The Economic Impact of Growing Geographical Indications: An Impact Assessment Using FADN Data

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Introduction

The production of a geographical indication (GI) may be a tool for **fostering farms' economic results**. The ability of GI products to improve farmers' revenues is also advocated by European Regulations. Few studies have so far dealt with the issue in a systematic way. Our aim is to understand, using an **impact analysis framework**, whether the use of a GI label adds value to the farm's production.

GIs as a farmer's choice

The first step in our impact analysis is to understand which factors influence **the choice of farmers to certify** their production as a GI, instead of selling it as a "standard" version. Based on the literature on the topic, we built a model representing the profitability of the "standard" and GI version of the product. A farmer will chose to certify if the (expected) profitability of the latter is higher the (known) profitability of the former.

$$\pi_{i,S} = p_S \cdot q_{i,S} - c(q_{i,S}, \theta_{i,S}, \eta_i, \theta_{i,S} \cdot \eta_i) + a_i$$

$$\hat{\pi}_{i,GI} = p_{GI} \cdot \hat{q}_{i,GI} - c(\hat{q}_{i,GI}, \hat{\theta}_{i,GI}, \eta_i, \hat{\theta}_{i,GI} \cdot \eta_i) + \hat{\alpha}_{GI} \cdot \hat{q}_{i,GI} + \frac{\widehat{F_{GI}}}{n}$$

π: profit per hectare
p: price
q: quantity of production per hectare
c: cost function

θ: product technology parameter
η: farm's efficiency
a: promotion cost (individual)
α: certification cost

F: promotion cost (common)
n: number of GI producers
S: standard product
GI: GI product
i: i^{th} farm

Sample and variables

We used data from the **Italian FADN database**. Specifically, we considered 5 GI products: Nocciola Piemonte PGI, Mela Val di Non PDO, Toscano PGI, Riviera Ligure PDO and Umbria PDO. The treatment is a **binary variable** indicating whether a farm produce the GI or not. Control units are farms located in the **same region** (province for Mela Val di Non) and producing the **same product** without the GI certification.

Interesting factors

The factors affecting the farmer's certification decision can be divided in three classes: those modifying the **actual values** of the model, those influencing the **farmer's expectations** and those altering the farmer's **risk attitude**. With the factors identified we draw a **directed acyclic graph**, to better understand the causality relationships between variables and to identify the covariates to control for.
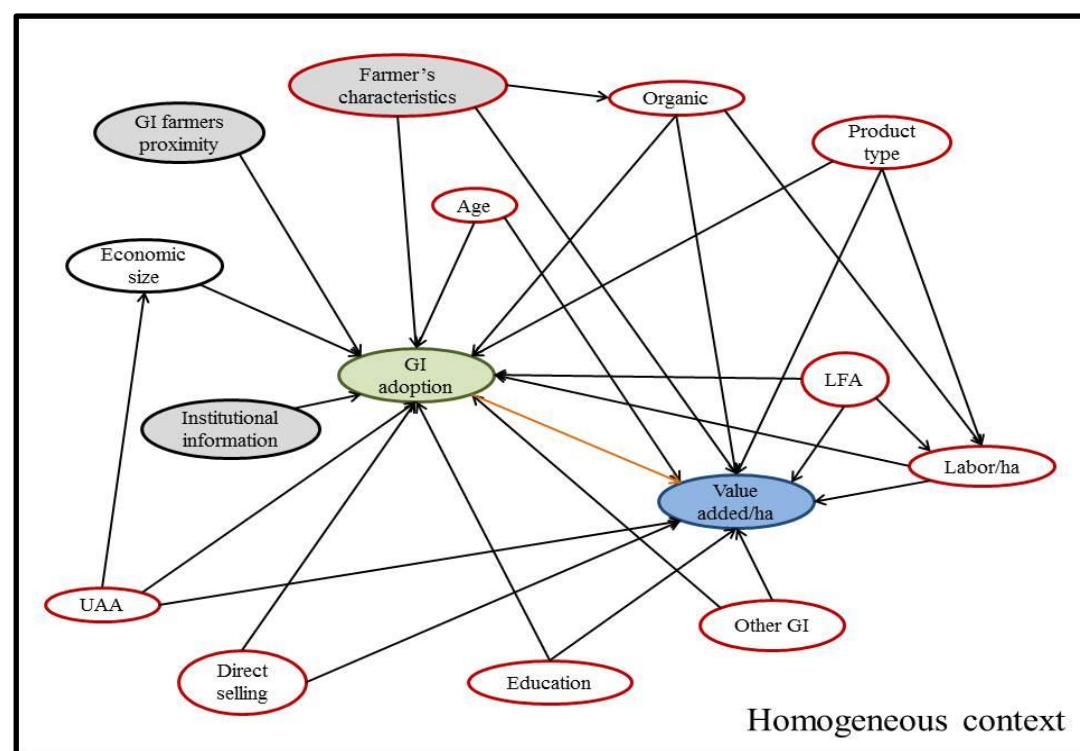
blue: dependent variable *red-circled*: variables to control for
green: treatment variable *grey-shaped*: unobserved factors

Estimation strategy

To control for **observed heterogeneity** we used three matching strategies and an inverse probability weighting. The use of different methods allows to check for robustness. **Unobserved heterogeneity** deriving from farmer's unknown characteristics (link to tradition, innovativeness...) is dealt with exploiting the panel nature of FADN data using a difference-in-difference. The outcome variable (value added per hectare) was used in its logarithmic form. The average treatment effect (ATT) is obtained as:

$$ATT = \frac{1}{N_T}\left[\sum_{i \in T} \omega_T(i,j)(Y_{i1}^T - Y_{i0}^T) - \sum_{j \in C} \omega_C(i,j)(Y_{j1}^C - Y_{j0}^C)\right]$$

T: treatment group i, j: treated and control units ω: weights
C: control group Y_t: outcome at time t N_T: number of treated units

Results

Different matching methods use different numbers of treated units (T) and different control-treated ratios (C/T). However, in most cases, results are quite **robust** to the use of different methods. Methods with medium-small C/T are to be preferred. A **positive effect** of the certification on farms value added per hectare is observed for three GIs over five: Nocciola Piemonte PGI, Mela Val di Non PDO and Riviera Ligure PDO. The certification **does not significantly add value** to the oil production of Umbria PDO, while it seems to have even a **negative effect** in the case of Tuscany olive oil.

GI product	Nocciola Piemonte PGI (hazelnut)			Mela Val di Non PDO (apple)		
	ATT	T	T/C	ATT	T	C/T
Nearest Neighbor	0.40	21	1	0.04	78	1
Caliper $c^2 = 0.5$	0.30	18	6	0.11	70	9
Caliper $c^2 = 1$	0.37	19	12	0.15	77	9
Coarsened Exact Matching	0.40	17	5	0.08	71	3
Inverse Probability Weighting	0.24	22	29	0.10	82	5

GI product	Toscano PGI (olive oil)			Riviera Ligure PDO (olive oil)			Umbria PDO (olive oil)		
	ATT	T	T/C	ATT	T	T/C	ATT	T	C/T
Nearest Neighbor	-0.14	70	1	0.25	35	1	-0.04	21	1
Caliper $c^2 = 0.5$	-0.18	39	6	0.26	30	11	0.07	8	8
Caliper $c^2 = 1$	-0.10	45	8	0.27	30	23	0.22	11	14
Coarsened Exact Matching	0.01	50	7	0.22	29	5	0.16	14	15
Inverse Probability Weighting	-0.10	70	22	0.27	35	26	0.13	21	64

Conclusion

The GI label is able, in some cases, to **add value** to farm's products, as expected by most theoretical studies as well by the EU regulations. However, in line with other results in the literature, the GI **does not automatically guarantee** economic improvements for the producer. Identifying the **differences** between different supply chains may allow to understand the variability of results.