

**BUDAPEST UNIVERSITY OF ECONOMIC SCIENCES AND PUBLIC
ADMINISTRATION**

***NEW QUALITY DIMENSION OF COMPETITIVENESS IN FOOD
ECONOMY CONCERNING OUR EU ACCESSION***

Thesis of Ph.D. Dissertation

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1. Background and objectives

The accession of Hungary to the European Union is a big challenge for the Hungarian food economy. We can stand this challenge with our high quality and special food products. In order to enhance the competitiveness in the market the application of **trademarks and geographical indicators guaranteeing extra quality** is emphasized more and more. Within the process of preparation for the accession it is important for the participants of food economy to get acquainted with these EU conform and effective marketing instruments, and to enhance their application by the establishment of a proper supporting system.

Two basic — and determinant from the viewpoint of the EU accession — factors of the competitiveness of traditional and regional products were taken into consideration during the determination of my research's framework:

- the long term objectives of the European Union's common agricultural and rural development policy, and
- the strategy of Hungary for preparing the accession.

In the AGENDA 2000 document of the European Union the sustainable development of rural areas is strongly stressed within the future objectives by the support of the production and marketing of products that are produced with traditional methods in a specific geographical area.

One of the most important tasks of our accession strategy is the application of the protection of geographical indication and the certification of traditional – specific characteristics in Hungary.

In 1998 the Ministry of Agriculture and Rural Development (MARD) and the Agricultural Marketing Centrum (AMC) launched a national program in connection with the community initiative, the so-called Euroterroirs (Europe's regions) program. The aim of the program titled Traditions – Tastes – Regions (hereinafter: TTR) in Hungary was the exploration of the sphere of traditional and regional agricultural products and foods that do have the chance to get protected designation of origin or certification of traditional-specific character in the European Union.

During my research the following main objectives were envisaged:

1. The adoption of the certification systems for the protection of geographical origin and traditional-specific character into the Hungarian practice:
 - Study of the certification systems for the protection of geographical origin and traditional-specific character within the EU.
 - Investigation of the advantages of the certification systems for the protection of geographical origin and traditional-specific character, and the opportunities of their application in Hungary.
 - Preparation of a proposal for the establishment of certification systems for the protection of geographical origin and traditional-specific character in Hungary.

2. Within the frames of the program establishing the Collection of Traditional and Regional Agricultural Products and Foodstuffs (hereinafter: Collection):
 - Elaboration of the criteria of getting into the Collection on the base of the criteria of the European Collection and the Hungarian specificity.
 - Determination of the Collection's product groups on the base of the criteria of the European Collection and the Hungarian specificity.
 - Determination of the methods of research covering all sectors of food economy and all regions of Hungary, regarding the multidisciplinary research and the high number of experts participating in it.

3. Finally, in the third part of the research program the possible ways of the TTR collection's utilization are explored:
 - Investigation whether traditional and regional products are known among consumers.
 - Examination of the conformity of the created collection with the criteria of the system of protected designation of origin.
 - Elaboration of the TTR collection's complex utilization program.

2. Materials and methods

- During my research I examined the wide range of EU regulations on the provisions for food quality and the experiences of their application in the member states of the European Union.
- Particularly the provisions applicable to special Hungarian foodstuffs were studied, regarding the remarkable importance of these products in the Hungarian export and their competitiveness concerning our accession.
- Later on the legal statutes published in Hungary in this theme were surveyed in comparison with the relevant EU statutes.
- In order to prepare for the start of the domestic program on the collection of traditional and regional foodstuffs I investigated the methodology and criteria of the French research, which served as a model of the European collection. Furthermore, I compared it with the British collection.
- The TTR Collection — containing the specification of 300 traditional and regional foodstuffs collected during the two years of collection — was subjected to a detailed analysis regarding sectoral and regional viewpoints.
- Cottage cheese was chosen from the collection as a product bound to a region and produced with traditional methods. In connection with this product — as being the representative of the collection — the notoriety of the product among consumers was examined.
- The investigation of conformity with the EU requirements on the protected designation of origin was concentrated to 11 fruit and vegetable product.
- Finally, the supporting system of the EU was examined in order to use these experiences in the elaboration process of the TTR utilization program.

In order to realize the objectives of the research the following methods were chosen:

- In the theoretical phase of the research the comprehensive processing of up-to-date international and domestic literature, experiences and results was performed.
- In the first stage of the research the **legal impact analysis** of the relevant EU statutes took place. This process aimed to reveal the legal and administrative framework of the protection of geographical indication and the certification of traditional - specific character of agricultural product.

- These issues required the comprehensive knowledge of EU statutes on the provisions of food quality and the summary of the experiences concerning their application in the member states.
- On the basis of the knowledge and experiences originating from the legal impact analysis **I made a critical analysis**, comparing the published domestic statutes with the EU provisions, whether the domestic statutes are in conformity with the EU regulation, and they will be able to provide the protection of geographical origin and the certification of their traditional specific character. This analysis aimed the revelation of further directions of research in the field of domestic application of EU regulations.
- During several study trips I had the opportunity of **studying** the practical application of statutes in the Member States of the European Union.
- In order to prepare for the domestic program of the collection of traditional and regional foodstuffs **I made a comparative analysis** comparing the presently existing (French, British German, etc.) collections. French and British experiences proved to be the most exploitable ones. During the investigation and the comparison I wanted to explore the methodology and criteria of collecting.

During the theoretical preparation it became evident that the collection of Hungarian traditional and regional foodstuffs is a complex task, therefore, several rounds and different methods are needed.

- Brain storming was applied in the stage of preparation for the collection. In June 1998 I organized professional seminars on which more than 120 experts had participated. As a result of the brain storming of this wide range of experts the expected size of the collection had been delineated. Namely the establishment of a Hungarian collection of 300-400 regional, traditional foodstuffs is expected as a result of the program.
- **Collecting the experts' opinions on a questionnaire** was the method of collecting product suggestions. This method gave the opportunity to process and to assort product suggestions in a special way that later facilitated data management and the creation of a database. In order to enhance the easier management of the database I made a simplified questionnaire.
- The compilation of the collection was the most difficult stage of my work, which demanded engrossed professional work. The applied **Delphi method** could fit excellently for the collection of product descriptions, since it made possible to screen and refine the

material by feedback. The product descriptions were evaluated scientifically from sectoral and historical viewpoints by the Scientific Committee. This Committee made further refinements on the base of the preliminary product descriptions, by controlling the conformity with the criteria. Then the remaining product descriptions were confirmed and they were made definitive, being in conformity with the criteria of the European Collection.

- The sectoral and regional distribution of the TTR Collection was subjected to a detailed analysis from industrial- and agro-historical aspects.
- The utilization of the TTR Collection's products is depending strongly on their reputation among consumers. Cottage cheese was selected for the investigation of this factor. Reputation of the product among consumers and behaviour of consumers were analysed, and also the possibilities for the modification of consumers habits in cheese consumption towards traditional products. **Tasting and consumer questionnaire survey** was the method of investigation. The questionnaire was quantitative, containing 16 closed and 1 opened question. The questions of the questionnaire were compiled by funnel technique.
- The answers for the questionnaire's questions were evaluated by the **multivariate mathematical-statistical method called factor analysis**. This method is applicable for the investigation of the system of mutual connections between variables. The determination of the number of variables was based on own value. Since the own value expresses the size of variance in connection with the factor, only the factors with an own value higher than 1 got in the model. Factors were difficult to evaluate, since several factors had higher factor weight with the same variable, therefore, an orthogonal turning was performed, including a VARIMAX process. The factor analysis was performed with the SPSS computer software.
- In the final stage of the research those products were chosen from the TTR collection that could get the European protection of geographical origin after the accession. The investigations were done by French and Hungarian experts, in the framework of the French-Hungarian inter-ministerial co-operation on the development of agricultural sectors and the promotion of quality products. The total number of interrogated experts was 65. The method for the determination of the sphere of products to be investigated was **experts' consultation**.
- Data were collected from the representatives of producers concerning their products' characteristics with the method of **in-depth interviews**.

- For the evaluation of the characteristics important from the protection of geographical origin' aspect the **expert scoring method** was used. The evaluated characteristics (3P) were the following ones: climate and soil, professional skill, tradition and popularity (concerning the product); production method, price and market (concerning the production); the presence of a producers' organization and the motivation towards the possession of a trade mark (concerning the producer). The range of points was extended from 1 (not favourable) to 5 (very favourable). French and Hungarian experts filled the point questionnaire concerning 11 products. The products which have the opportunity to get the protection of geographical origin on European level were chosen on the base of the results originating from this questionnaire.
- Feasibility studies of products being found to be protected geographical indications were done by **SWOT analysis**. SWOT analysis is one of the most popular processes of evaluation methods, which arranges the examined characteristics of the product into the categories of strengths, weaknesses, opportunities and threats. These categories are in harmony with the main steps of strategic planning needed by the evaluation and determination of breaking points. This helped the strategic proposals to put into words. One of its advantages is that this method is able to manage the co-operation of the representatives of different fields of interest, namely multidisciplinary.

3. Research results

1. After an impact analysis of the system of protected designation of origin and certification of specific character, I found that these regulations establish a new system for controlling specific foods with a view to protecting the interests of consumers and producers. Products covered by the regulations are subject to the **conformity assessment** laid down in the product specifications. So a **quality guarantee of the authenticity of the products is afforded to consumers**. At the same time, a legal protection against those applying unfair market instruments is ensured for producers.

2. In the course of analysing research results on products with geographical indications, I found a **strict correlation between the quality of the product and its origin**. The special quality of the origin labelled products is due to the specific natural and human factors (human know-how) of the geographical environment concerned.

3. The traditional specific character result from traditional technology and composition as well as from traditional raw materials used to prepare the food product. The higher quality of these products as compared to usual products comes from their **special way of production** (professional know-how).

4. In case of products with specific local character, the two definitions are difficult to select, so the expression “**traditional and regional**” is worth being used. This concept refers to the knowledge and practice of manufacturing created in local communities (local know-how) and transmitted over generations for a long time (tradition). So, the quality of traditional and regional products has not only a geographical aspect but also a historical one. On the other hand, both the horizontal and vertical differentiation have an important cultural element, as tradition being related to local communities’ life is an expression of culture.

5. On the basis of the results of my theoretical research, I defined the specific quality of traditional and regional products as follows: **The specific quality of a traditional and regional food product is an expression of traditions, geography and history relating to the manufacture of the product.**

6. The survey demonstrated that **consumers contributed a determining role to historical and geographical aspects** in the case of traditional and regional products. Consumers agreed completely with the appraisal of the TTR collection as part of our cultural heritage, the role of the cultural aspect being demonstrated.

7. With regards to the multidisciplinary character of the research, I began the programme with determining the organisational structure providing an appropriate institutional framework (National Council, Scientific Committee, and TTR Secretariat) for the work of collection.
8. According to the results of the research conducted on the feasibility of the protected designation of origin of the products described in the TTR collection, many products have the chance to get a national protection after a convenient professional selection; and these products may also have a protection of European level after accession.
9. After evaluating the aid opportunities getting available after accession, and with a view to our preparation to use them efficiently, I elaborated a strategic plan for a comprehensive utilisation of the products.
10. In order to assure the success of the collection work covering each sector of food production and each region of the country, I adapted the appropriate methods (as questionnaires, brain storming method, Delphi method) and I applied them adequately in the process of collection.

3.1. New research results

1. I was the first in Hungary who studied and published the EU regulation on the certification of specific character as well as the regulation on protected designation of origin. I also explored our national opportunities and advantages in the field.
2. After a detailed analysis of the relevant foreign literature, I defined the specific quality of traditional and regional food products as a new quality aspect contributing to competitiveness.
3. On the basis of the definition of traditional and regional food products, I established the criteria for registration. In accordance with these criteria, each agricultural and food product could get registered if it is produced traditionally and in a way characteristic to a given region, and if the product has a historical background but is known and marketed in the region even today.
4. The nation-wide and scientific level collection of traditional and regional products, and their regional and sectoral classification were not dealt with in Hungary earlier. So, the establishment of the organisation structure of the programme was a novel mission. The efficient realisation of the collection work covering each sector of food production and each region of the country was supported by the adaptation and practical application of the various

research methods (questionnaires, brain storming, and Delphi method) utilised in the course of the work.

5. The results of the factor analysis show that consumers consider also the origin and the traditional character of the product an important feature besides organoleptic characteristics when they buy “gomolya”, a kind of cottage cheese (advantage of reputation).

6. In the course of the feasibility study of the protected designation of origin, the SWOT analysis showed that the examined characteristics of Hajdú horseradish meet the requirements of protected designation of origin as regards the product, the production and producers. In the case of the Hajdú horseradish, the weakness of the product is its little popularity among consumers. The SWOT analysis of the pickled cabbage made in Vecsés predicted good chances for the protection of origin. However, the collaboration of producers is too weak to obtain the geographical indication.

7. The collection comprises 300 traditional and regional food products. The elaboration of their comprehensive utilisation program and the relating support system in conformity with the EU and the WTO has been an urgent duty in the period when our food economy is preparing to accession. As a result, their denomination will have the benefit of a legal protection, and their production and marketing will be supported in the European Union after accession.

4. Conclusions and proposals

1. In the course of the exploration of the domestic application and opportunities of the system of protected designation of origin and certification of specific character, I found that **the introduction of these systems in Hungary would assure the legal protection of Hungarian products** on the single European market, and would protect them against adulteration and other unfair market instruments. On the other hand the putting of the denominations of our products on the list approved by European Commission would be of considerable marketing value thus enhancing their competitiveness. That is why I proposed to introduce the system as soon as possible, and to set up a list of such domestic products that have a good chance to get on to the EU list while having a quality high enough to be exportable.

2. An important task is to make consumers be aware of the special quality of traditional and regional foods, with a view to increasing the popularity of the products and to enhancing

their competitiveness. In order to realise this duty efficiently, I proposed to utilise the collective marketing instruments.

3. The survey by questionnaires showed that **consumers contributed a big role to the use of trademarks**. In order to make the products of the TTR collection more familiar with consumers, I proposed to establish the trademark system of TTR, in co-operation with the product councils.

4. With a view to promoting the geographical indications and the trademark “Traditionality and Specificity Guaranteed” I proposed decision-makers to **adopt a support system** conform to EU and WTO regulations.

5. By means of the SWOT analyses, I established that there are significant deficiencies in the cooperativeness of the operators of product lines. With a view to creating producer groups, I proposed to set up a support scheme in conformity with EU regulations.

6. In order to enhance the reputation of products and to promote their market accession, there is a need to incite the establishment of local and regional organisations and clusters¹. My proposals were incorporated into the comprehensive utilisation programme of the TTR collection.

4.1. Proposals concerning the utilisation of the TTR collection

Taking into account also the aid opportunities getting available after accession, I defined 3 strategic lines in the comprehensive utilisation programme of the TTR collection.

➤ Utilisation by instruments of collective marketing

The task may be realised efficiently **by means of the collective marketing instruments**. That is why the implementation of the utilisation programme of the TTR collection should have such a **priority in the strategic plan** of AMC Pbc. The tasks include namely:

- to republish the TTR collection,
- to edit the collection in foreign languages (a multimedia CD in three languages),
- to enlarge the collection in the framework of inter regional co-operation,
- to demonstrate the results of the programme, and to promote its utilisation by means of organising regional conferences,

¹ Cluster: a geographic concentration of interconnected companies, specialised suppliers and service providers, firms in related industries, and associated institutions (PORTER, 2000)

- to present the collection on exhibitions,
- to promote the distribution of TTR products,
- to make TTR trademark widely known.

➤ **Utilisation by the instruments of industrial property rights**

The utilisation of geographical indications and trademarks is an important instrument in assuring competitiveness, and is therefore supported in the EU. Consequently, their utilisation has to be encouraged also by a support system being in conformity with EU and WTO rules, namely:

- to provide professional aid to producers in selecting those products of the collection suitable for the protection of origin, and in pursuing the procedure,
- to launch the programme promoting the trademark “*Traditional Speciality Guaranteed*” (model project: Stifolder sausage, soda-water),
- to introduce an aid covering the charges paid for the registration of geographical indications,
- to apply a state contribution in the costs of the consultant work necessary to prepare the product descriptions,
- to widen the utilisation of the trademark TTR

➤ **Utilisation in rural development programmes**

In the framework of its rural development policy, the European Union provides aids to Member States in order to promote the production and distribution of quality products and the relating rural activities (village tourism, restaurants). With a view to developing these activities, my proposals are the following:

- to promote the production and market accession of traditional and regional products by means of aids not to be reimbursed. The application system would at the same time contribute to the preparation for the access to rural development aids,
- to introduce aids encouraging the formation of producer organisations (producer groups),
- to promote the creation of clusters by participating in interregional programmes in co-operation with the Member States of the EU.

4.2. Main directions of the proposed future research

- By means of a survey with professionals' questionnaires, to prepare the introduction of the trademark TTR as a product trademark.
- To go on with selecting the products suitable for a European protection, in a French-Hungarian co-operation, with the contribution of French and Hungarian universities.
- To carry on research on region image by means of a survey with consumers' questionnaires with a view to developing the marketing and communication strategy on the TTR collection.

5. Summary

The book comprising the TTR collection and its CD version published this year make widely known the traditional and regional food heritage of Hungary, which ought to be considered a special treasure at the time of our EU accession. The market competitiveness of traditional Hungarian foods can be significantly improved by the edition of the collection on traditional and regional agricultural products and foods. The elaboration of the programme on the comprehensive utilisation of the products is another important task.

The European Union has a special appropriation within the Structural Funds for the support of traditional and regional products. Aids are paid in an application system, a basic criterion of the eligibility being that the traditional method of food processing has to meet the EU requirements of food quality, food safety and animal welfare. However, to meet these requirements, further aids can be obtained.

The efficient utilisation of the aid possibilities getting available after accession depends mainly on the operators of the product line, but the Government also has an important role by providing for the necessary legal, institutional and controlling background and by establishing an appropriate support system. The main tasks to be completed in co-operation of the decision makers and the operators of the product lines include the creation of the professional organisations and producer groups aiming at improving the quality and enhancing the reputation of traditional and regional agricultural products and foods.