



## Full Length Research Article

### **PDO AND PGI HARMONIZATION BETWEEN TRADE AND BARRIERS: AN EXAMPLE OF EUROPEAN INTEGRATION IN PRE-CANDIDATE COUNTRY**

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#### ARTICLE INFO

##### **Article History:**

Received 06<sup>th</sup> September, 2015  
Received in revised form  
18<sup>th</sup> October, 2015  
Accepted 03<sup>rd</sup> November, 2015  
Published online 30<sup>th</sup> December, 2015

##### **Key Words:**

Europeanisation,  
Integration,  
PDO, PGI,  
Food and wine.

#### ABSTRACT

The objective of this work is to examine the harmonization mechanism through the creation process of a new food and wine law in Bosnia and Herzegovina, combining domestic wine regulations and European legislative frameworks. The aim is to understand the genesis of the conflict that hinders the development process and represents a barrier to trade liberalization. This paper analyzes criteria and implications of Europeanization and integration process, focusing on mechanism of assistance to pre-candidate countries. The EU's model of quality food legislation (PDO and PGI) is taken as example. The adaptation which institutional structures and the arrangement between economic units that governs the way in which these units can cooperate and/or compete, is shown in this present paper. The result is an increase in social interactions uncertainty. The advantage of EU guarantee and the relationship of transaction costs and benefits in rights of property of integration seem to be not really clear to understand.

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#### INTRODUCTION

Bosnia and Herzegovina BiH is a potential candidate country for European Union (EU) accession following the Thessaloniki European Council of June 2003<sup>1</sup>. The paper analyzes the mechanism of Europeanisation and integration in BiH and the creation of Product designation of Origin (PDO) and Product Geographical Indication (PGI) laws combining domestic regulations and EU legislative frameworks (Gaeta *et al.*, 2012).

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<sup>1</sup>The Thessaloniki European Council in June 2003 reiterated its determination to fully and effectively support the EU perspective of the western Balkan countries, which would become an integral part of the EU. The "Thessaloniki agenda for the Western Balkans: Moving towards European Integration" enhanced the stabilization and association process with elements from the enlargement process as twinning, allowing participation in selected Community programmers and EU partnerships (Moussis, 2007).

The wine sector and its legislation will take as case study. This paper focuses on mechanism for assistance to potential candidate countries as BiH with the aim to understand the genesis of the conflict that slows down the development process and represents a barrier to trade liberalization. General objectives regards the harmonization in accordance the EU regulations, of the *Acquis Communautaire*, creating the legal basis necessary for establishing a unified and efficient system of control mechanisms and quality rules.

BiH has made limited progress in aligning its legislation and policies with EU standards. The major problems encountered are reported and implemented from the legal framework of existing EU Regulations. The basic issues are discrepancies between its provisions and non-existence of implementing measures, instruments and structures which can ensure its efficient implementation. Implementing legislation for agriculture sector was adopted even if there has been no progress on setting up the state level Ministry of Agriculture<sup>2</sup>. Adoption of a PDO and PGI law in BiH, as well as ordinances and regulations for its implementation and enforcement is a precondition for harmonized legal framework and domestic

<sup>2</sup> Extract from the Communication from the Commission to the Council and the European Parliament "Enlargement Strategy and Main Challenges 2010-2011", COM (2010)660 final.

rules. It will also contribute to overcome some of the face trade problems. The almost absence of a food and PDO and PGI wine law prohibiting the production of wine based on imported grapes, except for table wines without geographical origin, makes it possible to increase the import of cheap grapes that are burdened by non-tariff restrictions.

### The process of European Integration and harmonization

The Europeanization is often depicted as "interaction between the national and the European levels" (Risse *et al.*, 2001); as "a merger of the top-down and bottom-up perspectives" (Börzel and Risse, 2003). The most popular and complete is tied to Radaelli (2000) that defines Europeanization as "processes of (a) construction (b) diffusion and (c) implementation of formal and informal rules, procedures, policy paradigms, styles, "ways of doing things," and shared beliefs and norms which are first defined and consolidated in the EU policy process and then incorporated in the logic of domestic discourse, identities, political structures and public policies". Europeanization gradually associated with the enlargement of the EU to the East with the collapse of communism and post communist convergence.

Olsen in 2003, defended Europeanisation as exporting forms of political organisation and governance that are typical and distinct for Europe beyond the European territory – this supposes taking into account the relations, the links with non-European actors and institutions and how the EU manifests itself in the international arena. The Europeanization literature is relevant in Candidate Countries of Central and Eastern Europe (CEE). A good overview of this study is provided by Grabbe (2002) that focusing on one powerful Europeanisation instrument, suggests that "membership conditionality gives the EU significant leverage in transferring to the applicant countries its principles, norms, and rules, as well as in shaping their institutional and administrative structures".

The EU has simultaneously pursued integration and enlargement, increasing from 6 to the present 28 Member States and from a population of less than 200 million to more than 500 million people. Currently, the EU is dealing with 5 candidate countries (Croatia, the former Yugoslav Republic of Macedonia, Iceland, Montenegro and Turkey) and 4 potential candidates (Albania, BiH, Serbia and Kosovo)<sup>3</sup>. The basic conditions for enlargement are laid out in articles 6 and 49 of the Treaty of EU. A European State which has applied to join the Union can become a member only when it has been confirmed that it meets the membership criteria agreed at the Copenhagen European Council in June 1993. These criteria relate to the stability of institutions guaranteeing democracy, the rule of law, respect of human rights and respect protection of minorities. The development of the economy must be sufficient to withstand the competitive pressure in the internal market, and ability to assume not only the rights but also the

obligations under the Treaties<sup>4</sup>. The Copenhagen criteria include the whole range of policies and measures that constitute the *acquis communautaire* of the Union that candidate countries must adopt, implement and enforce. The *acquis* is constantly evolving and contains: the principles and political objectives of the Treaties on which the Union is founded; legislation and decisions adopted pursuant to the Treaties, and the case law of the Court of Justice; other acts, legally binding or not, adopted within the Union framework; joint actions, common positions, declarations, conclusions and other acts within the framework of the common foreign and security policy (etc). This requires the administrative capacity to transpose EU Community (EUC) legislation into national law, to implement it and to effectively enforce it through appropriate administrative and judicial structures. The EU Commission assists candidate and potential candidate countries in their progressive alignment with the standards and policies of the EU. The legal base for financial assistance for pre-accession is Article 212(2) of the Treaty on the Functioning of the European Union.

The Instrument for Pre-accession Assistance (IPA) represents one of the general instruments directly supporting EU External Aid policies.<sup>5</sup> This instrument will expire at the end of 2013 the EU should continue to offer candidate countries and potential candidates technical and financial assistance for their difficult situation and develop sustainably. "Future pre-accession assistance needs to be even more strategic, efficient and better targeted than has been the case so far, aiming for more sustainable results in improving the readiness of these countries for membership. The new instrument needs to operate more flexibly and to leverage more funds from other donors or the private sector by using innovative financing instruments, while pursuing simplification and reduction of the administrative burden linked to managing the financial assistance"<sup>6</sup>. The assistance for all candidate supports a wide range of institution-building measures.

The difference is made between candidate and potential candidate countries. On the one hand it supports them in their efforts to strengthen democratic institutions and the role of law, reform public administration, support the development, cooperation and reconstruction. On the other hand, Community assistance contributes to sustainable development and poverty reduction in all these countries. Assistance for candidate countries additionally focuses on the adoption and implementation of the full *acquis* and prepares candidate countries for the implantation of the Community's agricultural

<sup>3</sup> European Commission Proposal for a Regulation of the European Parliament and of the Council on the Instrument for Pre-accession Assistance (IPA II). Brussels, 7.12.2011 COM(2011) 834 final.

<sup>4</sup> The accession process is based on objective criteria and the application of the principle of equal treatment of all applicant countries. Progression towards accession depends on the capacity of the applicant country to undertake the necessary reforms to align its political, institutional, legal, administrative and economic systems with the rules, standards, policies and practices in the Union.

<sup>5</sup> European Commission Proposal for a Regulation of the European Parliament and of the Council on the Instrument for Pre-accession Assistance (IPA II). Brussels, 7.12.2011 COM(2011) 834 final.

<sup>6</sup> Proposal for a Regulation of The European Parliament and of the Council on the IPA (II), Brussels, 7.12.2011, COM(2011) 838 final 2011/0404 (COD)

and cohesion policy. IPA<sup>7</sup> is programmed according five components as 1) Transition assistance and Institution Building; 2) Cross-Border Cooperation; 3) Regional Development; 4) Human Resource Development; 5) Rural Development. The first two components are accessible to all beneficiary, the others are accessible only to candidate countries. For example, the IPARD programmer or Instrument for Pre-Accession Assistance in Rural Development are provide assistance for the implementation of the acquis concerning the Common Agricultural Policy (CAP) and contribute to the sustainable adaptation of the agricultural sector and rural areas in the candidate country<sup>8</sup>. Exceptional trade measures were introduced for western Balkan countries to promote stability, security and prosperity trough progressive integration into an EU mainstream. In 2008, EU Council reiterated its commitment to fully and effectively support the EU perspective for the Western Balkans<sup>9</sup>.

### Political issues of integration in the Balkans area: the case of BiH

BiH, one of the sovereign republics that constituted the former Socialist Republic of Yugoslavia, is located in the western part of the Balkan Peninsula. BiH was formed from two historical regions: Bosnia in the north, with Sarajevo as its chief city<sup>10</sup> (with an estimated population of 308,558 and 530,000 pre-conflict) and Herzegovina in the south, with Mostar as its chief city (with a population of approximately 100,000). Before the breakup of Yugoslavia in 1991, BiH was one of Yugoslavia's six republics (Arcotrass, 2006; Gaeta et.al 2012). The complicated political arrangements agreed to at Dayton Peace Accords (DPA) put an end to the 1992-1995 devastation war and brought peace and stability to BiH gave a large amount of autonomy to the entities, designed a power-sharing arrangement for the whole country and allowed local communities a wide range of governmental functions.<sup>11</sup> The DPA established three entities, Bosniak/Croat Federation (FBiH) (about 50 % of the territory) and the Bosnian Serb-led Republika Srpska or RS (49 % of the territory). Brčko District covers around one percent of the total territory.

<sup>7</sup> The EU Commission Communication of June 2011 "A budget for Europe 2020" proposed to allocate an amount of 14 110.100.000 euro to the new Instrument for Pre-accession Assistance for the period 2014-2020.

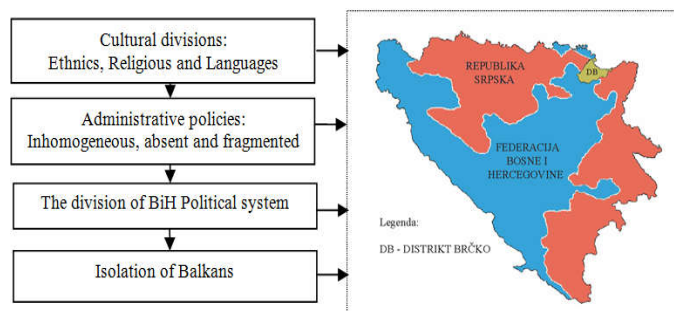
<sup>8</sup> These aims are to be met by implementation of 9 different measures under 3 priority axes: first for improving market efficiency and implementing community standard; secondly are preparatory actions for implementation of the agri-environmental measures and Leader; thirdly for rural economy development.

<sup>9</sup> The EU Commission reported on progress made in the candidate and potential candidate countries in its enlargement strategy papers of 2006 and 2007 - COM(2006) 649, 8.11.2006, and COM(2007) 663, 6.11.2007.

<sup>10</sup> Sarajevo is also the capital of the Federation of BiH and center of the Sarajevo Canton.

<sup>11</sup> However the BiH Constitution, which is contained in Annex IV to the DPA, established a complex institutional architecture, which remains inefficient and is misused. *Commission staff working document, BiH 2010 Progress Report. Brussels, 09 November 2010 - SEC (2010) 1331.*

Ethnic differences primarily arise from religious differences. Religious have historically played a vital role in the feeling of belonging to a community. The Bosniaks are Islamic called Muslims in their common language. Serbs' groups are Orthodox and Croats' are Catholics. After fifteen years of the war, the country remains divided. Figure 1.1 represents mainly BiH problems that condition Europeanisation. The feeling of membership is primarily based on ethnicity. Serbs and Croats do not feel connected to the Bosnian state: their first loyalty must be to respective national communities and local administrative structures created along ethnic lines. Only the Bosniak community, that not having a homeland which reference, considers it important united and multiethnic BiH (Arcotrass 2006; Gaeta et.al, 2012).



Source: Gaeta et al., 2012

**Fig. 1.1. BiH Integration: political and social conditioning**

The collapse of the Yugoslav state and the conflicts that followed triggered a series of processes which have exacerbated the differences. A typical example is offered by the language definition. From a point of view grammatical and idioms spoken in Bosnia, Croatia, Montenegro, Serbia may be considered variants of one language as Serbian-Croatian. Ethnic nationalism has led each group to claim their own language. Consequently Bosnia has three officers' languages: Bosnian, Serbian and Croatian (Gaeta et.al, 2012).

This logic of ethnic division also characterizes the legislative power and administrative structure. The Parliament is made by the House of Representatives and the House of Peoples, with the same powers. The legislative process expected to be adopted laws must receive the consent of Parliamentarians from both entities. In addition, each of the three constituent groups can prevent the adoption of a measure calling for the preservation of their own "national life interest". It is sufficient that the majority of MPs of a constituent people is ruling against the draft legislation to prevent its approval.

The Bosnian political system is dominated by two main factors: a structural tension between central institutions and territorial institutions. The result is that the activities of central bodies are hampered by a series of constraints and decision-making processes are longer and may influence the Europeanisation (Gaeta et.al, 2012). The Bosnian's entity sees the existence of Republika Srpska as a result of ethnic cleansing committed during the war. They accepted only because it forced the Dayton Accords. The President and the Bosnian Muslim representative in the tripartite have often called for the abolition of the Serb entity.

BiH is one of the few countries that do not have a state-level ministry responsible for issues related to the development of agriculture, food and rural development. Within the Ministry of Foreign Trade and Economic Relations (MoFTER), the Department of Agriculture is responsible for the sector policies. The role of MoFTER is to coordinate the activities of the entity ministries and coordinate activities with the EU.

Under this constitutional construction BiH is a sovereign state, with a decentralized political and administrative structure. Each of the entities has its own parliament and government with wide-ranging powers. Most powers are vested in the entities; the central government has responsibility for foreign policy, foreign trade, and monetary policy. The Federation is further divided into 10 cantons, each of which has control of policy in areas. Decisions of the central government and parliament are nominally taken by a majority, but any of the three main ethnic groups that can block a decision if it views it as against its vital interests. Actually, there are three “agricultural ministries” (one for each entity) unconnected. The complex structure of governance system remains a key challenge in ensuring equal realization of rights that would contribute to reduction in social exclusion, child poverty, discrimination and inequalities.<sup>12</sup>

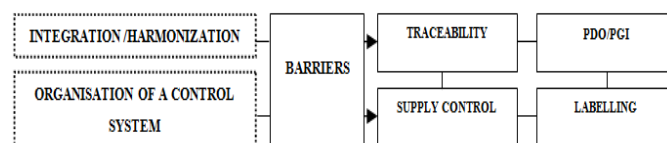
Generally speaking (increases the risk of making mistakes) in BiH, two entities are mostly divided on the possibility of access. On the one hand, catholic’s and orthodox entity sees the possibility of EU access as a condition for development and gaining for the State, on the other Muslim’s entity are against seeking and gaining to access. The result generates conflicts and internal divisions. In the absence of a state ministry responsible for the common or horizontal framework conditions for agriculture and wine sector, different entity and cantons regulations cause un-harmonized and uncertainty (Gaeta et.al, 2012).

### PDO: an example of EU harmonization in BiH

European policy of quality in the food began in early 1960 with the adoption of the first directives “horizontal” on additives. Community action has followed for the years 1960 and 1970 with the publication of sectoral directives, as part of a policy of “vertical” harmonization. As part of the common organization of agricultural markets, a series of regulations on food quality has been enacted (Peri and Gaeta, 2000). In the current EU legislation, certification schemes for agricultural products and foodstuffs, provides assurance (through a certification mechanism) that certain characteristics or attributes of the product or its production method or system, laid down in specifications, have been observed. They cover a wide range of different initiatives that function at different stages of the food supply chain and products harmonization (covering all or part of the food supply chain; affecting all

sectors or just one market segment, etc.)<sup>13</sup> During the soviet regime period, in the Balkans area, high protection barriers against foreign trade were introduced that had constrained development and international competition. Higher level of fiscal barriers, customs barriers acted and administrative barriers as complicated bureaucratic procedures or technical and represented the zero point in the scale of multinational integration. As discussed above, the major problems encountered are implemented in the legal frameworks of EU integrations. The problem is clearly still unresolved among governments, institutions and regulators (Gaeta et.al, 2012).

The main issues to solve are a mirror of the wider political items reflected in the example of PDO/GPI regulation as show in figure the figure 1.2. The genesis of this law is complex. BiH, as a pre-candidate country, cannot take full advantage of IPA support. The alignment could be following two main areas of intervention: first area called traceability (with PDO and PGI rules) represents all the procedures for registration and declaration of vineyards areas, annual production of grapes and wines, certification and verification of properties (chemicals, physicals and organoleptic) and institutions authorities with the EU criteria for sanctions and responsibilities. Second, focus on supply control of wine-growing thought inventory of their production potential and labeling that can be used in accordance with the EU provisions to allow the trade inside and outside the EU.



Source: Gaeta et al., 2012

Fig. 1.2. The integration's issues of BiH PDO/PGI products

### Products traceability: barriers and integration

The creation of a single Community market involves the introduction of a trading system at the external borders of the Community. Within the World Trade Organization (WTO), traditional trade barriers such as tariffs are steadily being reduced, while food safety standards, regulations related to traceability, product certification, environmental standards and other regulations are increasing. The creation of a single EU market involves the introduction of a trading system at the external borders of the EU (Moussis, 2007). It includes import duties and should, stabilize the market. The trading system should be based on the Community's international rules, particularly those arising from the agreements of WTO. However, a great number of trade barrier were hidden in regulations, such as consumer or environment protection standards, which varied from a State to another. Their restrictive effects were often more damaging than customs duties and quantitative restrictions. The establishment of the common market first required the elimination of all import and export duties existing between Member States (Swinen and Vandemoortel, 2009).

<sup>12</sup> IPA National Programme 2010 – Bosnia and Herzegovina Fiche 2 “Social Protection and Inclusion III”[http://ec.europa.eu/enlargement/pdf/bosnia\\_and\\_herzegovina/ipa/2010/part1/pf\\_02\\_ipa\\_2010\\_social\\_inclusion\\_final\\_eud\\_en.pdf](http://ec.europa.eu/enlargement/pdf/bosnia_and_herzegovina/ipa/2010/part1/pf_02_ipa_2010_social_inclusion_final_eud_en.pdf)

<sup>13</sup> Commission Communication - EU best practice guidelines for voluntary certification schemes for agricultural products and foodstuffs (2010/C 341/04).

In order to preserve the particular characteristics of food and wine products with a designation of origin, each European Member States allow applying more stringent rules. For example, labeling and presentation shall be done in accordance with general horizontal rules on labelling and presentation of food products. The labelling of agricultural products and foodstuffs is subject to the general rules laid down in Directive 2000/13/EC of the European Parliament and of the Council of 20 March 2000 on the approximation of the laws of the Member States relating to the labelling, presentation and advertising of foodstuffs. In view of their specific nature, additional special provisions should be adopted for agricultural products and foodstuffs from a defined geographical area requiring producers to use the appropriate Community symbols or indications on packaging. The use of such symbols or indications should be made obligatory in the case of Community designations, on the one hand, to make this category of products and the guarantees attached to them better known to consumers and, on the other, to permit easier identification of these products on the market so as to facilitate checks.

The concept of quality wines in the Community is based, on the specific characteristics attributable to the wine's geographical origin. PDO and PGI refer to the geographical names and the geographical qualifiers corresponding to the regions of production, used to designate the wines referred to in regulation, whose characteristics depend on the natural conditions, correlated to its viticulture characteristics (Gaeta and Corsinovi, 2014). Therefore, to distinguish within the category of wines without PDO/PGI, those which fall under the category of varietal wines from those who do not benefit from this openness, there should be specific provisions for the use of optional, applicable on the one hand PDO and PGI for wines and other wines without<sup>14</sup>. Article 52 (1),(2) of Regulation (EC) No 607/2009<sup>15</sup> said that products whose label or presentation does not conform to the corresponding conditions as laid down in this Regulation cannot be marketed in the Community or exported. Where the products concerned are to be exported, Member States may allow that particulars, which conflict with labelling rules as provided for by Community legislation, appear on the label of wines for export, when they are required by the legislation of the third country concerned. One of the BiH's problem concerns the products traceability from the vineyard to the final product to support the production of quality wines. Exports to neighboring countries are burdened by non-tariff restrictions. The problem for exporters to the Croatian market is that all

wines imported must pass an organoleptic sensory assessment. The organoleptic analyses are carried out by trained and authorized assessors. Following this assessment, exporters may be requested to reduce of the quality category of the wine (Gaeta *et al.*, 2012). In such cases, importers are forced to attach labels on top of the original labels (such as quality wine). Other issue is the current illegal and uncontrolled import of grapes and wine from Macedonia. Some un-registered wine makers in BiH are using such products, which are ending up in bottles with fake labels, indicating that the wine is domestic and made from domestically grown grapes. In order to provide for a satisfactory level of traceability of the products concerned, in particular in the interest of consumer protection, provision should be made for the entire product covered by EU Common Market Organization (CMO) regulation to have an accompanying document, especially when circulating within the EU Community.

Taking into account the differences between products covered by the CMO wine and their markets, it is necessary to differentiate the products according to the rules, particularly as far as certain optional used for wines without a protected designation of origin or geographical indication which nevertheless bear the name of the grape and the year, provided they conform to a certification authority (or varietal wines). The result is serious damage to the reputation of BiH wine and eventually a loss of the market share. For the purposes, transparency and traceability provisions should be adopted as regards the indication of origin.

#### **Governance and integration: the organization of a supply control system**

Member States shall ensure that the administration and control procedures, controls and administrative measures and administrative penalties and their reporting<sup>16</sup>, which relate to areas, are compatible with the integrated administration control system (IACS). According to Article 11(1) of Regulation 510/2006, control of compliance with the product specifications before products are placed on the market is ensured by the authorities (referred to in Article 10 of Regulation 510/2006), and/or a control body (as defined in Article 2 of Regulation 882/2004)<sup>17</sup> operating as a product certification (traceability) body. The costs of this verification are met by the producers subject to the controls. When the authorities verify compliance with the specifications, they must guarantee objectivity and impartiality, and have qualified staff and resources necessary to carry out their responsibilities (Article 11(4) of Regulation 510/2006). EU harmonization will also need to organize and manage institutions that control of rules application and uniform system of rules and product that the new approach requires. In order to prevent distortions of competition, checks should be carried out on an ongoing basis by independent bodies.

<sup>14</sup> PDO wines can include on the label the vine varieties or their synonyms, specific mentions, reference to particular vinification techniques and specific qualifications of the product. PGI wines can use in their labeling an indication to the vine varieties or their synonyms and to the color of the wine as long as such indications are foreseen in the production protocol.

<sup>15</sup> Commission Regulation (EC) No 607/2009 of 14 July 2009 laying down certain detailed rules for the implementation of Council Regulation (EC) No 479/2008 as regards protected designations of origin and geographical indications, traditional terms, labelling and presentation of certain wine sector products.

<sup>16</sup> Council Regulation No.1308/2013 establishing a common organisation of agricultural markets and on specific provisions for certain agricultural products.

<sup>17</sup> Regulation (EC) No 882/2004 of the European Parliament and of the Council of 29 April 2004 on official controls performed to ensure the verification of compliance with feed and food law, animal health and animal welfare rules.



With the aim to preserve the particular character of wines with protected PDO and GPI and to approximate the legislation of BiH with a view to establishing a level playing field for competition within the EU, should be laid down Community legal frameworks governing checks on such wines, with which the specific provisions adopted by the MS must comply. Such checks should make it possible to improve the traceability of the products in question and to specify the aspects that checks must cover. Specific rules should be established concerning the registration of designations of origin and geographical indications in BiH.

Provisions should be made concerning the condition relating to the production in the demarcated area. Within the region of production more restricted areas can exist, referred to as sub regions, having specific environmental characteristics or which are traditionally renowned, designated with a specific geographical or historic-geographic or administrative name. Insofar as they are expressly foreseen and more rigidly regulated in the relative production protocols and insofar as they are only associated to the relative denomination of origin. Reg. 479/2008 and 491/2009 explain that for a better management of wine-growing potential, it is desirable that Member States communicate to the Commission an inventory of their production potential. The information contained in it should be based on the vineyard register, which should be maintained and regularly updated. Reg.2392/86 establishing a Community vineyard register<sup>18</sup> should therefore be repealed.

According to wine regulation, the EU requires MS to keep the vineyard register in order to manage the ban on new plants, restructuring and conversion of vineyards, and denomination of origin declaration. Vineyard register is organized on a regional basis with the same rules. The inclusion of vineyards register is a prerequisite for changes to the growing potential and access to structural measures and market performance. MS shall ensure that the administration and control procedures (controls and administrative measures and administrative penalties and their reporting), which relate to areas, are compatible with the integrated administration control system<sup>19</sup>. This information is used to establish the historical yield of the vineyard. If the surface does not coincide with the definition above, the Member State may undertake a recalculation of the yield by dividing the production of farm or parcel or wine category considered for the area planted on the volume of wine produced.

<sup>18</sup> Council Regulation (EEC) No 2392/86 of 24 July 1986 establishing a Community vineyard.

<sup>19</sup> The vineyard area planted for each permit shall contain: a) identification of the conductor, list and location of the vineyard planted, replanting rights allocated but not used, replanting rights held; b) identification of the vineyard parcel, using maps or land registry, the total area of vineyard parcel may be divided by characteristics of the vineyards; area used only for production of reproductive material; surfaces with screws not yet grafted; abandoned vineyard area ; estimate of the areas corresponding to varieties of wine grapes; c) technical information, agronomic suitability productive; d) identification of natural or legal person or association to submit harvest declarations, production declaration, statement or stock declaration claim denomination of origin.

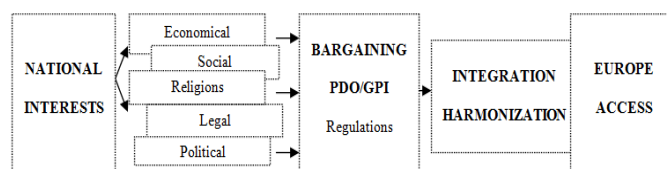
The necessary information for making the relevant policy and administrative choices is available, producers should submit harvest declarations. To ensure a satisfactory level of traceability of products, in particular for the protection of consumers, it is desirable to have all the regulated products and have circulated a document accompanying. At the same time, farmers that produce must and wine should declare their stocks of wine and must.

In BiH are mostly absent institutions that regulate and govern the areas of production; organization that control the chemical, physical and sensory analyzes of wines from these areas. Federation of BiH responsibilities for authorisation of wine trading are basically shared between cantons (quality and high quality wines) and municipalities (currently table wines). Some activities of vineyard cadastre are started up. Register of wine producers does not exist as separate register; regardless the fact that only legally registered producers (registered companies or entrepreneurs) can apply and get permit to trade wine on year-by-year basis.

These permits are issued on the basis of laboratory analysis and comparing of those results with the product specification which is kept by the institution authorised for issuing permits for trading the wine. Control in the wine sector should be done by agricultural and trade inspections which, themselves, have lack of capacities. Each of the critical issues above is an absolute requirement for the EU implementation, on pain of the verifiability of the statement on the label and therefore the inability to trade with the EU countries.

## Conclusion

The case study of EU's model of PDO product corresponds to a larger problem of efficiency and equity resulting from an adaptation which institutional arrangement between economic units that governs the way in which these units can cooperate and/or compete with one another (Davis and North, 1971). The central function of a PDO and PGI product is represented from indicating the presence of a property right (encoded in a standard product or process), and since its establishment in charge of the control. This represents the form of government of the transactions, theoretically more effective, to reduce costs. These designations of origin are indeed forms of collective solutions to organizational conflicts through regulations and rules, which allow you to draw trade by reducing the cost of controlling the opportunism of the different parts (Gaeta and Peri, 1999).



**Fig. 1.3. Integration bargaining: interests, power, tactics and outcomes**

In this paper, authors have emphasized that social, economic and religious fragmentation (fig.1.3) influence and accentuate this uncertainty which finds its clearest expression in the more general question of EU integration and alignment with

standards and rules (Gaeta *et al.*, 2012). Every kind of public policy is confronted with a complexity of problems (uncertainty, asymmetric information and opportunism) that may hinder with high transaction costs, any attempt to change the “constitutional” status quo. Only when the transaction costs arising from a similar context of public policy exceeds a critical threshold, the expected benefits of an institutional change of the formal constraints may create sufficient incentives to implement policies.

The alignment of state control system on production and certification of BiH wines with denomination of origin is a perfect example. Accession to social norms and legal rules, especially if considered exogenous to Bosnian culture, represents the boundaries of “transaction” referred to the issue of control rights, and submission to a relationship of authority or, perhaps better, the decision to adopt a shared pattern of behavior (Grillo, 1995). The transaction costs that arise are related to a) the creation or change of an institution, and (b) use of an institution or organization (Furebotn and Richter, 1991). Creation, protection and reform of institutions, are associated with the first type of transaction cost. The second type of cost as the activities of trade (implicit or explicit) take place within existing organizations or institutions. In the BiH’s case, the local public decision-maker (and his role as deputy representative of the private interests of the local wine producers) seems to escape, the advantage of the accession and integration with EU standards. The property rights of political actor were reflected in the formal system of constraints (laws, contracts, etc.) and sanction mechanisms (Gaeta *et al.*, 2012)

Property rights refer to the ability to enjoy and dispose exclusively of certain scarce goods (tangible or intangible), tying individuals to other rules of conduct with penalties for non-compliance. The Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS Agreement 1994, contained in Annex 1C to the Agreement establishing the World Trade Organisation) contains detailed provisions on the availability, acquisition, scope, maintenance and enforcement of intellectual property rights. Their value is directly linked to the security of mechanisms: the recognition and guarantee by others (external control), including State’s agents, and by the holders (internal control) are decisive in determining the total of transaction costs (Eggertsson, 1996). Contrary, it seems to prevail the possibility that the choice in the direction of EU integration and its “game’s rule” can hinder the formation of a precarious, order but finally reached. The result is an increase in social interaction’s uncertainty. In conclusion, it’s not completely clear, the advantage of EU guarantee and the relationship of transaction costs and benefits in rights of property of integration (Gaeta *et al.*, 2012).

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