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Experiences with “Quality” Labeling of Food Products

by

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There is growing interest in the US in various kinds of ‘quality’ labels to add market value to farm-produced products. Quality labels have a very long history in France, and I will draw on some of that history in this *Commentator*. One special form of quality label is generally referred to as an ‘eco-label’, because such a label is meant to convey ideas about how the production or processing of the product enhances ecological or environmental conditions. One form of eco-label—the ‘organic’ label—has been around for food products in both the US and Europe for some time. Most other eco-labels have been introduced more recently, but they are proliferating rapidly.

The purpose of this *Commentator* is to present administrative and economic considerations when developing quality labels, including eco-labels, for agricultural products. I draw on recent articles by myself and colleagues (Bertramsen, et al., 2002; Nguyen, et al., 2004) at South Dakota State University and the École Nationale Supérieure Agronomique de Toulouse, in France.

Quality labels in France

‘Quality’ is used in the French context to denote taste, healthfulness, conditions of production, and often geographic region. Two of the best-known French quality schemes¹ are the Appellation d’Origine Contrôlée (AOC, or controlled origin label) and the Label Rouge (LR, or red label) schemes. The AOC was established in 1919 for the wine sector. It later spread to

milk products and, in 1990, to all other agricultural products. An AOC label testifies that a product has been produced from local raw products in a place-specific mode, and that its quality characteristics are the result of substantial long-term collective investments. The Label Rouge was created in the 1960s for products that possess specific characteristics and presumably have superior quality that distinguishes them from other products. It is meant to guarantee improved taste and high standards of production, while the AOC label guarantees primarily the origin of the products. The Label Rouge is a nationwide structure that ties local groups of producers and their supplier and processing networks together to deliver food products that differ from more ‘industrial’ food products. Products supposedly are distinguishable with regard to intrinsic quality, food safety, environmentally sound production practices, and product image. To obtain the Label Rouge, a ‘quality group’ must organize and request the label from the French National Commission for Labels and Certifications. The quality group must present an elaborate business plan that provides details of the supply chain associated with the products, from genetic selection through transport to retailers. Poultry is a good example of a product that sometimes carries the Label Rouge. French quality labels and guidelines can apply to production practices at the farm level, to processing practices, or to both. The AOC for Roquefort cheese is an example of a label referring primarily to processing practices.

There are a number of additional non-government ‘quality’ labels in France. One of these, the Certificate de Conformité (certification of conformity) was established in the early 1990s by a private organization. This label guarantees that a product has specific characteristics based on production, transformation, conditioning, and origin. The label certifies that a product is different from standard products according to at least two characteristics, but it does not give any indications about the actual quality of the product. Numerous agricultural cooperatives, supermarkets, and agricultural suppliers also have offered producers the opportunity to engage in quality approaches under regional labels or unofficial company-specific labels.

¹ The term “scheme” is used here as do Europeans, where the term is interchangeable with “program”.

Quality labels that emphasize ecological benefits—‘eco-labels’—are less developed in France than are other quality labels, although French farmers have been practicing organic farming, known as agriculture biologique (AB), since at least the early 1960s. France officially recognized organic agriculture in 1980, allowing farmers to use an official organic label and creating public standards to regulate the industry. Although the AB label is an eco-label, French consumers have tended to view the label as just another quality label, like the Label Rouge. The idea of explicit eco-labels is beginning to emerge in France. Eco-labels are supposed to provide environmental assurances regarding concerns such as waste management and preservation of remarkable and fragile landscapes. They also sometimes provide assurances about humane treatment of animals. One eco-label example is Banyuls Parfeu wine, which claims that vineyards are planted in a way that helps preserve Mediterranean forests from fires. Another example is Tomme Prés du Ried cheese, produced with agricultural practices that preserve the ecosystem of a protected bird. Other eco-labels exist in French agriculture that are more closely linked to disposal practices than to production practices. Furthermore, numerous European Union (EU) eco-labels exist and are being implemented throughout the EU.

Quality labels in the US

The US has much less experience with ‘quality’ labels for agricultural products than does France. However, many of the brand labels on agricultural products in the US might be considered ‘quality’ labels. A major difference between US and French quality labels, however, is that standards, or guidelines, for production and processing are generally less developed in the US, and may not even exist in many cases.

Despite the absence of a long history of quality labels like that of France, there has been growing interest in ‘quality’ labels in the US over the past several years. Emerging quality labels generally emphasize one or more of the following features: food safety, nutritional quality, economic vitality of family farms, local/regional food systems, and environmental quality. Those giving primary emphasis to environmental quality are the ‘eco-labels’.

One example of a quality label intended to enhance income of farmers in a particular geographic region of the US is Vidalia Onions, grown in the region around Vidalia in southern Georgia (Hayes and Lence, 2002). Producers have a registered trademark and a Federal marketing order to restrict production and

marketing. The onions produced and sold under the Vidalia Onion label command a significant price premium over the same type of onions grown elsewhere. One key to the economic success of Vidalia Onions is the restriction of supply. Hayes and Lence point out that supply restrictions by farmers using a label like Vidalia Onions must avoid Federal price-fixing rules. Ways that Hayes and Lence list to do this include (a) limiting production to farmers who can satisfy some fixed and identifiable attribute (which could include being located in a particular region), (b) limiting membership in the producer group, (c) imposing strict production or processing standards (which could include environmental standards), or (d) requiring producers to use some ingredient or process that can be controlled by the producer group.²

The most widely-known US eco-label is the Certified Organic label. Congress passed the Organic Foods Production Act, Title XXI of the Food, Agriculture, Conservation, and Trade Act of 1990, in order to establish national standards for organically produced commodities. Although organic production and certification by various entities within the US had been going on long before 1990, the national rules finally took full effect in 2002. Certification of organic products serves three functions: (1) it assures consumers that a product not observably different from non-organic food was grown, processed, and packaged according to rules that limit or ban synthetic inputs and protect the environment; (2) certification assures producers that unscrupulous use of the term “organic” does not defraud them of price premiums and market share that can be earned from certified foods; and (3) certification makes the market more efficient by providing improved information along the marketing channel from producer to consumer.

A good example of a very successful organic label is the Organic Valley label, originally for dairy products and now also for meat products. This is the product label used by a farmer cooperative started in 1988. Originally known as the Coulee Region Organic Produce Pool (CROPP), with most of its farmer members located in Wisconsin and Minnesota, the cooperative has now expanded its activities nationwide and goes by the name Cooperative Regions of Organic Producer Pools (still CROPP). In its early years, at least, CROPP was careful in allowing entry of new dairy farmer members only when demand appeared to be expanding sufficiently. This was an attempt to keep the prices of its organic

² Producers considering any of these approaches should obtain legal advice from a qualified source to be sure that they are complying with applicable laws and regulations.

milk, cheeses, and other dairy products from being depressed by too rapid expansion in supply.

Various other eco-labels are found in US markets. For example, the Environmental Quality Initiatives label is found on some milk, and the California Clean label is placed on produce grown with limited pesticides. The CORE Values label is used on apples grown in the northeastern US using “natural” pest reduction methods. This system was developed by Mothers and Others as a way to raise consumer awareness about locally grown food and build a market for sustainable produce.

Another eco-label is that of the Food Alliance, based in Portland, Oregon, which began operation in 1998. In 2000, the Food Alliance and Midwest Food Alliance (MWFA)³ agreed to work together in promoting “sustainably produced” foods in the Midwest. The original primary purpose of the MWFA was to support local or regional food systems. Production methods must satisfy “sustainability” criteria. Some participating farmers are certified organic, but that is not a condition for participation. More than 60 farmers in Minnesota, Wisconsin, and the Dakotas were Food Alliance certified by early 2004.

A number of major food manufacturing companies in the US also are introducing their own branded ‘eco-label’ foods. Some are organically certified and others carry various forms of “natural” labels.

Developing effective quality labels

Hayes and Lence (2002, p. 10) specify four criteria for “successful differentiation of an agricultural product”. Those criteria (here quoted directly) apply to the aforementioned quality labels, including eco-labels:

- Market channel must be able to transmit price signals from consumers to producers.
- Product must achieve a scale of production sufficiently large to justify the costs of creating and maintaining the differentiated image among consumers.
- Imitation of the product must be prevented.
- Method of supply control must not violate laws against price fixing.

Based on a review of a number of eco-labeling schemes in the US and Europe, Kane, et al. (2000, pp.

62-63) identified a number of features that responsible and successful eco-labeling should include:

- Messages must be honest and “standards must make a sustainable difference in such areas as the environment”
- “Standards must be meaningful, measurable, and continuously evolving.”
- “Verification of compliance must be transparent”, and credibility is best accomplished by third-party verification.
- An independent organization should be responsible for program administration.
- For products to be marketed nationally and internationally, eco-labeling programs must have reciprocity and equivalency with one another and international standards.
- Labeling programs that provide differentiation not only on the basis of environmental quality standards, but also on the basis of such characteristics as taste and place, may have the greatest chance of success in the market place.
- Sophisticated marketing and communications techniques are needed to “improve product viability, distribution, and appeal”.
- Consumer “research, debate, and testing should be conducted even before launching a label.”
- “Most labeling programs need assistance in attaining organizational and financial self-sufficiency.”
- “Labels that have a goal of providing farmer incentives should integrate this goal into the labeling standards”

In summary, I have indicated that a number of different types of ‘quality’ labels might be used to add value and enhance the market price of specially defined agricultural (usually food) products. Quality labels might be based on food safety, nutritional quality, family farm, location, or environmental criteria, or some combination of these. Labels that emphasize or give considerable prominence to environmental criteria are usually referred to as eco-labels. There has been discussion in economic and environmental circles about whether eco-labels should also include other criteria—such as standards for being produced “locally” or by “family farms”. Valid arguments can be put forth for including such other criteria for some eco-labels. However, there is always danger of consumer confusion due to information “overload”. Moreover, additional criteria carry added “transactions costs”, which may not be trivial. Benefits and costs of including multiple criteria in quality labels must be weighed.

³ The Midwest organization now goes by the name “Food Alliance Midwest Affiliate”.

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