

PROPERTY RIGHTS FOR THE DEVELOPMENTS OF CULTURAL DISTRICTS

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DIRITTI, REGOLE, MERCATO
Economia pubblica ed analisi economica del diritto

XV Conferenza SIEP - Pavia, Università, 3 - 4 ottobre 2003

pubblicazione internet realizzata con contributo della



società italiana di economia pubblica

dipartimento di economia pubblica e territoriale – università di Pavia

Property Rights for the Developments of Cultural Districts

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1. Introduction

The production of culture-based goods and services in a locality assumes an autonomous interest, when the institution of collective property rights on the production of a cultural or artistic good are analysed. Within this context, the institutional framework leading to the creation of collective trademarks, and its implications for the evolution of the cluster, is studied following Santagata (2004) analysis. The identification of different types of cultural clusters, inserted in different institutional frameworks, points at the possibility to respond to peculiar problems with tailor-made strategies regarding the rules of collective rights protection.

It has been suggested that the introduction of collective property rights has led to a restructuring of the markets, sustaining the quality supplied in the cluster, and therefore strengthening its competitive position. Santagata (2003) and Segre (2003) warn against possible drawbacks in the institution of property rights. Incentives to exit for producers who enjoy individual property rights of a higher reputation than that of the collective brand would generate instability in the cluster structure. Moreover, static rules on the cluster membership impose a disadvantage on product innovation.

Within this framework, two examples of collective property rights introduced in the Italian market are analysed: the case of wine production in the Langhe Region in Piedmont, and the case of glass production in Murano. The two cases present a number of similarities and notable differences with relevant implications in terms of policy guidelines. The conclusion reached, leads to the individuation of two different moments characterising a cluster where production is protected by collective property right. In the start-up phase of the cluster, between producers making use of the collective trademark, the cooperative behaviour is dominant. On the contrary, when the cluster achieves his mature structure, the exit from the collective trademark prevails. In this phase, individual behaviours concentrate on the exclusive promotion of private trademarks, based on excellence productions.

2. Competition and cooperation with property rights

The literature on industrial districts¹ underlines the crucial importance of the quality of inter-firms linkages between the firms of a cluster, supported by physical and socio-cultural proximity that favour informal collaboration and the exchange of knowledge, and may also lead to the organisation of common services and infrastructure in order to reduce costs. Strategic relations are also established between vertical levels of a filière, leading to cohesive, flexible and specialised *productive milieus*. Strategic co-operation within the network of actors involved is favoured by personal relations leading to non-traded knowledge transfer, a highly mobile human resources pool, and by institutional arrangements that give solidity to the development model, like the chamber of commerce, schools, banking system, etc.

The literature underlines that competition is not ruled out in the industrial district model, just the contrary: it is the driving force of innovation and ecology in the cluster. However, it is not “destructive” and it is accompanied by a certain degree of co-operation in particular aspects of the production process. That is, a district can be highly competitive and culturally cohesive at the same time. *Trust* is the keyword: because of institutional arrangements and social control systems, each producer is convinced that sharing information and resources would not lead to a competitive disadvantage, and would stimulate the achievement of collective gains.

Individual private trademarks and collective trademarks affect strategic behaviours of producers in two opposite directions. The institution of collective property rights introduces cooperative reactions of producers, since the interests of different producers coincide and converge in the direction of promoting the common trademark. Both in the wine market case and in the Murano glass case, the success of collective trademarks represent a valuable resource in order to obtain increasing demand for the cluster’s production, or to avoid a decline on it. Firms will then compete, by the means of a distinctive sign, represented by the arbitrary name of the private mark, for their exclusive market shares.

In Italy, wine markets are regulated by three designations of origin defining different degrees of wine quality in a decreasing order, as explained below more in details. Given the characteristics of the wine, a product with quality level detectable only after

¹ See, among others Pyke, Beccattini and Sengenber (1990).

purchase - i.e. an experience good, according to Nelson's definition (1970)² - the role of property rights is particularly relevant for wine market. By giving assurance of - to a certain extent - uniform quality, trademarks allow consumers to economise on search costs, as well as protect consumers from fraud. Asymmetric information between producers and consumers is indeed very high in the case of wine; the introduction of a collective trademark with guaranteed minimum quality standard represents, therefore, an effective solution to the problem.

Reputation, of course, is another important means to be used, both for consumers fraud protection and for products with features of experience-good. According to Posner (1992, pg. 370), "*the investment that a producer makes in his trademark, is like a hostage: It increases the cost to the producer of surreptitiously reducing the quality of the product or otherwise trying to deceive consumers, because when they catch on, the producer may lose his entire investment.*"

Within this framework, the approach followed by Shapiro (1983) further defines the role of reputation for markets in which buyers cannot observe product quality prior to purchase. When product attributes are difficult to observe, consumers may use the quality of goods produced by the firm in the past as an indicator of quality at present. Reputation is then an asset that must initially be built up, in a dynamic process; the benefits of producing high quality items increase in the future via the effect of building up a reputation.

According to Shapiro, in the initial period the producer must invest in his reputation with the production of high quality goods and - because he cannot charge those prices associated with high quality until his reputation is established - sell his product at less than cost. This first phase implies that, in equilibrium, high quality goods are sold for a premium above their cost of production. The equilibrium price-quality schedule involves then a gap between price and cost; this gap will be the lower, the higher the legal minimum quality standard is.

Reputation applies both to private and collective trademark, and appears to be a crucial factor for the development of the Langhe Region³, where high-quality reputation of

² In 1970 Nelson distinguished all goods in two varieties, according to how they convey information to the consumer. In the case of search goods, consumers can ascertain quality prior to purchase through a process of inspection and research and experience goods. In the case of experience goods this is not possible, consumers prefer to buy them first and ascertain their quality afterwards. Note that according to OECD (2000) there is also a third category of goods, the credence goods, for which consumers can not fully ascertain the level of quality, even after they buy them.

³ A detailed analysis of the wine market in this Region is presented in Segre (2003).

wine production can explain producers strategies of the last 15 years. Next to this, according to Bravo (2002) and Borrione and Santagata (2002), the role of cultural factors as a basis for cooperation and knowledge exchanges is central for the development of the Region. It is thus mainly under this basic assumption that the comparison with the Murano glass production is undertaken⁴.

In the case of the “Vetro Artistico di Murano” trademark, recently introduced by a Regional Law as the collective property right for glass producers with plants in Murano - the island in the lagoon of Venice - the lack of reputation of the collective trademark seems to be the most important explaining factor of the difficulties in the launching phase of the trademark. As it will be explained more in detail in Section 6.2, in the case of the “Vetro Artistico di Murano” trademark, the promotion of the mark suffers of a typical free-rider problem, since the member of the institution entitled to the promotion of the trademark are not the same as the member of the collective trademark. Moreover, the production of glass in Murano, famous in the world for its glasswork since 13th century, is now characterised by a number of private brands with a very high level of reputation. Cooperation, for such a firms, may be not important. According to Tirole (1996, pg. 1), “*A group’s reputation is only as good as that of its members*”; therefore, high quality reputation producers may not want to belong to a group composed by lower quality producers. Collective reputation depends from members’ individual reputation, which represents the upper bound of the group quality level and which determines the perceived group collective reputation.

3. Collective property rights in the Langhe Region

3.1 Collective property rights in wine markets

Collective property rights for the Italian wine market were introduced in 1924 by the Regio Decreto-Legge n. 497. Is then the Low n. 116 of 1963, followed in 1992 by the Low n. 164, the basis of the actual discipline of collective trademark for wine production. In the Italian legislation are now in use three levels of collective property rights, reflecting a decreasing wine quality level: DOCG, DOC and IGT. The first two are designations of origin, the third one is a geographical indication.

⁴ Similar to this approach is the one followed by Cuccia and Santagata (2003) for the case study of Caltagirone Pottery in Sicily.

Within intellectual property law, both are distinctive signs aimed at distinguishing products for consumers and vis-à-vis competitors⁵, and refers to the link between the product and its geographical origin. For the designation of origin, not only does the product have a very close link with the geographical location, but its quality derives strictly from the geographical environment, including natural and human factors⁶. This is the idea of the Lisbon Agreement, signed in Lisbon in 1960 and coming into effect in 1966.

Italian legislation, defines precise rules for protected designation of origin wines. Producers of wines with designation of origin protected and guaranteed, have the entitlement to add to the individual mark of the wine the sign of DOCG - i.e. “Denominazione di Origine Controllata e Garantita”- . This applies to very high quality wines. Producers of wines with designation of origin protected have the entitlement to add the sign of DOC - i.e. “Denominazione di Origine Controllata” - and are high quality wines. Both kind of wines must be recognised as such by an apposite commission. The chemical, physical and organoleptic control, is in fact compulsory for all wines with denomination origin. Differently, a geographical indication essentially informs consumers only about the origin of the product, attesting that its quality and reputation can be attributed mainly to that origin⁷. IGT - i.e. “Indicazione Geografica tipica” - indicates then wine with lower quality. For every DOCG, DOC or IGT wine there is a precise production protocol, explicitly defining production, processing and preparation rules to be followed.

3.2 The structure of property rights for wines in Piedmont

The structure of designations of origin in Piedmont is, at present, a pyramidal one. Starting from the bottom to the top, the designations of origin are stricter, both in geographical and qualitative terms. At the bottom level, is the “DOC Piemonte”

⁵ Similarly, inventions are protected by patents, but for limited period. However, a trademark is not time-limited, nor should it be.

⁶ In the system introduced by the European Union with the EEC Council Regulation n 2081/92 (amended by EEC Regulation 353/97), for agricultural products and foodstuffs, a precise distinction between protected designation of origin and protected geographical indication is made. As for designation of origin, the name of a region, a specific place or, in exceptional cases, a country, is used to describe a product originating in that region, specific place or country, and *the quality or characteristics of which are essentially or exclusively due to a particular geographical environment with its inherent natural and human factors*, and the production, processing, and preparation of which take place in the defined geographical area. Differently, in the case of geographical indication only natural factors are taken into account, no references being made to human factors. Moreover only production, *and/or* processing, *and/or* preparation of the good must take place in the defined geographical area.

⁷ See OECD (2000) for a deeper analysis of geographical indications and designation of origins.

introduced in 1994 with the “DOC Langhe”, a designation of origin referring to a more restricted and selected area. Finally, designations of origin for specific very high quality DOCG wines and high quality DOC wines are on top of the pyramid.

On the whole, in Piedmont, wines with DOCG and DOC designations are now over 40, the highest number of wines with designations of origin present in an Italian Region. Among these, we analyse 5 kinds of wines, all produced in the Langhe area, and all DOCG or DOC: Barolo, Barbaresco, Nebbiolo d’Alba, Barbera d’Alba and Dolcetto⁸.

The wines Barolo and Barbaresco are DOC wines since April 1966, and became DOCG wines, respectively, in July and October 1980. Designations of origin for Nebbiolo d’Alba and Barbera d’Alba was introduced in May 1970, and for all kinds of Dolcetto in July 1974.

4. The glass cluster of Murano

4.1 Glass production as a “cultural production” with idiosyncratic characteristics

Differently than in the case of wine, as far as glass production is concerned quality is not easily detected or benchmarked even after purchase and “consumption”. Production - especially the most valuable - is largely the result of idiosyncratic variations on a specific model, and based on “distinction”; hence, the determination of the quality of a piece is basically done out of subjective judgement and can only be a matter of the experts’ taste.

The only objective proxies of quality might be the technicalities of production process and, to some extent, the fact of being produced in a place with specific characteristics and a tradition. Until recently, in fact, the peculiarities of the island of Murano - its climatic conditions (humidity, light exposure, etc.) and the know-how of its glass masters - were sufficient to characterise the local production in a recognisable way.

However, today the evolution of technological progress, on one side, and the export of knowledge, on the other, make it possible to reduce to a minimum the appreciable differences between the original local products and imported products, forgeries included; the diffusion of fakes, in these circumstances, is indeed relevant.

⁸ The wine Dolcetto is produced in 4 different kinds: Dolcetto d’Alba, Dolcetto of Diano d’Alba, Dolcetto of Dogliani and Dolcetto of Langhe Monregalesi. In the present study, we refer to price of Dolcetto as the average price of the prices of the 4 Dolcetto types.

4.2 The institution of collective trademark for Murano glass and the role of Consortia

Despite the millennial history of Muranese glass production, the idea of instituting a Murano glass trademark dates from the beginning of the 1980s, when the market was in full swing, and especially the international exports. A tool was needed to support that expansion and safeguard both consumers and producers from forgeries – the sale of non-original products “confused” with Murano glass as well as straightforward imitations –, which were estimated to erode some 40% of the turnover (today it is likely to be up to 60%). In 1994, with the Italian Regional Law n. 70, the “Vetro Artistico di Murano” trademark was finally instituted, as the only legally identifying trademark, owned by the Veneto Region.

Yet only in 2001, “Vetro Artistico di Murano” became effective as a collective trademark under the management of the *Promovetro* consortium. This was born in 1985 as a promotional body for the Venetian glass sector. Originally an association of small glass artisans, it came to include other larger firms. 15 years – and one failed trademark experiment – later, *Promovetro* came to be entrusted by the Region as the subject responsible for the management of the trademark, the only subject representative and trusted enough to carry out this task. Out of the 72 present *Promovetro* associates, 61 are Murano firms with a furnace, and 11 small “*lume*” producers⁹ (most of the “*lume*” producers however are not part of *Promovetro*)¹⁰.

Despite the name “Vetro Artistico di Murano” - i.e. Artistic Glass of Murano - the trademark is in effect only a geographical indication. The membership to the trademark agreement depends on the location in Murano of the main production unit, and on the respect of a production protocol that lists the admissible kinds of products and techniques. For the aforementioned reasons, it was not possible to establish a quality trademark. Qualities, reputation and other characteristic of the good produced are essentially attributable to its geographical origin, but no further conditions for quality are imposed.

⁹ “Lume” represents a glass production based on the fusion of glass pipes with a gas lamp.

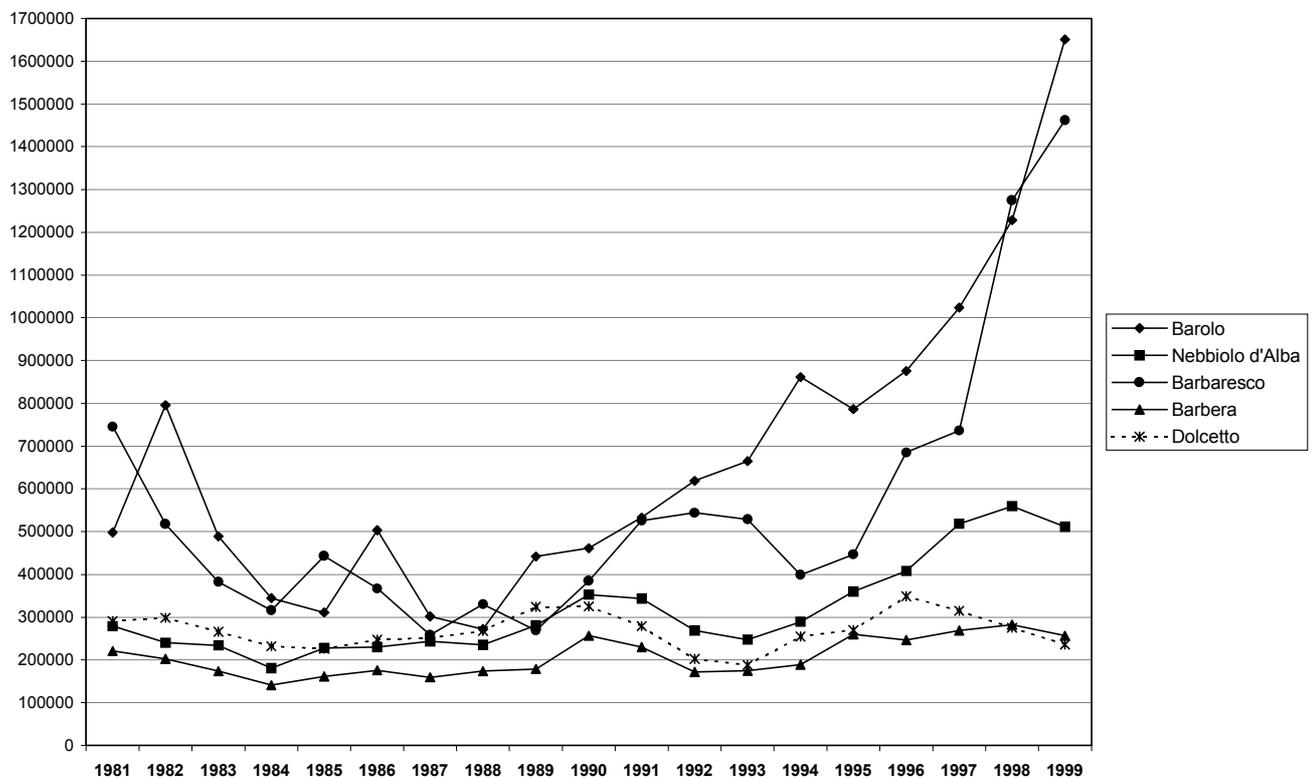
¹⁰ It is important to note that *Promovetro* also includes glass producers and retailers that are not operating in Murano, and therefore cannot be included in the trademark. Hence the marketing strategies of the trademark and its managing institution, *Promovetro*, are parallel but distinct.

5. Economic effects of collective trademark

5.1 Economic effects in the Langhe Region

The general economic evolution of the Langhe Region is strongly linked to wine market developments. A selection of 5 representative wines produced in the Region is presented in Figure 1, where wines price dynamics is delineate. The general trend of the series is increasing, particularly strongly for Barolo and Barbaresco, after 1989.

Figure 1. Wine prices in the Langhe Region between 1981 and 1999



Note: Wine prices are real prices (base year 1995) in Italian Lire, for hectolitres.
Source: Own calculations on Chamber of Commerce of Cuneo data.

The explanation of the increasing trend followed by wine prices in this area, is partially due to the measures taken by all the producers after the serious consequences of the methanol scandal in 1985, when methanol was found in wines. After this grave problem, public administrators of the area, producers associations and most of single producers have been able to pursue important and courageous choices intended to value

the land and the quality of wines. As a consequence, despite the great number of samples inspected by the testing commission in charge, the sample rejected tend to diminish year after year. The work of this institutional commission of technicians and experts, represent actually a moment of verification and collaboration with wine producers aimed at the qualitative improvements of the products.

The improved quality, supported by the effects of the reorganisation of the Italian legislation on designation of origin trademarks in 1992, with Law n. 164, seem to be the successful combination of policies allowing a permanent growth of the wine sector in the area during the '90s. The trend of the selection of the 5 wines presented, collocates in a general development of Piedmontese wine market. Between 1983 and 1994, in Piedmont, DOC and DOCG wines quota over the total number of wine produced in the region, increased from 23.1% to 40%, covering a quota of DOC and DOCG wines produced in Italy, respectively in the two years, of 11% and 16.5%. The constant great attention to the production of high and very high quality wines is testified also by the prizes of the “Tre Bicchieri 2002”, which awarded 61 wines produced in Piedmont, surpassing the famous Tuscany, where the number of wines awarded was 52¹¹

From the point of view of the production structures, the main effect was the concentration of production; in the last twenty years, most of the small firms in the Langhe Region disappeared, but the number of produced bottles increased. According to the Chamber of Commerce of Cuneo data, in 1993, the total number of firms producing DOCG or DOC wines in the Cuneo Province was 12,698, and the number of bottles was 66,137,533. In 1999, the number of firms declined to 11,497, and the number of bottles increased to 89,131,067.

5.2 The situation of Murano glass

In 2001, the total estimated sales of Murano glass have been of 170 M€, and the total export 102 M€ The leading export markets are the US (50 M€), France (9 M€) and Japan (6 M€).

In table 1 the number of firms in Murano producing glass is presented, with the indication of firms members of *Promovetro* consortium, and firms members of the “Vetro Artistico di Murano” Trademark - a lower number than that of firms members of *Promovetro*. The firms that decide to adhere to the mark pay a yearly subscription fee. The trademark gives to the adherent firms the right (but not the obligation) to “mark”

¹¹ The total number of wines awarded was 241.

their products with a stamp. Each stamp costs around 0,3 €; the member firms receive a stock of stamps on the basis of their production. From a number on the stamp, it is possible to know the producer.

Within *Promovetro*, a commission manages and controls the use and development of the trademark. Members of this commission are external experts and staff of the *Stazione Sperimentale del Vetro*, a public research organisation that is concerned with the scientific and technical measures aspects of glass production. A private firm has been entrusted with the task of monitoring and certifying the marked production, and also of checking that the marked pieces cannot be confused with non-original products in the shops¹².

Table 1 - Murano glass producers in 2003

	Number of firms	Number of self-empl.	Number of employees	Average size	Members of "Promovetro" consortium	Members of "Vetro Artistico di Murano" Trademark
TOTAL FIRMS	194	142	807	4.89	61	49
<i>Juridical status:</i>						
of which one-man company	89	73	99	1.93	15	7
of which Unlimited partnership	46	56	146	4.39	23	17
of which limited company	42	7	492	11.88	14	20
other juridical forms	17	6	70	21.00	9	5

Note: Firms with legal office in Murano, registered to the Chamber of Commerce of Venice.

Source: own elaboration on Chamber of Commerce data, 2003.

In its introductory stages, the trademark had to be made known to the potential users. A campaign explaining the advantages was targeting the glass producers, both the members of *Promovetro* and the top firms who are not members. Today the promotion effort is targeting the customers, both the international buyers that are met at fairs and boutiques, and the local tourist customers. Recently, *Promovetro* opened a permanent

¹² The monitoring activity, estimated in 2-3 M€ in 3 years, is partly co-funded by local governments (City and province) and the Chamber of Commerce. The slogan of the initiative will be «No Global».

showroom in New York's 5th Avenue and promotes Murano glass and its trademark in the most important fairs and events worldwide. A leaflet has been created illustrating the value of the trademark and promoting the works of its members, and the *Promovetro* website¹³ keeps upgraded information on its members.

The institution law has been delayed of 15 years (and the actual introduction of the trademark of 20 years) by bureaucratic slowness and political discussions. When the trademark became effective, the international and local contexts had thoroughly changed. The problems of the world economy and the connected downfalls with tourism, as well as the emerging economic globalisation, had affected critically the market positioning of Murano glass, making international competition fiercer and local markets unstable. Today, the priority is no more supporting growth, but rather preventing a deepening of this crisis, and the instruments needed to face this situation (restructuring of the sector, marketing, investments in technology, innovation) are necessarily different and more integral. The trademark is still seen by glass entrepreneurs and other stakeholders as a tool that adds value to their products, but in such context its use is limited; face to the present economic downfall, the pretence to get a high return from a trademark is unreasonable. This misunderstanding is affecting the social support to this initiative, which is one of the pillars of its possible future success. More in general, there are a number of issues that cast a shadow on the real utility, or on the sufficiency, of the institution of the trademark as an effective tool for the protection of the glass sector of Murano. In the second part of the next section these problems are explored and possible solutions analysed.

6. Economic problems of collective property rights

6.1 *The Exit Problem*

From the economic point of view, the system introduced by designations of origin and geographical indications trademarks should be used in order to define optimal incentives to the producers. However, collective property rights have a signalling effect for the “whole” quality level of the product. All producers of goods protected by the collective trademark will enjoy the positive effects of an improved reputation of the whole quality of the product. In consumers perception, in fact, with protected

¹³ The web address of *Promovetro* is <http://www.promovetro.com/>.

trademarks, transactions costs are reduced because different degrees of not observable quality, are signalled through the reputation of the trademark.

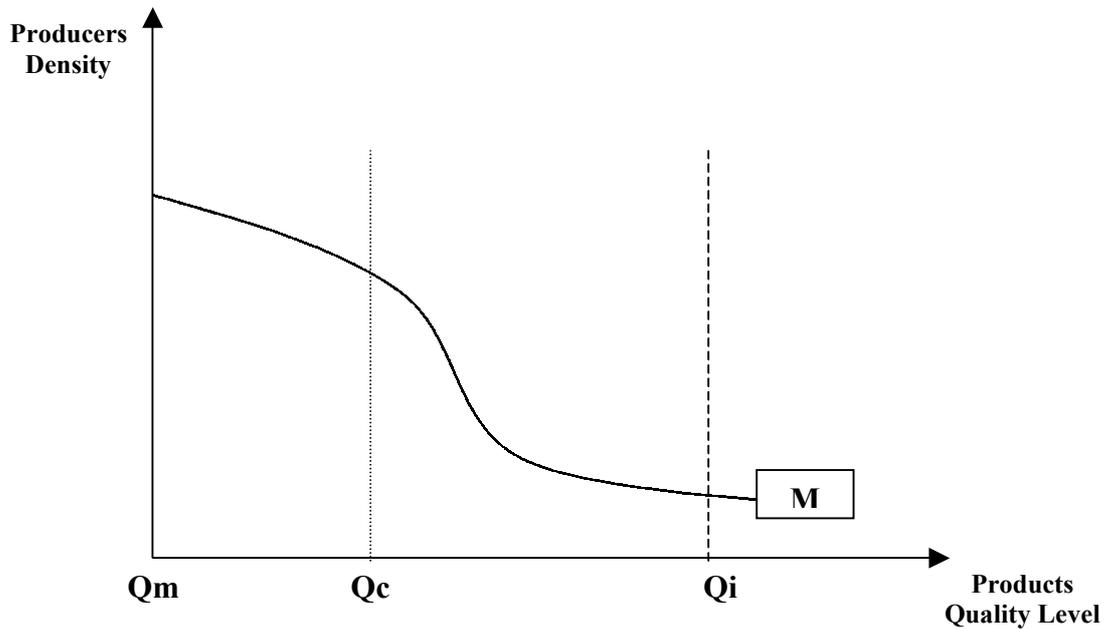
The relationship between single producer's quality and collective trademark's reputation of quality, is than a crucial point. In an asymmetric framework, producers of goods with quality lower than the quality signalled by the collective trademark, will have advantages proportional to the dimension of the difference between the two qualities. On the contrary, producers of goods with quality higher than the quality signalled by the collective trademark, will have disadvantages, and will prefer the use of private trademark only. Therefore, the final effect on producer's strategic behaviour can be either cooperative or competitive, depending on the relative position in term of quality of the producers with respect to the perceived quality level of the collective trademark.

Given the endogeneity of the collective trademark quality level - somehow deriving from the quality levels of the single producers within the collective trademark – a dynamic evolutions of the trademark membership can be described. Figure 2 represent such dynamics. The distribution of quality levels, which determines collective trademark reputation, begins at Q_m , the minimum admissible quality level for the collective trademark, and goes on until point M, where the number of producers of maximum quality level is measured. Reasonably, between Q_m and M, a decreasing number of producers with lower and lower level of quality will be present. Therefore, collective quality reputation Q_c , a function of single quality levels, will be somewhere on the right hand side of point Q_m .

Producers with reputation of high individual quality, Q_i , will burden a cost when $Q_i > Q_c$. When and at with which level of the cost producers will change their strategy is an empirical matter. From a theoretical point of view, however, we can assume that, when the relative distance D ($D = Q_i - Q_c$), is higher than a threshold value, incentives to the exit from the collective property rights arise.

Empirical observations of the two markets analysed in this study appear to confirm such a dynamics. Gaja, one of the best wine producers in the Langhe Region is now selling a Barolo without the protected designation of origin, as well as Antinori, famous wine producers in Tuscany, with the Brunello di Montalcino. Moreover, as it will be explained below, very famous Murano glass producers do not adhere to the "Vetro Artistico di Murano" trademark.

Figure 2. The dynamics of collective property right membership



The exit from the collective trademark of high quality producers, given the endogeneity of the whole collective trademark quality level, can determine a process involving other producers with lower quality level. After this, lower quality producers can exit the trademark as well. After every exit, Q_c will shift on the left, and the distance D of some producers will fall under the trigger value. This can drive the collective property right to its end.

6.2 Horizontal cooperation and agglomeration economies in the Murano glass production

According to theoretical reasoning and to the first evidence from this study, collective property rights could protect the structure and development of a district. However, they are an institutional arrangement that presupposes the *existence* of a district. That is, it may be useful if it regulates a production and consumption structure where information flows and collaboration are the rule within the sector. Two levels of co-operation may be distinguished, that are needed for a collective property right agreement to make sense: one that brings to its establishment and its endorsement by all or the majority of the actors in a district; the second that enables its operation once established. If the first level of agreement is not reached, or it only leads to the association of a limited number

of actors, the collective trademark cannot be established or it is useless because individual strategies will continue to prevail.

If the second level of agreement is not reached, the organisational structure of the trademark agreement cannot evolve. Imagine that a trademark is established, but then no agreement is reached about the contribution to the trademark management costs or on the sanctions to be inflicted to those who do not adhere to the trademark requirement; the use of the mark would quickly be dismissed.

The situation in Murano could be analysed in the light of this argument. First, an evaluation is necessary to understand what is the level of “technical interdependence” between glass producers – which would justify some form of collaboration on which a trademark agreement could be sustained – and whether possible horizontal ties also extend to the vertical level. Secondly, it is necessary to understand whether once established the trademark, there are the objective conditions to make it work, that is a common sense of what has to be achieved and the willingness to share resources for this goal.

Regarding the technical characteristics of the glass cluster, the concentration of the glass manufacturers in Murano is rather the result of an historical circumstance (the prohibition to manufacture glass in the island of Venice dating from the 13th century), than a decision dictated by technical convenience. Even then, we could expect that because of concentration, forms of technical and organisations convergence could have been established in time leading to the emergence of economies from collaboration, possibly supported by a district culture.

This seems not to be the case, however. First, the technical characteristics of glass production - peculiarly dependent of the idiosyncratic, non-transferrable skills of the *Maestro Vetraio* – allow for only a minor degree of scale economies. While each firm with a furnace (some 80 in Murano) has to achieve a minimum threshold of production so that the use of the furnace is economic, clustering particular aspects of parallel production processes does not generate economic advantages because there are bottlenecks in the manual capacity of the masters, and in the “unique pieces” that give real added value to the production.

Significant economies could arguably be achieved in the vertical relations within the filière: upwards in the management of supplies, and downward in the commerce of final goods. For what regards the second aspect, the glass firms that can reach directly the final buyer are not many; most of them are limited to the tourist market, and very few have direct access to the international markets. Only in the case of the relation with

suppliers, and specifically in the acquisition of raw supplies, some firms of Murano got together and formed a partnership to negotiate the sand prices and transport it to the island. The organisation was successively disbanded when strategic attitudes started to undermine its consistency.

Hence, the collective property right is today the only binding institution that could support an efficient organisation of the cluster, but as such, it demonstrates to have little cultural cohesion or *trust* behind, and seems therefore doomed to failure. The most important aspect is that, a trademark agreement like this, needs to be promoted. The key to its success is being accepted as a signal of quality; the pre-requisite is to be well-known. However, this is not the case for many reasons. First, promotional campaigns are very expensive. The estimated budget for a campaign to promote the trademark on the main foreign markets would be of 2,5-3 M € every year. This is a very substantial budget for an industry that in 2002 realised 150 M € of sales as a whole. In the starting year of the campaign, only 0,8 M € were put together also using the industry subsidies granted to the municipality by the Italian Law n. 266/97 on industrial districts, the so called Bersani Law. Since then, the yearly promotion budget has decreased. In these conditions, the expected time for the trademark to reach a critical threshold of notoriety is too long and may never come. The more so since an increasing share of the production is sold on the tourist market, that is highly volatile, badly informed and as such hardly reachable by standard information campaigns. As a result, the original trademark associates see their return on investments hampered, and their willingness to put other money in promotion declines. The initial difficulties of the trademark also inhibit other more cautious or less informed glassmakers to enter in the partnership at a later stage, and the support to the mark goes spiralling down. In general it is acknowledged that the mark has not made it yet as an accepted management tool by most Muranese entrepreneurs.

Another institution that should facilitate co-operation is the Glass School *Abate Zanetti*, a higher education institute for glass manufacturers set up last year in coincidence with the institution of the trademark. Apart from the necessity to train technically the new generations of glassmakers and sustaining the economy of the cluster, the school is expected to have an indirect influence in the establishment of a co-operative climate between the stakeholders involved, and to give to the new glass entrepreneurs fresh notions of strategy and business management. Unfortunately, after a short period of time the school is seen more as a misplaced attempt to regulate the cluster evolution in a top-down approach than something that Muranese glassmakers perceive as needed. The school, today, appeals more to foreign amateurs and practitioners than to the local

entrepreneurs, that are “afraid” of exporting their tacit knowledge from the island (a knowledge that has already fled to a large extent anyway), and continue to think that technical mastery is learnt on the job rather than in schools. This may be true to some extent for technical operations, but certainly is not so for general company management and strategy.

Apart for providing a pleasant meeting-place for international glass-making students and a resource centre for the trademark associates (something which was needed anyway), the very *raison d’être* of the school is today not very clear, and the school is much below its potential. The school does export knowledge but this is not happening to the benefit of the locals, as it would be if this was done in conjunction to “Vetro Artistico di Murano” trademark and with the full participation of the local masters, who would have a unique opportunity to gain international prestige and strengthen the human resources pool available through the school. If an external demand for jobs in glass making would be supported by the school, that would also benefit the island as a residence and production place creating a vibrant milieu of new talents. Today, the young people are only concerned about how to escape from the island.

In general, it is commonly believed that cooperation is not easy within the district. Conflict and suspicion, rather than friendly agreement and cohesion, seem to be the underlying motive of the cultural fabric in the island. The history of Murano glass, even in the booming 1980s, is made of masters copying one another’s ideas and competing fiercely. Imitation and forgery may have been an efficient vector for knowledge transfer and “incremental innovation” in other districts, and as such a natural impulse to the cluster’s ecology. However, it is widely recognised that the competition between Murano’s glassmakers is so keen that it weakens the very bases of mutual understanding, needed for the set-up of any form of strategic co-operation. Though clear steps ahead have been done with the establishment of the *Promovetro* consortium as a self-governing body of the glassmakers, firms still miss the point of the necessity to join forces to promote the island as a productive milieu. They even disregard the whole perspective of Murano as a productive unit that is challenged by international low-cost competition, and can survive only in unity and cohesion.

Even disregarding the anecdotal evidence, there are very few institutions supporting co-operation among glass producers. The history of association between glass producers shows many failed efforts; still today, the consortium *Promovetro* hardly represents the heterogeneity of the sector. The municipal department is not involved in the cluster management, and any attempt by local institutions to regulate or restructure the sector is unwelcome by local producers. The political leader is today *Confartigianato*, the

association of small artisan firms, but this seems to accentuate, rather than solving, the strategic divide between producers and retailers, who adhere to other category organisations with a distinctively different political feel regarding the future of the island.

6.3 Membership to the trademark agreement and strategic behaviour

As described in previous sections, firms adhere to the mark if they see an advantage over the individual brand. It is assumed that the number of firms entering the agreement is sufficient to trigger an evolution of the mark: through promotion and investments in reputation, it gets known to more consumers and becomes an increasingly effective signal of quality. The dynamic relation between individual brand and collective trademark is such that the individual producer of high quality can be led to exit the trademark if the reputation of the individual brand increases more than that of the collective mark. The average quality served by trademark producers is lowered as a consequence of the exit of top producers, and the trademark agreement can be sustained if this ecology does not drive quality under a critical threshold. On this account, it is considered healthy that the trademark is open to new producers who contribute a higher-than-average quality; and depends of fixing production rules that are not so strict to exclude product innovations.

Summing up, there are three possible reasons not to be part of the trademark agreement at a certain moment in time:

- 1) higher-bound exit: the individual brand of a firm signals a higher quality than that of the collective trademark, therefore the firm has an incentive to leave to trademark agreement and promote its own brand name
- 2) lower-bound exit: the conditions of production of a firm are modified so that it loses its right to be part of the trademark and the loss derived from its exit are more than offset by the gains offered.

Both types of exit are present in the wine market case studied. The strategic behaviour of Gaja for his Barolo is a typical example of type 1. Experimental experiences of “*Quorum*” co-branding and the innovative wine “*L’insieme*”¹⁴ are examples of type 2. As for the case of Murano Glass, given the “not protected” designation of origin nature of the collective trademark, there are not exits caused by the development of

¹⁴ See Segre (2003) for more details.

“innovative products” not respecting production standards¹⁵. Rather, the decision of delocalising the production out of the island of Murano can represent a lower-bound exit type.

The history of the trademark in Murano is still too young to observe any episode of higher-bound exit from the mark, and moreover, we cannot strictly talk of quality in the case of glass production. Anyway, the institution of the mark has involved only a partial share of the producers and notably some of the best known, historical producers, as Barovier & Toso, Carlo Moretti and Venini – the latter, formally because of his legal administrative centre in Venice - have decided not to be associated from the start. In a way, this could be conceived as an exit *at time 0*. The reason why top producers did not join the initiative from the start are contested. Barovier & Toso, for instance, explained their decision as follows: the firm “*can independently guarantee the quality and source of its creations (...) and can support its own trademark and production with specific independent marketing*”, recognising the project of the collective trademark as a valid support to those production entities on the island that only thanks to joint initiatives can promote and safeguard their market offer.

The implicit reason stated by many high reputation producers is that the collective trademark allowed many low-quality Murano glass-makers (mainly “*a lume*” producers) in the club, creating a confusion in the use of the mark between high-quality, artistic products and low-quality items sold in the mass-tourist market¹⁶.

It may actually be argued that the institution of the collective trademark, rather than loosening the competitive environment, “institutionalises” these tensions: even a copied product gets a trademark, provided it is produced in Murano, and there is no way to detect and sanction forgeries through an origin trademark. In these circumstances, glass entrepreneurs feel reluctant to join in the trademark club, as they believe that their creative efforts would benefit others, who may achieve “approved” commercial, or because they think that their product could be confused with other low-quality products.

¹⁵ The introduction of the use of machines and glue in glass production, which was originally seen as a serious flaw, is today widespread and is not sanctioned under the trademark regulation.

¹⁶ It could still be argued that if this is the case, and if the objective of the trademark agreement would be to unite a number of producers as large as possible, an effort could have been done to revise the criteria of inclusion in the mark. However, it is hardly credible that the mark would have been instituted ignoring beforehand which producers would have joined. This lets one think that there are other non-stated reasons for some of the top producers not to be a part of the trademark agreement, which, bluntly put, is that these do not meet the requirements to adhere to the club as far as the production location is concerned. In this way they anticipate a refusal that would damage their individual reputation, maintaining instead their aura of *Muranese par excellence*.

Apart from these speculations, the indisputable fact is that the attitude of the top producers does not allow Murano glass production to evolve towards more flexible, modern organisation that is necessary to face the crisis and the pressure from international competition. They are still adhering to a “fordist” hierarchic model with a few leading producers with access to international markets and a large number of follower producers. However, this vision does not hold anymore in a scenario in which flexible specialisation can be pursued by flat organisational models characterised by a network of peer producers. Unable or unwilling to re-model their operation so as to fit the new structure, the top producers wait and see, but the danger is that without their critical mass in terms of market shares, the bases for the new model - and its endogenous institutions like the trademark - will be weak and therefore downplay the general productive climate in the island.

As far as lower-bound exit is concerned, there has indeed been a certain delocalisation of glass production (or parts of it) to other more accessible areas (like in the Mainland of Venice), which implies for the delocalising producers the loss of the faculty to use the trademark. However, in general, the gains to be achieved are minimal. If a problem could be envisaged, is that potential new firms could not easily find place in the island to set up their own furnaces. Even the unused furnaces are owned by incumbents, who would not sell out to potential rivals. In this situation, newcomers - who could provide a healthy ecology to the cluster - are forced out of the island and therefore have to give up the use of the mark whatever the level of quality that they were prepared to serve; at that point, left without the use of the trademark, these producers have an incentive to supply low quality.

This argument casts some doubts on the equity of the mark, as well as on its effectiveness as a protective tool. In particular, the cost of the stamp is seen as excessive especially for those low-end “*lume*” products that are sold for 5 to 10 €. Most “*lume*” producers evaluate the advantages expected from the mark against its cost, and decide not to mark their pieces. The cost of the stamps has been calculated on the basis of average prices, but it is clear that producers for whom the mark-up is higher have less convenience to adhere to the trademark; on the other hand, their pieces are those that sell best on the tourist market, and therefore they are important for the diffusion of the knowledge of the mark. Fixing the cost of the mark as a percentage of the sale price of the pieces could achieve a better outcome.

7. Conclusions and policy suggestions

This study has analysed the implications of the collective property rights in the wine market of the Langhe Region, and of the Regional Law establishing the “Vetro Artistico di Murano” trademark.

Most of local stakeholders would agree that Murano glass must be protected and defended, just as consumers, often the victims of misleading sales or outright frauds. However, - within a general positive judgment expressed by glassmakers about the effectiveness of the trademark project and the potential it undoubtedly offers - some of the biggest companies producing Murano glass, do not adhere to the initiative at the moment. Similar to this, is the finding that in the Langhe wine production, Gaja, one of the most important producer, recently decided to produce some important wine types without the protected designation of origin.

The research took into consideration the structure of incentives and expected benefits that are guiding the strategic decisions on trademark membership, describing the dynamic process of trademark membership. Firms adhere to the mark if they see an advantage over the individual brand. The dynamic relation between individual brand and collective trademark is such that the individual producer of high quality can be led to exit the trademark if the reputation of the individual brand increases more than that of the collective mark. The average quality served by trademark producers is lowered as a consequence of the exit of top producers, and the trademark agreement can be sustained if this process does not drive quality above a critical threshold. On this account, it is considered healthy that the trademark is open to new producers who contribute a higher-than-average quality; and depends of fixing production rules that are not so strict to exclude product innovations.

As for the Murano case in particular, the result of this study is that the trademark agreement, based on geographical origin rather than on technical specifications of the production, as well as the peculiar structure of the glass filière, with large shares of the production being sold in markets with strong tourist presence, over which manufacturers have no control, are likely to hamper dramatically the effectiveness of this instrument. Our analysis points at a number of ways out of this situation.

Though the introduction of the trademark in Murano is too recent to observe any structural change or signs of recovery in the performance of the cluster, the future of the trademark looks grim. The main reason is that the trademark does not intervene in the most problematic aspect of Murano artistic glass production: the lack of empathy

among producers within the cluster, which prevents a solid reputation for the trademark from being built and its validity to involve also the dominating actor in the process of bringing glass to the market, that is the retailers on the tourist market.

This outcome also depends on a certain ambiguity in the real goal of the introduction of the trademark. The stated objective is to protect quality, by limiting the information asymmetries that give a market advantage to fakes and forgeries, and in this way establishing a reputation for high quality through consumer satisfaction. The second, unofficial but certainly present in the mind of the institutions and the stakeholders that supported the establishment of the mark¹⁷, is to protect Murano as an industrial settlement, which is increasingly in danger face to pressure of globalisation, and its community.

The problem is that these two objectives are largely inconsistent. Murano's industry and social fabric could be saved from erosion if some form of entrepreneurial empathy would be established, but the mark and other institutions like the Glass School is clearly not sufficient to achieve this objective, or rather, it could produce the opposite effect, institutionalising lack of trust and cooperation between producers, because even copied products are rewarded a trademark provided they are produced in Murano.

An alternative way to promote quality and build a reputation in the tourist market could be to allow in the trademark agreement firms that do not produce in Murano but respect the traditional methodology and supply high quality products. While a some "insiders" argue that moving the production out of the island would trigger a process of export of tacit knowledge that in the end would determinate the death of the island, we are prone to believe otherwise. Breaking the "capacity bottleneck" of the island would have the effect of inundating the foreign markets and the prices would be driven to levels acceptable even to most tourists. This process could ultimately push producers to see the advantage from supplying quality even to an uninformed market, and to join forces in local marketing and retail operations, re-introducing a rationale to modernise the Muranese entrepreneurial structures and to build the bases for the future of the island; not out of a top-down approach to institutional planning but out of spontaneous initiative and convenience. This could go together with the extension of the use of the mark to retailers. If, instead, the evolution of tourism dynamics - ccording to the vicious circle model studied by Russo (2002) - prevails as the driving force behind glass production, the destiny of the island is bleak.

¹⁷ Reference to Murano as a productive settlement to be defended is explicitly done in the new strategic document endorsed by the Region.

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