

The Problems of the Identical Product Name on the EU Common Agrarian Market

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Abstract. The paper deals with the current problem of agrarian sector with influence mainly to food producers. It deals with their impact on changes of agricultural producer's position in a framework of food production systems. Concretely paper deals with the problems of risk related to milk products pricing distortion due to possibility of substitution milk fat behalf vegetable fat. Together with formation of such a risk, food producers are dealing with the other problem, which is using of the similar product name on the common market of EU. Problem is currently related to using the term "spread butter", which is denoted as deceive because of harming a butter producers. There is an argument that by the influence of currently used term might be those two products consider as a perfect substitutes, between which arise an elicitation of the cross substitution effect. On the European enlarged market of the food could to several situations occur, particularly if there is an offer of the products of the similar, or even the same product name. This is very often visible on the EU common market, this naturally cause problems especially if the composition of the product and the production technology are completely different. The solution of this problem is linked to the question of the economical substitution, which is usually related to completely different products. This brings about damage to food producers on the first side, and also a deception of consumer on the second side. The example of such as situation is currently visible on the European dairy market, concretely in the case of dairy products. In this article will be explained the situation linked to problem of the Czech producers of "Spread butter", which is a traditional Czech product and the producers of the "Traditional butter". European Commission ruled in producers of "Traditional Favour" favour, which means that it will be no longer possible to sell products, with lower than 39% of milk fat, under the product name "butter". From the economic theory is well known [3] GRAVELLE, that substitution effect describes the effects of changes in relative prices on consumption. According to the substitution effect, an increase in price of one good causes a buyer to buy more of the other good, since the first good has become relatively expensive, and vice versa. The buyer substitutes consumption of the second good for consumption of the first. Therefore even a small price change could cause a significant change of the optimal combination in the terms of the quantity of the both commodities (in our case spread butter and traditional butter).

Keywords: Cross substitution effect, retail price, butter, spread butter, agribusiness

1. Introduction

On the today's globalized markets, we may notice many situations, when the different products are on the counters sold under the identical name. The problem is that in many cases composition and technology of such as products are considerably different. Towards the solution of this economical issue is linked the question of the substitution, which occurs often

between completely different products. Thereby comes about harm producer's business interests on the first side, deceiving of the consumers on the second side. We may touch on this problem very often on the EU common market. There are many well known cases, which were solved in the recent time within the bounds of EU law, as most popular become: French companies Comité Interprofessionnel du Vin de Champagne and Veuve Clicquot Ponsardin SA versus Belgian De Landtsheer Emmanuel. The french wine producers ware against unfair product name of the Belgian beer called 'Malheur Brut Réserve' and advertisement slogan: 'first BRUT beer in the Word'. Italian Tocai wine producers versus Hungarian Tokaji wine producers, Romanian spirit producers called 'Palinka' versus Hungarian spirit producers of the similar product name 'Palinka', the Czech liquor producers made the product called 'Rum'. The problem was that the Czech 'Rum' was made from the potato instead of sugar cane, which was unacceptable in terms of EU law. This article is focused on specific case influenced the Czech butter producers. The EU commission prohibited a usage of the name 'spread butter'. The main reason was substantially lower content of the milk fat in the "spread butter" in comparison with butter. 'Spread butter' was traditional Czech product not well known on the EU markets. After the accession of the Czech Republic to the EU and ensuing opening the EU markets, increased the threat of the mentioned substitution effect mainly for the European butter producers and deception of consumers. From this reason the EU commission decided in favour of butter producers. Under the trading name 'butter' is no more possible to sell product containing less than 39 % of milk fat on the EU market. 'Spread butter' contains only 31 – 34 % of the milk fat. However, the change of the trade name means additional costs for the Czech 'spread butter' producers to new packing, new trade name creation and enrolment in the trade chains etc.

2. Objective and methodology

The objective of the paper is to characterize the wide coherences of the substitution problem in scope of milk products, concretely in the case of the 'butter' and 'spread butter'. Simultaneously, to specify the influence of the consumer price change on the case of 'butter' and 'spread butter' after the accession of the Czech republic to the EU. Methodologically is analyse based on the comparison of development the consumer price of the both investigated products. Basic terminus a quo comes out from the theory of agribusiness they are applied on the models of consumer price level development of selected milk products with the connection to 'butter' and 'spread butter'. Analyses comes from the processed data of 'ČMSM', about the consumption of both investigated product, the data from the Ministry of Agriculture of the Czech Republic and The Czech Statistical Office about the monthly development of consumer prices in the period of 2000 – 2006.

3. Results and discussion

If we take into consideration, that the use of the word 'butter' as a trade name of the product with less share of the milk fat and the different composition, leads to significant harm of 'butter' producers. From this reason is important to deal with issue of cross substitution effect. In this case it's about two goods, which could be considered by consumer as perfect substitutes. As is well known from the economic theory [3] GRAVELLE, in the case of substitutes it is possible to replace the good this way. A change in the price of one of the goods is a significant impulse to replace more expensive good for a good relatively cheaper. In the case of good which has a close substitute, will occur substantial substitution effect. It means in terms of substitution effect itself, but also in terms of cross substitution effect. Therefore, even a small price change induces a significant change of the optimal volume combination of good X and Y. Where are consider perfect substitutes viz. Figure 1a to, how far good can be each other replaced, than indifference curves are straight lines. At this case the product called 'spread butter' can't replace in fact the 'butter'. 'Spread butter' can't be used for heat cooking etc., from this reason 'spread butter' can replace 'butter' only partially, this is truth conversely as well. Therefore, this two good could be called as imperfect (common) substitutes. In the

case of common substitutes is possible to determine an optimal combination of good X and Y by the usual method viz. Figure 1b.

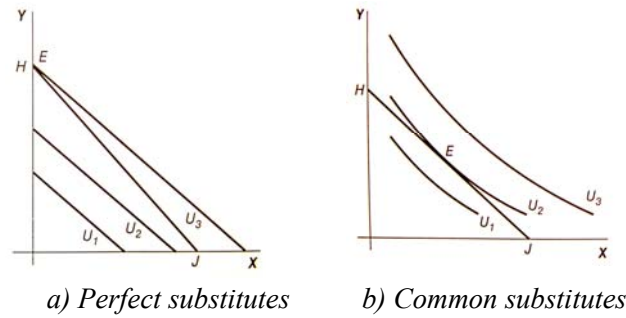


Figure 1. Good X and Y are substitutes

Resource: GRAVELLE, H. -- REES, R. *Microeconomics*.

There are already products on the market on the base of vegetable fat, which become a competitor to 'spread butter'. An important notice is that such as products made from the vegetable fat aren't sold under the trade name including the word 'butter'. The cross substitution effect viz. Figure 2 represent, how the change of the price rate lead to substitution of more expensive good for cheaper one. This effect is for the common twosomes of good positive (price increase of a good Y cause the rise of demand for a good X). This result from the condition of equality MRS. For the substitutes holds true, that the total effect of the price change remain positive. Purchase volume of the good X with the growth of a good Y rise: $TE > 0$.

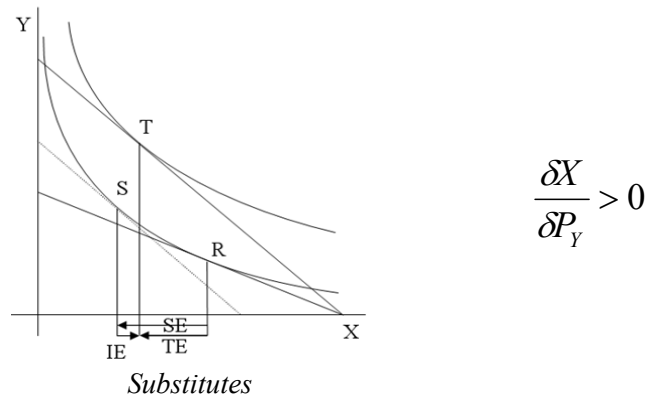


Figure 2 Cross substitution effect

Resource: GRAVELLE, H. -- REES, R. *Microeconomics*.

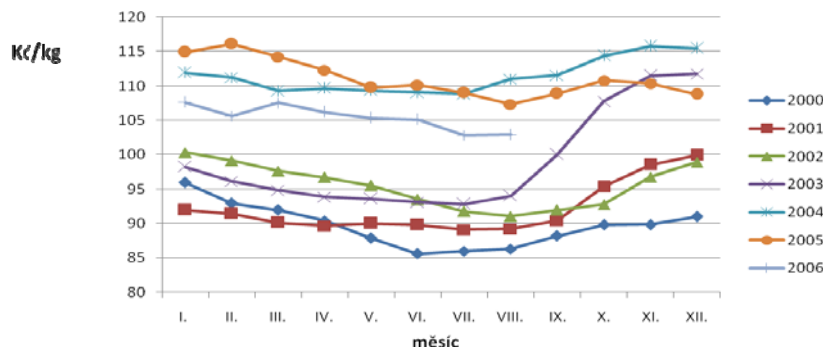
The choice of optimal combination follows from the indifference curves and the line of the budget. In the case of perfect substitutes only the small price change induces the transition to the second good. According to [7] MZe, after the accession of the Czech Republic to EU, increased annually the price of animal fats. On the beginning of year 2005 the consumer prices of butter significantly increased viz. Graph 1, however consecutively this prices were reduced. In component months of the year 2006 were the consumer prices of 'butter' even under the consumer prices of the component months of the year 2005 approx. by 9 %. Consumer price of 'spread butter' has been not significantly influenced by the accession of the Czech Republic to the EU. From the table 1 is obvious the opposite development of the consumer prices development of 'spread butter' in compare to 'butter'. In component months of the year 2005, were the consumer prices above the level of individual monthly prices of the year 2004. In the first phase of the year 2006 were the consumer prices of 'spread butter' slightly under the level (compare to consumer prices of the previous year). Since the April 2006, the consumer prices significantly increased, in June 2006 even by 3 %.

Table 1. Fresh butter – the development of consumer prices

Y./M.	I.	II.	III.	IV.	V.	VI.	VII.	VIII.	IX.	X.	XI.	XII.
2000	95,97	92,93	91,97	90,38	87,87	85,61	85,99	86,32	88,21	89,8	89,84	91
2001	91,96	91,41	90,15	89,63	90,03	89,82	89,12	89,23	90,4	95,34	98,52	99,96
2002	100,32	99,15	97,64	96,72	95,53	93,5	91,76	91,04	91,94	92,76	96,75	98,94
2003	98,21	96,11	94,83	93,84	93,57	93,09	92,85	94	100,03	107,76	111,51	111,77
2004	111,91	111,23	109,25	109,65	109,32	109,07	108,84	110,99	111,53	114,41	115,79	115,48
2005	114,94	116,14	114,23	112,31	109,77	110,15	109,01	107,32	108,88	110,77	110,35	108,8
2006	107,59	105,59	107,55	106,22	105,35	105,14	102,8	102,89	102,4	-	-	-

Resource: ČSÚ from [7] MZe. Situation and prospect report milk 2006

Nevertheless, in September 2006 were the consumer prices lower, than in the previous period of the year 2005. Relatively stable price of the 'spread butter' is also influenced by the price of the inputs. The basic inputs to production of 'spread butter' are: cream, milk powder, potato starch, salt, whey powder and cream culture. To produce 'spread butter' is not necessary to much cream as for the production of the 'butter', production of the 'spread butter' is not dependent only on cream. However, for the production of 150g of the 'spread butter' is needed three times more of cream, than for the production of the same amount of the cream yoghurt. From this reason could be expected the increase of the 'spread butter' price, due to cream price increase. 'Butter' is not able to compete in terms of price to the 'spread butter', because it's produced only from the cream (there are on the market also 'butters' with the vegetable fat addend). 'Butter' is product made by churning fresh or fermented cream or milk, it is an emulsion of milk fat, water and milk proteins, which contains approx. 80% of fat.



Graph 1. Fresh butter – development of the consumer prices

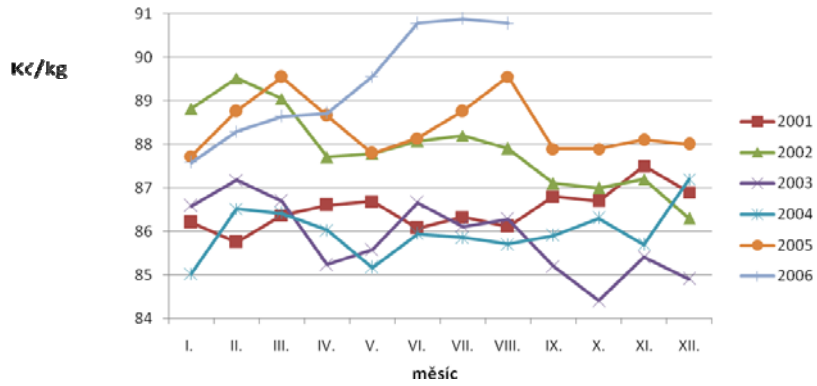
Resource: ČSÚ from [7] MZe. Situation and prospect report milk 2006

In the Czech Republic remains annual increase of the 'spread butter' consumption. This trend is caused by the increasing demand for the milk products viz. graph 3, also by the stable price or the products with lower content of the milk fat. Due to increase of the milk fat the prices of vegetable fat are also increasing. Many producers are using this vegetable fat as a complement to their production to lower their production costs.

Table 2. 'Spread butter' – development of the consumer prices

Year/Month	I.	II.	III.	IV.	V.	VI.	VII.	VIII.	IX.	X.	XI.	XII.
2001	86,21	85,75	86,37	86,6	86,69	86,07	86,33	86,11	86,8	86,7	87,5	86,9
2002	88,82	89,52	89,05	87,71	87,78	88,08	88,2	87,91	87,1	87	87,2	86,3
2003	86,58	87,18	86,7	85,23	85,57	86,66	86,11	86,28	85,2	84,4	85,4	84,9
2004	85,03	86,52	86,41	86,03	85,17	85,94	85,86	85,71	85,9	86,3	85,7	87,2
2005	87,73	88,76	89,55	88,66	87,79	88,14	88,76	89,56	87,9	87,9	88,1	88
2006	87,58	88,29	88,64	88,72	89,56	90,78	90,89	90,78	87	-	-	-

Resource: ČSÚ from [7] MZe. Situation and prospect report milk 2006



Graph 2 'Spread butter' - of the consumer prices

Resource: ČSÚ from [7] MZe. Situation and prospect report milk 2006

Total production of 'butter' including whole range (including butter with vegetable fat added and spread butter) amounted in the year 2005 according to [4] MZe 54,1 thousand tons. This means the decrease of 5 247 tons, in compare to the year 2004. In the year 2005, the production of the fresh butter decreased of 5,3 thousand tons. The production of 'spread butter' increased by 1,8 thousand tons viz. table 3.

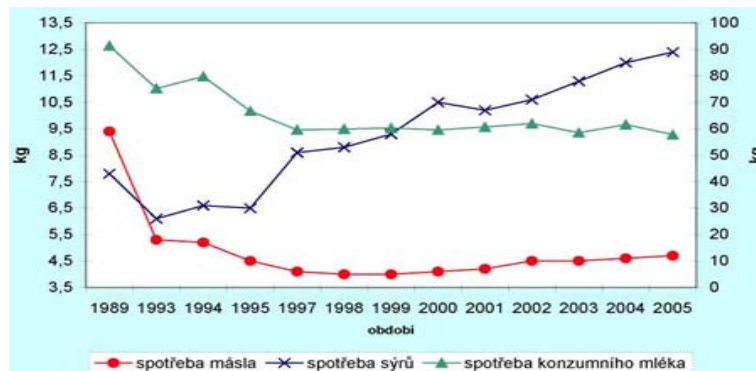
Table 3. Butter production in tons

Druh másla	2004	2005
čerstvé	29 367,70	29 306,30
ostatní (bloky)	11 616,80	6298,6
Pomazánkové	8395,5	10172,6

Resource: [7] MZe. Situation and prospect report milk 2006

Due to decrease of the production of 'butter', decreased its export of 20% in the year 2005. of the Butter consumption slightly increased by 2,9 thousand tons. On the Czech consumption participates the Czech production from the 85%. Consumption of milk and milk products increased by 3,6% despite the market price increase (consumer prices). By the influence of decrease the consumer price of butter, the consumption slightly increased (2,2%). However, from the long term perspective the butter consumption is rather stagnating viz. graph 3.

Graph 3. milk products – consumption development



Zdroj: [7] MZe. Situation and prospect report milk 2006

ČMSM [6] is considering, in scope of the dairy conception as realistic, the prediction of the average increase of milk products consumption per citizen since the year 2005 till

2013 in total about 24 kg. By the realisation of the predicted dynamics, will be the consumption in the year 2014 about 262,3 Kg, which means approx. the amount in the year 1989. Nevertheless, in the case of the 'butter' is not expected any increase of the consumption, due to cost increase, product containing a profitable vegetable fat and also health education. The increased consumption of the milk product will be caused mainly by cheese, fresh milk products and yoghurts.

Conclusion

It's indisputable, that the trade name 'spread butter' caused the risk of the consumer deception. The trade name of the food product should be derived from the inputs used in the production process (which given product really contains). 'Spread butter' is traditional product for the Czech consumer. However, on the EU market could be consumers influenced by the significantly similar trade name, which might be very emasculating for the European 'butter' producers. It's obvious, that the 'spread butter' is not substitute to the 'butter', unable to fully replace it. Regardless, the cross substitution effect between those two good occurs. This is provoked by the long term increasing consumption of the 'spread butter' in comparison to long term consumption stagnation of the 'butter'. This fact is apprehended primarily by the 'butter' producers, who are in the threat especially with respect to forecast of the continuous decrease of the butter consumption till the year 2013 together with increasing milk product consumption (including spread butter).

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