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## Introduction

Several reasons, other than my personal interests, have led me to write a handbook of wine economics. First and foremost, there is the fact that no well-structured monograph with a comprehensive and interdisciplinary approach ranging from industrial to welfare economics, from economic policy to political economy, from management to finance, and from medicine to law and crime exists. Second is the growing interest in the subject—and not only in wine producing countries—as can be seen by the foundation of the American Association of Wine Economists (AAWE) (set up by Orley Ashenfelter of Princeton University) and the European Association of Wine Economists (EuAWE) as well as the launching of many academic journals on wine economics (e.g., *Journal of Wine Economics*, *Journal of Wine and Business Research*). Third is the publication of articles on the topic in the most prestigious cross-cutting economics journals (for example, *American Economic Review* and the *Economic Journal*) when previously they had appeared only in agronomic journals (for example, *American Journal of Agricultural Economics*, *Journal of Agricultural Economics*, *Agricultural Economics*, etc.). Further, many universities have activated modules or even courses on wine economics, and over the last few years we have been witnessing a growing interest in everything to do with nutrition.

This is an academic book, but it hopes to appeal to a wider public. It intends, therefore, to serve as a useful tool of study for students and consultation for researchers and professionals by limiting technical terminology while at the same time ensuring rigor in the literature review and in the use of data. The book is divided into two parts: the first (chapters 1–5) presents the mechanisms involved in the functioning of the wine market while the second (chapters 6–8) focuses on the measures taken by public authorities to regulate the market and correct failures. The hope is to contribute to the spread and study of the economics of wine as well as stimulating governments, trade associations, and businesses to take concrete and effective action to encourage the growth of the sector and of the wine-making culture in their countries.

The first chapter provides an overview of the world market in a historical perspective. It illustrates the trends and the determinants of both the demand (consumption)

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and supply (production and export) of wine in the world and highlights the dynamics, developments, and happenings that have taken place in the market in the course of time. Particular attention is given to the so-called “wine war”—that is, the clash between the traditional wine-producing countries (Mediterranean Europe) and the countries of the New World (especially the United States, Australia, New Zealand, Chile, Argentina, and South Africa)—with an analysis of the strengths and weaknesses of the two groups.

In the second chapter we discuss issues concerning consumption and the quality and price of wine. Drawing heavily on health economics literature, the first section looks at the variables that affect the consumption of alcoholic beverages, from genetic predisposition to individual characteristics and from social and economic to environmental factors. The next two sections focus on the determinants of the quality and price of wine and in particular the variables that interest an economist rather than a wine-making expert.

The third chapter deals with competition and the profitability of wineries. It begins by applying the concepts to the three forms of market which are relevant to the wine sector (perfect competition, monopoly, and monopolistic competition). It then goes on to apply Michael Porter’s five forces model to identify the elements that feed competition in the wine market. The last section analyzes the profitability of wineries.

The fourth chapter highlights the differences between the various types of companies, classified according to the objectives pursued and their legal status. This topic is particularly relevant as big multinationals and conglomerates dominate in the New World countries while there is a prevalence of small family businesses and cooperatives in the Old World countries.

The fifth and last chapter of the first part deals with the theme of finance in the world of wine. It first analyzes the risks and returns on investment in wine in comparison with other assets and considers the purchase of prestigious bottles and shares in wine-making companies separately. This is followed by an evaluation of the advantage of including wine in an investment portfolio in terms of diversification, risk, and return. The last section is a discussion of the use of derivatives in the wine sector.

The second part of the book addresses the question of market regulation by public authorities, be they national (like the US Congress or single states) or supranational (such as the European Union). The sixth chapter illustrates market failures caused by information asymmetries that have prompted national legislators (first in France in Bordeaux in 1855 and later at a national level in 1935) and supranational legislators (the European Union) to create a pyramidal product classification system based on four levels and that have encouraged companies to group together in consortia to create collective brands (appellations). The chapter then goes on to

review the main scientific studies on the corporate reputation of wineries (individual reputation), appellations of origin (collective reputation), and hierarchy within the classification system (institutional reputation).

The seventh chapter analyzes both the positive and negative externalities of the production and consumption of wine (and alcohol in general). Externalities are either advantages or disadvantages to third parties created by the activity of an agent and for which the latter does not receive or pay a price. Unlike the case of information asymmetries, here it is not the imperfection of the market but rather its total absence that justifies public intervention in externalities. Among the positive externalities included is the effect of moderate alcohol consumption on health and social well-being. As for the negatives, detailed analyses have been made of the consequences of alcohol abuse on health and risky behavior, such as unprotected sex, the likelihood of having a fatal accident, and the incidence of criminal actions. The chapter ends with a discussion of the main tools used by public authorities to counter harmful or illegal conduct caused by alcohol abuse.

The eighth chapter describes the economic policies adopted in different parts of the world to influence the supply of wine. The objectives of regulation vary dramatically across countries and over time. In Europe, where the consumption of wine is deeply rooted in the culture and the wine business gives employment to a significant number of workers, the common agricultural policy (CAP) has been heavily influenced by France and its priority is to ensure producers' rather than consumers' welfare. Over the last decades the European Union has tried to adapt the supply to declining internal demand, thus *ex officio* reestablishing an equilibrium. The main focus is on planting rights, incentives for grubbing up vineyards, subsidies for "crisis distillation," and so on. Unlike the reasons given in the two previous chapters, the regulations imposed here by authorities to influence production do not arise from the imperfection or absence of the market—since the latter in the long run is able to automatically rebalance demand and supply—but rather from a number of other needs that will be explained in due course.

The United States, instead, has been shaped by Anglo-Saxons and Germans who have imposed their beer and spirits culture. Further, in many areas strong religious—especially Protestant—temperance movements fought the consumption of alcohol, leading to Prohibition from 1920 to 1933. When the Cullen-Harrison Act finally amended the Volstead Act, thereby repealing Prohibition, the Twenty-First Amendment allowed bans to be maintained at the state and county levels. Further, the new law established a very complex three-tier system whereby producers had to sell to distributors who had to sell to retailers who could finally sell to consumers. In most states, the direct-to-consumers shipment of alcoholic beverages is not officially forbidden. However, state or even county laws impose a number of constraints and administrative tasks that make it easier for a typical consumer

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to arrange the interstate shipment of a gun than a Californian bottle of wine (Colman, 2008, p. 2).

The conclusions identify the six key variables necessary to survive the so-called “wine war” and to ensure open and efficient markets, along with the need to protect public health: (1) product quality, (2) changes to the tax system, (3) marketing and a clear classification of wines, (4) competition and support to small wineries, (5) economies of scale and competitive prices, and (6) promotion of a wine culture among consumers.

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# Wine Economics

**By: Stefano Castriota**

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**By: Stefano Castriota**

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Via Val d'Aposa 7—40123 Bologna—Italy, [seps@seps.it](mailto:seps@seps.it)—[www.seps.it](http://www.seps.it)

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