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WORKING PAPER SERIES

COLLECTIVE PROPERTY RIGHTS FOR GLASS MANUFACTURING IN MURANO: WHERE CULTURE MAKES OR BREAKS LOCAL ECONOMIC DEVELOPMENT

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Collective Property Rights for Glass Manufacturing in Murano: where Culture Makes or Breaks Local Economic Development

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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, as well as its implications for the evolution of the cluster, are analysed according to the analytic framework of Santagata (2004). The identification of various types of cultural clusters, inserted in different institutional frameworks, hints at the possibility to respond to peculiar problems with tailor-made strategies regarding the regulatory framework of property rights.

Within the literature on intellectual property, Posner (2003) underlines the economic function of trademarks, which, by giving assurance of uniform quality, allows consumers to reduce search cost. The introduction of *collective property rights*, in particular, sustaining the quality supplied by the producers involved, may lead to the restructuring of the markets, strengthening the competitive position of a cluster of producers. Cuccia and Santagata (2003) and Segre (2003) warn, however, 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. As a consequence, when the cluster achieves a mature structure, the exit strategy from the collective trademark prevails. At that stage, individual members turn to promote exclusively their private trademarks, which rely on an excellent reputation.

According to this framework, the case of glass production in Murano is analysed, where difficulties in the launching phase of the trademark are emerging. Murano, the second largest cluster of inhabited islands in the lagoon of Venice, is famous in the world for its glasswork which dates from the 13th century. The value of the industrial district of Murano exceeds the mere commercial value of glass production and even the symbolic value of glass, a relevant part of the local cultural heritage. In fact, Murano is presently one of the last manufacturing settlements left in the old city of Venice, counting for some 8% of its population. Furthermore, it is one on which planners attribute some emphasis in regeneration plans, highlighting the advantages of the “flexible” district economy of glass factories and shipyards over the “Fordist” model of the chemical industries that have dominated the economic structure of the region in the XX century. In short, Murano Glass is seen as a stronghold for a Venice that does not want to be left completely over to tourism, and instead looks for ways to re-build its lost fortunes, putting to value its assets in a changing economic environment. It remains to be seen how realistic is this aspiration (and how strong is the assumption of glass production following a “third Italy” model). To some extent, we argue against it on the basis of the analysis carried out in this paper, especially in the light of the instruments deployed to consolidate the glass manufacturing district.

The “Vetro Artistico Murano” trademark was recently introduced by a Regional Law as the collective property right for glass producers with plants in the island. The lack of reputation of the collective trademark seems to be the most important explanatory factor of the difficulties in the launching phase of the trademark. The promotion of the mark suffers of a typical free-rider problem, since the members of the institution

entitled to the promotion of the trademark do not necessarily adhere to the collective trademark. Moreover, a number of private brands with a very high reputation did not adhere to the collective mark. Since collective reputation depends from members' individual reputation, which represents the upper bound of the cohort's quality level and determines the perceived collective reputation, high quality reputation producers may not want to belong to a group composed eminently by lower quality producers. Moreover, since an increasing share of the production is sold on the Venetian tourist market, that is highly volatile, badly informed and, as such, hardly reachable by standard information campaigns, the effectiveness of the collective trademark is even weaker. As a result, the original trademark associates are few and other glassmakers are inhibited to join the partnership at a later stage.

Our article explores in deep the reasons of this partial failure, deriving a flexible framework for the introduction and the management of collective property rights according to the structure of the cluster and of the market. The research has been conducted through qualitative exploratory methods. Open interviews to the main stakeholders of glass manufacturing have been held over a stretch of time following the introduction and consolidation of the trademark "Vetro Artistico Murano".

2 Murano glass: a “cultural good” with idiosyncratic characteristics

2.1 The market positioning of Murano Glass

Murano glass products are sold both in international markets and on the local market. The international market is characterised by an “expert” demand of luxury goods, and a high willingness to pay. The best collections of the Muranese masters also sell well as “intermediate” goods; architects, interior designers, museum and restaurant managers, CEOs of large companies buy Murano items to decorate their works and offices. On the local market, interior shops and decorators sell medium-range priced Murano items. Until not long ago, the difference in price for common-use objects like glasses and ashtrays between the Murano production and normal industrial production was not large, so that the demand for Murano originals could be sustained especially among local families.

More recently, the world economic crisis and the increasing competition from foreign producers pushed an increasing number of Murano manufacturers to orient themselves to the local market, where they enjoy peculiar demand conditions. 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€). It is estimated that today around 60% (much more than the official figures) of the Muranese production is sold in the local (mainly tourist) market; and still, these pieces represent only some 60%¹ of what is sold in Venetian glass shops. The orientation to tourist demand is not without consequences. Those Murano producers that have chosen to come more directly in contact with the Venetian mass market substantially changed their nature from manufacturers to retailers, utilising abandoned factories as showrooms and substantially lowering the quality of the products. The bulk of producers that have no direct access to the tourist market are selling an increasing share of their manufactured items to the local suppliers (boutiques).

Partly as a result of such market evolution, and partly as a consequence of structural, endemic changes in the global economy, the artistic tradition of Murano glass and its entrepreneurial fabric started to be severely challenged. This called for new regulation tools, like the introduction of the collective property right through the creation of a collective trademark, whose issues and impacts are analysed in this paper, but also for progress in the definition of a vision and a strategy for the sector. A first important sign of the will to join forces — an inedit fact in the harshly competitive environment of glass producers — is the undersigning by glass manufacturers, category associations, local government and other private stakeholders, of a “development pact” that formally starts a “Glass District” according to the Regional Law 8, 2003.

2.2 Quality in glass production

In the case of glass production, quality can not easily be detected or benchmarked. As far as the most valuable items are concerned, quality can rather be conceived as the result of idiosyncratic variations on a specific model, and is 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 “proxy” 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.

Yet this was not the main reason for the introduction of the Murano glass trademark. This 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 Murano” trademark was finally instituted, as the only legally binding trademark, owned by the Veneto Region.

2.3 Introduction and regulatory framework of the collective trademark

Only in 2001 “Vetro Artistico Murano” became effective as a collective trademark under the management of the *Promovetro* consortium². Out of the 72 present *Promovetro* associates, 61 are Murano firms with a furnace, and 11 small “*lume*” producers³ (most of the “*lume*” producers however are not part of *Promovetro*). A commission within *Promovetro* manages and controls the use and development of the trademark⁴. 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 shops⁵.

Despite the name “Vetro Artistico Murano” (Murano Artistic Glass), the trademark is in fact 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. Qualities, reputation and other characteristic of the good produced are essentially attributable to its geographical origin, but no further conditions for quality are imposed. Thus, low quality products get the mark as long as they are produced in Murano and respect the production rules, and on the other hand, high quality items designed by Murano glass masters, if produced outside of the island, would not be entitled to receive the mark.

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” their products with a stamp. Each stamp costs around 0.3 € (recently brought down to 0,03 €); the member firms receive a stock of stamps on the basis of their production. From a code on the stamp, it is possible to recognise the producer. However, for a number of glassmakers enjoying individual brands with a high reputation, participating to the trademark agreement was not so important.

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 Murano” Trademark — a lower number than that of firms members of *Promovetro*.

Table 1 - Murano glass producers in 2003

	Number of firms	Number of self-employed	Number of employees	Average size	Members of "Promovetro" consortium	Members of "Vetro Artistico 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. More recently the promotion effort has been targeting the customers, both the international buyers that are met at fairs and boutiques, and the local tourist customers⁶.

However, 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 longer 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.

3 Economic analysis of the Murano Glass production district

3.1 Membership to the trademark agreement and strategic behaviour

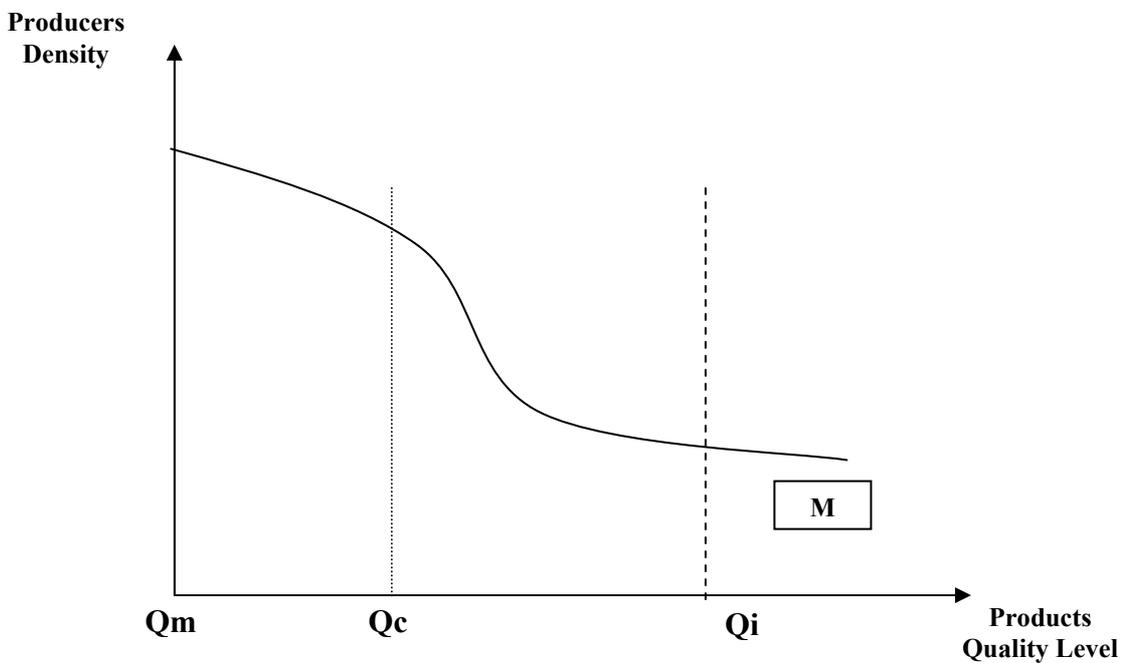
From the economic point of view, the system introduced by designations of origin and geographical indications trademarks is used in order to define optimal incentives to the producers. However, collective property rights have a signalling effect for the “whole” quality level of the product. All producers 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 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. 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. In a context of asymmetric information 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 endogenous nature of the collective trademark quality level – somehow deriving from the quality of the single producers within the collective trademark – a dynamic evolution of the trademark membership can be described. Figure 1 illustrates such dynamics, according to Segre (2003). 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 higher and higher 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 .

Figure 1 - The dynamics of collective property right membership



Producers with reputation of high individual quality, Q_i , will burden a cost when $Q_i > Q_c$. When and at 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 in the wine markets 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, producing Tignanello and Solaia, emblematic wines in Chianti for historical and innovative value and for quality, only with geographical indication. Moreover, as it will be explained below, very famous Murano glass producers do not adhere to the “Vetro Artistico Murano” trademark.

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.

3.2 The “exit” option

Firms, then, 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.

There are two 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 either to leave or not to adhere to trademark agreement and promote its own brand name;
- 2) lower-bound exit: the conditions of production of a firm are either modified or inadequate so that it has not the right to be part of the trademark, the loss derived from its exit are more than offset by the gains achieved.

In the case of Murano Glass, given the “not protected” designation of origin nature of the collective trademark, exits caused by the development of “innovative products” not respecting production standards⁷ are infrequently observed. 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 “*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 market ⁸.

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.

3.3 Horizontal co-operation and agglomeration economies

According to theoretical reasoning and to the 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 such 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 historical circumstances (the prohibition to manufacture glass in the island of Venice, because of the danger of fire, 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-transferable 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 shows 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, 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 substantial sum for an industry that in 2002 made 150 M € of sales as a whole. In the starting year of the campaign, only 0.8 M € were put together also using national industry subsidies⁹. 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 in 2003 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 was originally 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 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 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, Muranese youngsters are only concerned about how to break away from the island.

In general, it is commonly believed that co-operation 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 during the “boom” in the 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. Few institutions are effectively supporting co-operation among glass producers. Attempts of association between glass producers have regularly failed; still today, the consortium Promovetro is hardly representative of the heterogeneity of the sector. The municipality is not involved in the management of the cluster, and efforts by local institutions to regulate or restructure the sector is unwelcome by local producers. The leading network actor is rather *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.

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. This gives rise to a typical free-riding problem. Not all the collective trademark members are also members of the institution entitled to the promotion of the trademark, and, moreover, Promovetro includes glass producers not adhering to the trademark.

3.4 Globalisation in the glass production chain

A more serious problem than the delocalisation of Murano glass producers is the competition of low-cost (and not necessarily low-quality) producers from foreign countries. Technological progress and the diffusion of knowledge on a planetary scale allow glassmakers in South East Asia and Eastern Europe to manufacture exact replicas of Murano *murrine* and common use objects like glasses and ashtrays at incomparably lower costs than the originals. This competition is particularly strong in productions for which the personal, recognisable touch of the glass master or designer is not needed (for instance in small glass objects mainly sold on the tourist market, or medium-priced common-use objects, that is, in any product segment in which price elasticity tends to be high). Furthermore, their products are even *preferred* by glass sellers, because the mark-up they can add to these pieces is relatively higher than that that can be imposed on original pieces, since it exploits the “window” effects from proximity in display with the original marked pieces. This proximity can be deceptive and as such it is sanctioned (Murano Glass marked pieces and non-originals placed on the same scaffold), but most of the time it eludes sanctions.

Therefore, a market today exists only for high-quality, designer products that already enjoy a brand name and for which the trademark is not necessary (or not an option, as it is argued above). There is no mass demand for them, but their market positioning is sustained by the constant specialised demand of well-informed people and experts. However, the survival of Murano as a productive settlement cannot be supported by this exiguous, ultra-specialised market alone, which is not the original “raison d’être” of Murano anyway, but rather a relatively recent evolution of glass manufacturing determined by a virtuous encounter by glass masters and artists and designers. Some minimum production capacity is needed to justify the existence of an industrial district. “Luxury items” can be manufactured anywhere and at lower costs (and,

as argued above, some Muranese glass masters already do it). Only the “industrial production” of Murano glass can keep the island going, and this is precisely the sector in deep crisis.

In this light, the adoption of the trademark as a signalling tool that price-discriminates against non-original objects and generates a new demand for Murano’s “common-use” pieces is fully justified. It could be argued that the same problem are faced by other “cultural clusters” where techniques are inevitably spilled over due to their increasingly “footloose” nature. However Murano glass has an additional problem in the fact that proximity is not an advantage, at least it is not so at the present moment, so de-localisation is in any case a winning strategy.

It is also clear from this argument that the failure of the trademark would imply the progressive (and probably rapid, as a generational phenomenon) disbanding of Murano factories. It remains to be seen if the *type* of trademark agreement that has been implemented is the most effective to achieve this result and can foster a new cycle of sector restructuring.

3.5 Asymmetric information in the tourist market

While the valuable pieces are brought to the international market by distributors and fair organisers¹⁰, more than 60% of the production (the low-end in terms of quality) is today sold on the local market, which is dominated by tourist demand. A number of glass producers have set up “exposition halls” in Murano, but the main bulk of the production reaches the final consumer in the hundreds of glass and souvenir shops clustered around St. Mark square in Venice.

The problem in this case is that the tourist market is typically characterised by asymmetric information. According to Caserta and Russo (2002), information asymmetries are likely to be more substantial in destinations in which the visitors’ flows exceed the accommodation capacity, determining a compression of time budgets available to those who can only visit the city as “excursionists”¹¹, and consequently affecting their capacity to distinguish quality by comparison and experience. In this case, producers have an incentive to deceive consumers supplying a lower quality of goods. High quality is only maintained if suppliers can earn a mark-up on prices that – face to increasing demand levels – cannot be sustained in the long term. In the case of glass products, in the only low-quality, fake products keep their market shares while the top-end production is driven out of the market, in a quality-price-capacity downward spiral or “vicious circle”.

Venice, as argued by Russo (2002), is a typical case where the re-orientation of the tourist market towards low quality is happening under the persistent pressure of “uninformed” tourist demand. Each of the yearly 12 million visitors would spend a substantial part of their visit around St. Mark square. Some 80% of visits are daily excursions lasting less than 7 hours, and for them, St. Mark and the way there is easily the only possible itinerary. From the point of view of the tourist city, the decline of quality is a catastrophic circumstance, because the best, more empathic visitors would be chased out of the market and substituted by visitors who contribute less and less to the preservation of the cultural attractions. In the end, the very

essence of the tourist city as an attractive, amenable place is at risk, confirming the intuition of tourist life-cycle theorists like Butler (1980).

Murano glass is nothing but a substantial part of the cultural heritage of Venice. In the light of the argument of Caserta & Russo (op. cit.), glass art contributes to the image of the city attracting visitors to it, as it is demonstrated by the substantial share of visitors who visit glass factories, the Glass Museum in Murano¹², the furnaces and the best boutiques at St. Mark. However, Murano glass is like a public-good asset in a tourist milieu that “free rides” against it by substantially pushing the sale of fakes and non-originals. It is a fact that today the mark-up applied of original products in Venetian shops face is estimated at around 400% and can reach 1000% for the smaller pieces.

How come this situation? Why Murano high-quality masters cannot impose their presence on the market? First of all, because this strategic reasoning also applies to them. Many factories have abandoned the “top-end” production in the last years, closed down the furnaces and converted them into cheap souvenir halls where unaware tourists picked up by compliant “chaperones” are tricked into spending exaggerated amount of Euros in fakes.

Secondly, the strategic behaviour of glass retailers is not necessarily respectful of the ambitions for quality of Murano glass manufacturers. And as they hold the contact with the dominating tourist market and for this reason they enjoy a “location rent”, they are basically the ones who dictate the production strategy. If producers do not comply with low-cost conditions, suppliers would keep their margins high by giving up “marked” items and selling instead the imported forgeries. This would not cause them any problem as long as the reputation of the mark is not well known among tourist customers. Moreover, even if one day the trademark would be better known, retailers can still influence the trademark agreement structure. If, for instance, a shop displays a certain number of pieces that are not covered by mark and others that are originals, the supplier can try to convince the producer not to “stamp” the originals, otherwise he could not sell the fakes. He can even threaten the producers not to display its original products and win this game. So producers have an incentive not to put a stamp on part of their production, in spite of their right to do so. Now, the reputation of the trademark depends on the resources put into its promotion and on its visibility. Marking the items and selling them is probably the most effective way to spread the news. If the mark is “hidden” out of short-term considerations, the velocity of diffusion of the information would be slowed down and the signalling tool would fail.

4 Conclusions and policy suggestions

This study has analysed the implications of the collective property rights introduced by the Regional Law establishing the “Vetro Artistico 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 largest Murano glassmakers do not adhere to the initiative at the present moment.

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.

In Murano, 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. It may actually be argued that the institution of the collective trademark, rather than loosening the competitive environment, “institutionalises” these tensions: even a forgery 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.

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 patterns that would be needed to face its crisis and the pressure from international competition. The whole perspective of Murano as a productive unit that is being challenged by international low-cost competition, and can survive only in unity and cohesion, is missed and instead a traditional reasoning prevails, consistent with the remaining “fordist”, hierarchic model of the cluster, in which a few leading producers have access to international markets and a large number of small followers content themselves with the low-quality local market. 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 regulatory institutions like the trademark — will be weak and therefore downplay the general productive climate in the island.

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 mark¹³, is to protect Murano as an industrial settlement, which is increasingly in danger face to pressure of globalisation, and its community. However, the 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. Murano would keep a “trademark on ideas”, and carry out the actual production processes where it is more convenient, finally endorsing the philosophy of flexible specialisation, which allows for the disintegration of the production chain.

This could go together with the extension of the use of the mark to retailers; those who endorse the mark can only sell the marked products. Then, the problem of influencing the “marking” behaviour would be eliminated, because there would be no possibilities of confusion between originals and non-originals. However, if selling the fakes grants higher margins to non-mark retailers, the market for “mark” shops would soon disappear and all producers would sell “non-marked” products.

The increase of the share of products sold in well-informed, competitive international markets — escaping the tourist market “information trap” — would be “the” solution, but it would call for a complete restructuring of the marketing strategies of Murano glassmakers and for thorough revision of the organisation model of the sector, which is presently not a credible event in spite of the recent improvements. Incidentally, the trademark would play a very little role in such regime change, if not as a “binding”

agreement. If, instead, the evolution of tourism dynamics — according to the vicious circle model studied by Russo (2002) — prevails, as the driving force behind glass production, the destiny of the island is bleak. The fact remains that the destiny of Murano glass industry is tightly tied to that of the city of Venice as a production location in which tourism introduces substantial diseconomies.

This paper argues that the institution of collective property rights to support the development of a culture-based good has to take into account factors such as the structure of the local market and the structure of the district. One clear indication is that if there is not consistency between the production and the distribution end of the value chain, and the trademark only regards the upstream part of the chain, then this tool is likely to be ineffective because offset by the strategies of the retailers; furthermore, misplaced incentives could weaken the whole sector by undermining the trust between different players. In particular, cultural clusters have to measure up to the information structure of the local market. Tourist destinations have to be especially careful that the economic incentives to sustain high quality does not resolve in a mere reorientation of the market towards lower quality. This may be the case, for instance, with numerous specialised production clusters in coastal areas of the Mediterranean where tourism development is mostly driven by outsiders (the big international tour operators) and hardly harnessed or regulated by local laws.

NOTES

¹ According to interviews held in this project, this figure could be as low as 40%.

² 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.

³ “Lume” represents a glass production based on the fusion of glass pipes with a gas lamp.

⁴ 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.

⁵ 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».

⁶ Recently, Promovetro opened a permanent 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 website keeps upgraded information on its members.

⁷ 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.

⁸ 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*.

⁹ Law n. 266/97 on industrial districts (the so called “Bersani Law”).

¹⁰ A few boutiques have been opened by the top producers in the main markets, like the American and the German, and Murano products are present in the largest shopping malls of European capitals.

¹¹ See Van der Borg and Gotti (1995) for a detailed definition of excursionists within the tourist market.

¹² This is one of the municipal museums in Venice, and welcome more than 100,000 yearly visitors.

¹³ 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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