.

Despite this successful coordination, in 2004 the Court dealt the industry a blow when it ruled that the “box tax” on domestic producers (that funded promotion) was unconstitutional. An appeal is in process, but Florida orange juice promotion may be severely curtailed in the future just as in the Washington apples’ case.

Conclusion

Consumers may be willing to pay a premium price for domestic produce if they perceive it to be of higher quality, but this opportunity will not necessarily translate into higher grower profits unless a number of conditions are met. First, any distinguishing characteristics of the product must be maintained and made clear to consumers, usually via promotion. The more broadly based a regional branding effort is, the less likely that producers will pay to support promotional efforts. Thus, promotion of Washington apples has been unsuccessful because organic and specialty growers in the state have successfully blocked mandatory funding of promotion. On the other hand, Vidalia onion growers, as a narrow class of specialty growers, have successfully collected promotion funds. For COOL to be successful in generating a price premium, there must be complementary promotion. However, legal rulings that have been made in the past few years make it more difficult to raise funds for effective promotion for a regional industry.

Second, in a tightly defined geographic region, producers are more likely to be able to collectively restrict entry and control the supply of a branded product. Vidalia growers have the most powerful tools at their disposal for controlling supply among the products that we discuss. For COOL to restrict supply of a given product, the legislation must limit the supply of foreign-grown products by acting as a non-tariff barrier to trade.

Table 1. Prices of Spring Onions

Year	Georgia	California	Arizona	Texas	U.S.A.
1990	32.40	11.10	10.50	17.00	16.00
1991	31.50	18.00	8.61	19.10	19.10
1992	25.40	11.80	9.82	19.80	16.70
1993	29.70	18.00	16.40	26.20	22.40
1994	20.70	8.00	7.70	10.70	11.30
1995	28.10	14.00	7.90	19.20	18.60
1996	30.50	9.80	8.60	9.70	13.20
1997	25.60	14.30	12.60	16.90	18.40
1998	30.90	14.10	15.30	21.70	20.00
1999	27.10	11.90	11.40	17.40	17.30
2000	26.00	10.60	5.80	17.20	16.60
2001	27.50	13.50	8.00	18.50	18.30
2002	32.20	14.20	8.35	21.40	20.00
2003	34.30	22.90	9.89	38.10	29.70
2004	23.50	15.10	8.80	22.60	19.70
2005	29.70	12.00	10.20	29.70	22.60

*Season average price in dollars per hundredweight.
Source: National Agricultural Statistical Service, USDA*

In summary, our case studies suggest that the use of geographic identifiers to achieve differentiation can be viable, but any hope that such differentiation will prove useful at the country level for farm produce seems likely to be misplaced.

For additional information, see the following sources:

Carter, C. and A. Zwane. 2003. “Not so cool? Economic implications of mandatory country-of-origin labeling,” *ARE Update* May/June 2003. www.agecon.ucdavis.edu/uploads/update_articles/v6n5_2.pdf.

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Krissoff, B., F. Kuchler, K. Nelson, J. Perry, and A.i Somwaru, 2004. “Country-of-Origin Labeling: Theory and Observation.” www.ers.usda.gov/publications/WRS04/jan04/wrs0402/.

Colin Carter is a professor in the ARE department at UC Davis and can be contacted by e-mail at colin@primal.ucdavis.edu. Barry Krissoff is an economist in the USDA/ Economic Research Service. Alix Peterson Zwane is an extension economist in the ARE department at UC Berkeley and can be contacted by e-mail at zwane@are.berkeley.edu.