Journal of Rural Studies 59 (2018) 35–48

Contents lists available at ScienceDirect

Journal of Rural Studies

journal homepage: www.elsevier.com/locate/jrurstud

Geographical indications and value capture in the Indonesia coffee sector

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ARTICLE INFO

Keywords:
Geographical indications
Indonesia
Global value chains
Global production networks
Impact evaluation
Institutions
Cultural property

ABSTRACT

Geographical Indications (GIs) are a form of collective intellectual property through which, it is anticipated, producers can capture the place-related value embodied within a product. As such, they are often promoted as a development initiative for lagging rural communities to improve livelihoods and alleviate poverty. This article applies the concepts of value capture and strategic coupling from the Global Production Networks (GPN) literature to assess the developmental impacts of formally-registered (protected) GIs in the Indonesian coffee sector. Based on an assessment of indicators along a logical impact pathway, our study finds little evidence, and a limited likelihood, of tangible economic benefits for coffee growers resulting from current GIs in Indonesia, at least in the immediate future. This poor developmental performance is explained in terms of the inability of local institutional settings supporting the GIs to strategically couple with the actor practices of lead firms in the coffee sector. The GIs, however, do appear to deliver intangible benefits for some stakeholders in terms of promoting a sense of regional pride and cultural identity. While one intention of GIs is to assert a moral claim over the geographical and cultural property embodied in consumer products, they require far greater engagement with extra-legal moral conventions throughout the value chain to achieve rural development outcomes.

1. Introduction: Geographical indications and rural development

A protected Geographical Indication (GI) is a collectively-owned form of intellectual property that makes a direct link between the distinctive characteristics and quality of a product and its geographical origin, such as *Darjeeling tea* or *Parmigiano-Reggiano cheese*. In some countries, such as Indonesia, the indication is formally registered. GIs are collectively owned by regional producers and processors, and are commonly issued by national intellectual property offices. Giovannucci et al. (2009) present GIs as a tool for "institutionalizing the resources of a place". For the purposes of this paper, the GIs under consideration are the outcome of the formal registration process with the Government of Indonesia, which therefore provides for their legal protection. The primary objective of a GI is to capture the economic benefits of place-related quality attributes within the locality of production, although there may also be secondary non-economic benefits such as the protection of environmental and cultural values, and the strengthening of social institutions. Even when the product enters extra-local markets, the purpose of a GI is to ensure that some control over product differentiation is retained by producers (Bowen, 2010). As a result of credible product differentiation through a GI, it is anticipated that producers can gain improved access to specialty or niche markets, effectively limit supply and increase sales at higher prices, thereby capturing and retaining more value. Within developing country contexts, local capture of economic value has the capacity to stimulate broader rural development and poverty alleviation.

This article examines the coffee sector, where place-based marketing is a widespread and acknowledged strategy for value-adding at points of consumption. Teuber (2010) demonstrates how the place names of certain coffee regions were clearly valued by buyers in the specialty market, suggesting the potential economic benefits available if an effective origin-labelling strategy is controlled by producers. Daviron and Ponte (2005), however, described a paradox in the global coffee sector, where booming sites of specialty coffee consumption occurred contemporaneously with a coffee crisis in producing countries. They explained this paradox in terms of coffee being valued exclusively for its material attributes in producing countries, while roasters and retailers have been able to extract further value from the symbolic and in-person attributes of coffee, including the use of place-based product differentiation. Their analysis suggests that GIs offer a potential mechanism through which producers can partake in symbolic quality construction, and so capture value through a claim over geographic property throughout the value chain. In this light, GIs can be seen as a producer-driven attempt to intervene in the pre-existing value capture processes along the value chain.

GIs emerged from within a specific cultural context in southern

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https://doi.org/10.1016/j.jrurstud.2018.01.003
Received 3 May 2017; Received in revised form 13 January 2018; Accepted 14 January 2018
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Europe, where systems of appellations have existed since the 1930s. Earlier analyses of GIs in the European context (Barham, 2003) celebrated the potential for GIs to act as an alternative territorial embedding of production that challenged the dominance of conventional (industrialised) agriculture. The term 'Geographical Indication' was used, and subsequently internationalized, in the World Trade Organisation's Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS), where it is defined as "indications which identify a good as originating in the territory of a Member, or a region or locality in that territory, where a given quality, reputation or other characteristic of the good is essentially attributable to its geographical origin". Following TRIPS, Indonesia enacted a Trademark Law in 2001, which defines Geographical Indications in a way that largely reflects the TRIPS definition (Butt, 2017). The last decade has then seen an expanding interest in GIs as a development intervention in the Global South. International research and development agencies, such as CIRAD (the French Agricultural Research Centre for International Development, which supported the Kintamani GI discussed in this article), the World Bank, and USAID (which has also supported GIs in the Indonesian coffee sector), began promoting GIs as a development intervention. Indeed, there is an extensive body of literature that makes a strong case for the rural development potential of GIs (Belletti and Marescotti, 2011; Belletti et al., 2017; Bramley et al., 2009; Giovannucci et al., 2009; Marie-Vivien and Bienabe, 2017). The development benefits of GIs, however, remains largely unproven, with relatively limited empirical support and evidence of positive impacts presented from the Global South.

Recent studies of the developmental benefits of GIs are generally circumspect. Whilst citing theoretical support for GIs in the Global South, Jena and Grote (2010: 234) are "neither optimistic nor cynical" regarding the potential of GIs, arguing that more empirical research is required. Mancini (2013) describes the effective abandonment of a GI for cheese in Nicaragua due to its failure, while Galtier et al. (2013) identify the various constraints limiting the effectiveness of a GI for Jarabacoa coffee in the Dominican Republic, and Tregear et al. (2016) describe the failure of a GI for Mako Onions in Hungary to generate either higher prices or collective action. Drawing on the ineffectiveness of the Tequila GI in Mexico, Bowen (2010) warns of the potential dangers of 'institutional monocropping', where the introduction of rules and institutions from one place and culture (eg. Southern Europe) to an unreceptive setting elsewhere are unlikely to result in developmental benefits. Building on these concerns, Tregear et al. (2016: 434-435) make the important distinction between "established, mature GI systems" and "nascent, developing GI systems", where market reputations are weaker in the latter and GIs less likely to deliver price premiums as a result. Nascent GI systems appear widespread in the Global South (see also Durand and Fournier, 2017), with Tregear et al. (2016) concluding that premium and margin-capturing opportunities for small scale producers are uncertain. Similarly, based on the limited evidence of effective GIs in developing countries, Yeung and Kerr (2011: 364) conclude that "it is difficult to recommend that developing countries incorporate expansion of GIs into their agricultural development programs". The research presented in this article provides a more rigorous assessment than previously documented about the developmental benefits of GIs for coffee farmers in Indonesia, and provides some novel explanations for the observed outcomes.

The literature identifies various conditions considered necessary for the success of a GI, with Yeung and Kerr (2011) suggesting that failure of any of these conditions would limit commercial success. Galtier et al. (2013) identify three key constraints to the development of 'effective and fair' GIs (in the coffee sector): i) Code of Practice (CoP) design that fails to consider distribution of benefits along the supply chain; ii) poor local governance capacity to connect to intermediate and final markets; and iii) a reluctance of roasters to use GIs on final consumer products. Supportive institutional settings (including local governance capacity) are considered fundamental to the success of a GI, often requiring the interaction of local and national institutions, which collectively promote enhanced social capital within the locality (Sanz Canada and Vazquez, 2005). Barjolle et al. (2017) emphasized the critical role of the state in establishing and regulating GIs, while Neilson (2007: 195) argued that "the limited capacity of government or industry associations in Indonesia to administer and regulate a GI is a large obstacle to ensuring the on-farm retention of economic benefits". Indeed, it has been suggested that GIs may even unwittingly contribute to economic marginalisation within the GI locality unless supported by adequate rural policies, legislation, and capacity-building (Mancini, 2013). It would appear that some level of state involvement, is a necessary, although not sufficient, precondition for successful GIs (Bowen, 2010; Bie'nabe and Marie-Vivien, 2017).

Yet, while local institutions are clearly important, the role of the state can be contentious. Durand and Fournier (2017) discuss the "very active" role of government in supporting GIs in both Indonesia and Vietnam, identifying a raft of motivations for state involvement, including producer empowerment, but also encompassing price controls, environmental and cultural conservation and a desire to promote agricultural modernization. The use (and potential abuse) of GIs by the state as a means of regulatory control over rural populations certainly requires serious attention given the sometimes predatory characteristics of the state in many countries. GIs are frequently implemented as top-down, state-driven initiatives, where local government authorities facilitate a negotiation between producers and external GI 'experts', but as argued by Bowen (2010), top-down implementation can be easily coopted by powerful extra-local actors. Political motives are evident in Indonesia, which has undergone a process of expanded regional autonomy since 1999. In Indonesia, GIs have proven especially popular amongst local governments as an instrument to develop a positive image of the region (Djulaeka et al., 2014) and to strengthen their own legitimacy by visibly demonstrating a commitment to regional economic development (Murwito, 2013).

The limited development potential of GIs has generally been diagnosed simply as 'poor institutionalization', with the concomitant suggestion that this can be addressed through institutional strengthening and further technocratic interventions. Our study contributes to this literature by presenting an assessment of a logical impact pathway for GIs in the Indonesian coffee sector, which provides clear evidence of this current lack of economic impact, and further suggests that state support for institutional strengthening is also unlikely to generate benefits in the future.

Value capture in global production networks.

Ultimately, GIs are an attempt by producers to intervene in a production chain to ensure greater value capture within a region. As such, we suggest that Global Value Chain (GVC) theory and the associated framework of Global Production Networks (GPN) offer crucial insights into the potential for regions, and local producers, to retain a greater share of value-added through GIs. Neilson et al. (2014: 1) describe the emergence of the interrelated GVC-GPN frameworks as a response to the "emergence of global production and distribution systems, which bring together diverse constellations of economic actors through an increasingly complex regime of global corporate governance, widespread outsourcing of productive functions, and new international divisions of labour". These approaches highlight the ongoing ability of lead firms to control (or 'govern') production networks and chains despite fractured ownership and geographical dispersion. This governance role of lead firms has been a key contribution of GVC-GPN theory. The actions of lead firms, however, are also constrained by (and also often able to reshape) the 'institutional framework' of a GVC, originally suggested by Gereffi (1995: 113) to refer to how "local, national, and international conditions and policies shape the globalization process at each stage in the chain". In this article, we apply a broader understanding of the 'institutional environment', as developed by North (1990) and later applied to economic geography (refer, *inter alia* to Barnes, 1999; Philo and Parr, 2000; Martin, 2002) as the informal (conventions, customs, norms, social routines etc) and formal (usually

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