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MPIfG Discussion Paper 15/9

Constructing Quality

Producer Power, Market Organization, and the Politics of High Value-Added Markets

Elizabeth Carter

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MPIfG Discussion Paper 15/9
Max-Planck-Institut für Gesellschaftsforschung, Köln
Max Planck Institute for the Study of Societies, Cologne
December 2015

MPIfG Discussion Paper
ISSN 0944-2073 (Print)
ISSN 1864-4325 (Internet)

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Abstract

Economists assume increased producer flexibility creates production advantages. So why do inefficient French quality wine producers dominate their flexible, efficient Italian counterparts? French AOC wine producers created "corporatist" producer organizations which served three purposes: encouraged increased product quality information across the supply chain; allowed for the emergence of a unique production style; and enabled producers to define their production methods as "quality" via state regulation. Italian DOC wine producers have fragmented political structures at both the regional and national levels, causing producers to rely more on the price mechanism and less on political structures to coordinate supply chain transactions. Market asymmetries persist across the supply chain, making it difficult for producers to guarantee quality and adversely shaping their potential production and brand strategies. Solving supply chain problems through representative political institutions yields superior economic outcomes than uncoordinated market transactions because the former corrects market power asymmetries.

Zusammenfassung

Ökonomen gehen davon aus, dass Hersteller durch höhere Flexibilität Produktionsvorteile erlangen. Doch wie können dann die ineffizienten Produzenten französischer Qualitätsweine ihren flexiblen, effizienten Mitbewerbern aus Italien überlegen sein? Produzenten französischer AOC-Weine haben „korporatistische" Erzeugerorganisationen geschaffen, die drei Zwecken dienen: Sie ermöglichen einen besseren Informationsfluss zur Produktqualität innerhalb der gesamten Lieferkette; sie schaffen Möglichkeiten zur Herausbildung eines einzigartigen Herstellungsverfahrens; sie befähigen Produzenten, ihre Herstellungsverfahren mithilfe staatlicher Regelungen als qualitativ hochwertig zu definieren. Die Produzenten italienischer Qualitätsweine mit kontrollierter Herkunftsbezeichnung (DOC) hingegen sehen sich sowohl auf regionaler wie auch auf nationaler Ebene fragmentierten politischen Strukturen gegenüber. Daher sind sie darauf angewiesen, dass Transaktionen innerhalb der Lieferkette stärker durch den Preismechanismus als durch politische Strukturen koordiniert werden. Die entlang der gesamten Lieferkette fortbestehenden Marktasymmetrien erschweren es den Produzenten, Qualitätsgarantien abzugeben und wirken sich nachteilig auf deren Möglichkeiten zur Gestaltung von Produktions- und Markenstrategien aus. Es ist wirtschaftlich erfolgversprechender, Probleme in der Lieferkette mithilfe repräsentativer politischer Institutionen zu lösen als durch unkoordinierte Markttransaktionen, da erstere die im Markt bestehenden Machtasymmetrien korrigieren.

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Constructing Quality: Producer Power, Market Organization, and the Politics of High Value-Added Markets

1 Introduction

The economic logic of luxury, status, and high value-added production has become a central topic of academic investigation. Unlike "typical" product markets, these markets compete on a perception of quality, not price (Karpik 2010). Small perceived qualitative variation can be associated with high price differentiation, even in cases where consumers are unable to distinguish between quality levels, or where quality level remains opaque until after the item is purchased (Rössel/Beckert 2012). A producer's success can depend less upon the product's observable characteristics and more on the perception of product differentiation, based on an intangible, symbolic quality (Beckert/Rössel/Schenk 2014).

These features and factors, indeed, also play a central role in wine markets. Through a comparative analysis of French and Italian quality wine markets, I demonstrate how producer organization leads to a redistribution of power in the supply chain. Stronger levels of supply chain cooperation and national protection in the French case were critical in creating shared geographic brands, maintaining price protection, and constructing the perception of a differentiated product. These institutions – and their subsequent regulatory legitimacy – led to the emergence of the unique French quality regime. The weaker levels of cooperation that characterize other wine markets – including (but not only) the Italian case – explain why these producers rely on market-based mechanisms and compete in a more crowded market space.

The paper focuses primarily on producer organizations and their market consequences, which includes the emergence of divergent quality devices and different production strategies. French supply chain cooperation is contrasted with the atomized, brand-driven Italian supply chain structure.[1] In the French wine supply chain, grape growers are organized around the notion of *terroir,* and have been successful in convincing wine

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The Max Planck Institute for the Study of Societies provided a wonderful environment to produce this paper. There Jens Beckert and Carolyn Biltoft provided valuable feedback on a few iterations of the paper. The review comments from Jörg Rössel and Marion Fourcade also proved extremely useful. I also received helpful comments and suggestions from the research group on the Sociology of Markets, and from Inga Rademacher and Katie Ford. Finally, I want to thank my interns Wiebke Weissinger and Martin Faber for their contributions to the project. The usual disclaimers apply.

1 In its simplest iteration, we must distinguish between three supply chain actors: grape growers, wine merchants, and retail outlets. Also at its simplest iteration, grape growers historically sell grapes or wine to merchants. Wine merchants traditionally bottle the wine and sell it to retail outlets.

merchants, the Ministry of Agriculture, and consumers that grape growing origin and technique determine wine quality ("appellation" device). This supply chain structure has led to higher priced grapes, a perception of qualitatively different grapes, and a production strategy that emphasizes this high-priced, high quality production input. In the Italian market, grape growers are atomized and remain less politically coherent, and the guarantee of wine quality rests not with grape growers but with individually-owned brands and wine guides ("cicerone" device). French grape growers exert a tremendous amount of institutionalized political and economic power, whereas Italian growers remain in a relatively weak position to shape the field. This puts all Italian wine producers in a more competitive, less differentiated market space: the technological know-how one uses in converting grapes into wine can be replicated and is less inherently protected than a *terroir*-driven taste, which is argued to reflect the soil and to have unique quality characteristics. In addition, large branded firms and retailers dominate the numerous – and relatively interchangeable – grape growers and small producers within the Italian supply chain (ISMEA 2008b). As the market objectives of these large firms are price-based competition and consistent wines (ibid.), this supply chain structure pushes small firms away from unique high quality experimentation. In these more competitive markets, the majority of actors respond to demand instead of creating it; as a result they find themselves in a more crowded market space.

This paper will demonstrate these claims first by making theoretical space for the significant role that politics plays in the creation and sustenance of "quality" in wine markets. Second, it will look more specifically at the relationship between supply chains and producer and consumer behavior. Third, it will make an in-depth comparison of the political dimensions of the French and Italian wine markets and how this affects both how producers organize and how they define quality.

2 Taste, distinction, and the power of political organization

A growing body of literature has demonstrated that producers and consumers rely on cognitive frameworks to define quality and structure transactions within these differentiated markets. In the particularly opaque wine sector, consumers tend to rely on what Lucien Karpik calls "judgment devices," which "reduce the cognitive deficit that characterize consumers in the market of singularities" (Karpik 2010: 45). These devices vary by market but can be grouped into five broad categories: networks, appellations, cicerones, rankings, and confluences (ibid.). Even with our broad knowledge of devices, the questions of who is entrusted to guarantee quality and with what consequences for markets remain largely unanswered.

Despite clear insights from this literature, most works bypass the role of political organization in the construction of high value-added production. Current academic investigations suffer from three weaknesses. First, they tend to study the luxury market with an exclusive focus on the final product, emphasizing marketing strategies and consumer behavior, while omitting the role of supply chain function. This is problematic because luxury products distinguish themselves at different points along the supply chain, such as by product design, raw inputs, craftsman know-how, and controlled distribution.[2] Second, they omit or minimize the role of politics in protecting certain supply chain actors – including design protection, name protection, codified rules of production, and the politics of selective distribution. This omission is problematic because political struggles determine which producers receive effective market protection and which do not; resulting bargains shape brand access, brand control, and market access. Third, supply chain politics influences the emergence of legitimate judgment devices, with significant consequences for both the level of market protection and the extent to which producers become price-makers or price-takers. Above all, it is essential to consider the ways in which consumer delegation of judgment devices to a market-based mechanism or to a political device is intimately bound up with questions of trust and regulatory legitimacy. These questions must be solved both across a supply chain and between producers and consumers. What role do institutions – such as regulation and producer organizations – play in constructing production advantages in quality markets? And what is the relationship between political organization and quality production? Why do certain production and consumption norms arise in certain markets? And why are some producers especially successful in creating a product whose value seems to transcend its constituent parts in some singular or intangible way?

In order to address these questions and arrive at a more accurate understanding of how politics shapes quality markets, this work must begin from a body of literature that broadly conceives of the role politics plays in the economy. According to both convention theorists and Pierre Bourdieu, producers define quality for consumers. Convention theory emphasizes the role of producer behavior in constructing frameworks for consumer behavior (Diaz-Bone 2009; Eymard-Duvernay 2007; Boltanski/Thévenot 2006; Becker 1982). Conventions are collective schemata for the perception of quality, reflecting the culture and values embedded in networked relationships, such as in supply chains. According to sociologist Howard Becker, quality conventions are cultural logics that enable producers to coordinate to produce market goods collectively. Consumers do not create these frames: they are production regimes constructed by *producers* through repeated behavior over time. These conventions are routinized principles for the organization of production, which serve as a response to uncertainty (Becker 1982). Becker applies convention theory to the art and music worlds, while Rainer Diaz-Bone

2 Rainer Diaz-Bone, Pierre Boisard and Maria-Thérèse Letablier are exceptions here as they address supply chain functionality explicitly; see especially Diaz-Bone's "Qualitätskonventionen als Diskursordnungen in Märkten" (2009) or Boisard/Letablier's "Le camembert: normand ou normé: deux modèles de production dans l'industrie fromagère" (1987).

applies this framework to the wine world. Specifically, Diaz-Bone analyzes the different wine supply chain conventions that link producers under shared understandings of quality, such as environmental conventions (green conventions), traditional and handicraft conventions (domestic conventions), or efficiency and price-based conventions (industrial and market conventions, respectively; Diaz-Bone 2013). Thus Diaz-Bone's framework allows for a conceptual linking between supply chain governance to shared cultural quality templates across the wine market. Pierre Bourdieu's notion of homology provides a parallel explanation of how producer-driven quality conventions create consumer demand. According to Bourdieu, producers of cultural products meet demand without expressly having to seek it. Instead, consumers' identify goods that "go together" because they are homologous, or situated in roughly the same social spaces. In the field of cultural production "the supply always exerts an effect of symbolic imposition" (Bourdieu 1985: 227).[3] Patrick Aspers describes the producer–consumer dynamic in status markets as more of a dynamic creation between buyers and sellers, where the two groups together co-create shared understandings of a status market (Aspers 2009).

Of these three economic sociology approaches, Aspers' approach most closely parallels recent scholarship developments in business and marketing literature, notably the service-dominant approach. The service-dominant logic emphasizes the intangible characteristics that create product value, such as human, organizational, informational, and relational resources. This literature challenges the notion that prices are linked to value-added by a producer in the process of production, and they propose instead that value derives from a process of co-creation between consumers ("beneficiaries") and producers though firms' intangible resources (Peñaloza/Venkatesh 2006). The firm cannot deliver value, but offers value propositions, thereby actively influencing its customers' value assessments; the consumer's value creation process and the firm's value creation process occur simultaneously (Grönroos/Voima 2012).

Thus both convention theory and service-dominant logic point to the importance of producers' access to certain intangible goods – such as networks and organizational resources – in enabling them to establish links both with other producers and with consumers, creating the shared perception of a qualitatively differentiated product. Wei Zhao investigates some of these intangible goods – namely classification regimes and institutional logics – in a comparison of the French and Californian wine industries and their subsequent effect on prices (Zhao 2005, 2008). Zhao states that the historical backgrounds and regulatory structure of the two industries led to divergent, institutionalized market dynamics, with different conceptions of quality. He describes the French wine market as a vertically-structured regulatory regime, classified primarily in

3 Bottero and Crossley explicitly compare Bourdieu's concepts of homology and cultural fields to Becker's concepts of conventions and art worlds in their 2011 article "World, Fields and Networks: Becker, Bourdieu and the Structures of Social Relations." In brief, the authors argue that the concept of networks and social connection is underdeveloped with regard to cultural production.

terms of appellation of origin, with an emphasis on tradition. By contrast, the Californian wine market is described as horizontally-structured, brand dominant, classified primarily by grape variety, and reliant on scientific methods. He argues these divergent classification schemes are an outcome of politics and institutions, without describing the mechanics of either. His paper, rather, emphasizes the "implications and profound consequences" of classifications: "classifications confer identities on social actors (or objects) and channel perceptions of audiences; classifications create social boundaries, and signify the standing of social actors (or objects); classification making involves a political process and political struggles between interest groups" (Zhao 2005: 195).

Thus Zhao argues that "politics and institutions" create categories and identities, and these categories and identities shape markets. While I concur with Zhao's categorization of the French and Californian wine markets, my research challenges his emphasis on *formal* regulation and production categories on market construction. A comparison of the French and the Italian cases brings this weakness to light. Here, we have nearly identical classification systems – the Italian DOC system (*Denominazione di origine controllata* 1963) was directly modeled on the successful French AOC (*Appellation d'origine contrôlée* 1935) classification system. Both claim to protect *terroir,* a delimited area with a distinct cultural heritage and geographic characteristics. The regulations link geographic areas with specific rules of production, including allowable grape varieties, maximum yields, and grape growing methods. These production standards are determined by the producers themselves, and they theoretically act as a de facto quality indicator, where the protected place names serve as a shared brand. However, the Italian wine market *functions* in a manner similar to the California wine market – with an emphasis on brands, scientific know-how, horizontal market structure, and grape variety.[4] This conflict points back to the idea that market behavior is shaped principally by informal norms, politics, and institutions, rather than by formal rules and regulations.

This raises important questions concerning the limits of regulation and formal classification in reshaping markets. The social and political context – or how wine regulations are embedded in relationships – are not delineated but rather inferred by the regulation, with adverse consequences for the generalizability of Zhao's observations. It is not formal regulation that leads to different outcomes, but the informal norms of producers and consumers that ultimately determine the efficacy of the regulation.

Through a comparative analysis of French and Italian quality wine markets, I demonstrate how producer organization leads to a redistribution of power in the supply chain. Stronger levels of supply chain cooperation and national protection in the French case were critical in creating shared geographic brands, maintaining price protection, and

4 Prosecco, Montepulciano, Brunello, and Nero d'Avola are a few examples of famous Italian grapes. Note that Piedmontese wines are recognized by their place of origin, as the French aristocracy brought the notion of *terroir* to the House of Savoy in the nineteenth century (personal interview, Aldo Vacca 2011, Director of Produttori del Barbaresco).

constructing the perception of a differentiated product. These institutions – and their subsequent regulatory legitimacy – led to the emergence of a unique quality regime in the French case. The weaker levels of cooperation that characterize other wine markets – including (but not limited to) the Italian case, explain why these producers rely on market-based mechanisms and compete in a more crowded market space.

This analysis does not describe a linear, reducible one-size-fits-all approach to the construction of high value-added markets.[5] Rather, it explores the interplay between market asymmetries, state capacity, and producer politics, and it suggests how these dynamic market restrictions give rise to the ways in which producers and consumers perceive quality and, relatedly, price and scarcity. Is the regulation seen as legitimate? In order to understand these markets, we need to investigate the following questions: (i) what are the power dynamics that hinder market functioning?; (ii) how is this hindrance solved, and why?; and (iii) what are the consequences of this solution? To that end, I begin with a comparison of the French and Italian wine markets, followed by an explanation of market failures and how these are addressed in the French and the Italian wine markets. The third section – and the heart of the paper – considers the aforementioned relationship between political organization and production strategies.

3 Supply chain politics and the wine market

Since the 1970s, the global wine market has undergone dramatic transformations. This was the first time that it appeared probable that the singular French dominance of the quality wine market might be threatened by international competitors. Californian wines beat top French Bordeaux in blind tastings in the 1976 Judgment of Paris (Taber 2006), and Italian wines began to receive global recognition for their high-quality "SuperTuscan" table wines. These turning points were accompanied by three other important trends: the decline of wine consumption in traditional wine-consuming countries (most pronounced in France and Italy), the European Union's attempt to actively decrease the number of vineyards in order to stabilize table wine prices via the Common Agricultural Policy (CAP), and improvements in the quality and volume of wine produced in the "New World," as well as in the volume of wine consumed. Indeed, a recurring story in today's wine world is the diminished significance of French wine, specifically, and of "Old World" wine – such as Italian wine – more broadly.

Despite these dramatic changes in the international wine market, French and Italian producers continue to dominate wine production in terms of both export prices and volumes. In 2014, France led global production with 47 million hectoliters and Italy

5 I employ the term "high value-added" when referring to the wine market to indicate products in relation to which the customer's willingness to pay reliably exceeds production.

came in second with 45 million (OIV 2015). In 2014, French wine exports totaled € 7.7 billion and Italian wine exports totaled € 5 billion (OIV 2015), making these countries the global leaders in wine export value. However, there is an important distinction between these dominant producers: Italian and French wine have similar per unit prices for both table wines and for their lightly regulated "protected geographic indicator" (PGI)[6] wines (Chever et al. 2012). However, the difference in the value conferred by regulated quality wine is significant. As demonstrated in Table 1, France's *Appellation d'origine contrôlée* (AOC) wines average € 5.20 per liter (€ 6.72 if one includes Champagne), whereas Italian *Denominazione di origine controllata* (DOC) and *Denominazione di origine controllata e garantita* (DOCG) price averages € 3.14 per liter.

Table 1 Comparative PDO (AOC, DOC/DOCG) wine prices, 2010

Protected designation of origin wines	Price per liter
France (including Champagne)	€ 6.72
France (without Champagne)	€ 5.20
Italy	€ 3.14

Thus the difference between French and Italian wine value is found almost completely in their different appellation of origin (PDO[7]) wine values. The rules governing these regulated appellation wines require that a minimum of 85 percent of the grapes come from a given geographic area, impose yield restrictions, and guarantee producer-determined production rules (including allowable grape varieties). Regulation of these wines theoretically represents legal recognition of traditional local wine-making practices. But while 82 percent of French wine value is captured by regulated AOC wine producers, Italy's regulated DOC and DOCG wines capture only 47 percent of Italy's wine market value (ISMEA 2008b: 219, data excludes sparkling wines). While there are over 360 DOCs in Italy, many have annual production volumes of zero, as the value gained by the DOC mark is less than the per-bottle fee incurred to apply the DOC sticker (personal interview with Raffaele Corrado and Vincenza Odorici in July 2010). And DOC production is concentrated: fewer than 100 DOCs account for over 80 percent of DOC output (Corrado/Odorici 2009). By contrast, French AOC production accounts for 58 percent of the country's wine production (EC-EUROSTAT 2008). To put this another way, France accounts for 35 percent of European PDO (AOC) wine production and 54 percent of European sales value, whereas Italy, its closest competitor, produces 20 percent of PGO (DOC/DOCG) sales volume and only 4 percent of its value. Thus

6 2010 PGI prices averaged € 1.85 per liter for French producers and € 1.66 per liter for Italian producers (Chever et al. 2012: 47). PGI wines specify a relatively large geographic area but they allow producers to choose which grape varieties they plant. Producers face stricter yield limits than table wine producers but more generous limits than the PGO ("protected geographic origin," for example AOC or DOC) producers.

7 PDO, or Protected Designation of Origin, is the European Union's term for the most regulated geographic production methods, including the AOC, DOC, and DOCG.

the government's appellation sticker dominates quality wine production in the French context, while in the Italian context, the majority of appellation stickers confer limited value on protected producers.

Indeed, for French consumers, wine origin is the primary determinant of their wine purchases (d'Hauteville/Sirieix 2007). For Italian consumers, the drivers of consumption are harder to discern. According to the research arm of the Italian Ministry of Agriculture, ISMEA, the best selling wine in each Italian wine region is a local wine both for table wine and for DOC/DOCG markets (ISMEA 2008b), reflecting a long-standing tradition of local-wine consumption. This parallels studies on Italian wine consumption that emphasize that the principal driver of consumer behavior is "tasted the wine previously" (Casini/Corsi/Goodman 2009: 69). Overall, "wine origin," or appellation, exerts more than double the effect on consumer purchasing choices in France in comparison with Italy (ibid.). "I read about it," or the cicerone device, exerts no measurable impact on consumer decision-making in the French market context (ibid.). In the Italian context, "I read about it" exerts a stronger effect on consumer behavior than "wine origin" for well informed consumers at all points of sale, as well as for all consumers making on-premises wine purchases.[8] In other words, the cicerone device is significant for engaged Italian consumers, but the principal driver of Italian wine consumption is direct personal knowledge of the wine.

According to sociologist Gary Gereffi, supply chain politics provides a tool that links consumer behavior, producer power and market structure. Through his investigation of global industrial supply chains, Gereffi postulates that there are two types of commodity chains: producer-driven and buyer-driven. Producer-driven systems are characterized by high barriers to entry for the inputs of production. In contrast, buyer-driven commodity chains are highly competitive and controlled farther down the production chain by branded manufacturers and retailers (Gereffi 1999). These commodity chains resemble French and Italian quality wine markets, whereas the French quality wine industry can be described as producer-driven and the Italian wine industry as buyer-driven.

The French AOC commands high average prices because of this producer-driven market approach. Due to high barriers to entry for input factors, producer-driven products are perceived as special and therefore they are not immediately vulnerable to the challenge of near substitutes. Central to the producer-driven approach is the idea that the producer resists or creates demand rather than follows it, and industry experts are better equipped to lead the market than the mass consumer base (Gereffi 1999).[9] In other

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8 "Read about it" is important for all wine consumers in all measured purchasing contexts except for less involved consumers purchasing in the retail segment (Casini/Corsi/Goodman 2009: 69, 71, 73).

9 A classic example of producer-driven production is Apple, as illustrated by Steve Jobs' remark: "Consumers do not know what they want; you need to show them" (Isaacson 2011: 567).

words, supply should not follow demand, but demand should follow supply. This, of course, parallels the literature on quality conventions, as well as Bourdieu's notion of homology. In the supply-side approach, consumers align their idea of quality with the producer definition; in other words, consumers align their preferences with what producers and the state deem to be quality (Teil 2004).[10]

On the other hand, Italian quality wine production is buyer-driven, meaning producers respond primarily to market signals. This is true of both large quality producers, who dominate their suppliers and tend to blend both mass market and quality-value production, and small quality producers. Italian growers have historically remained politically fragmented in comparison with their French counterparts (Loubère 1978), which weakens their ability to closely link wine quality to a geographically-based (and limited quantity) grape. Instead, wine quality has been defined principally by individual brands. The fragmented production structure makes it more difficult both for producers to restrict access to the primary inputs of production and to define these inputs as constitutive of quality. As a result, Italian producers find themselves responding more to market signals and in a more active "conversation" with consumers than their French counterparts. To the Italian producer, the consumer still knows best; to the French producer, regulation is supposed to protect quality production from the tastes of unsophisticated consumers (personal interviews: General Manager, Top Bordeaux Luxury Wine Producer 2009; Wine Merchant, Burgundy, 2011; Award-winning wine producer in Emilia-Romagna, 2010; Italian Wine Journalist 2009).

The difference between the producer-driven and the buyer-driven approach is an outcome of how producers organize to solve supply chain asymmetries. Two issues need to be resolved in order for a quality market to thrive. The first is the problem of *informational asymmetries,* or the idea that a seller will have more information about a product's quality than a buyer. Second, producers need to be protected from market *power asymmetries,* or the imbalance that arises when a few powerful buyers in the market may push down prices for interchangeable sellers, thereby eroding the ability of sellers to maintain the standards necessary to meet the socially agreed notion of "quality."

George Akerlof (1970) describes the consequences of informational asymmetries or the "lemon problem" in the case of the used car market. Akerlof demonstrates that in the absence of institutional devices such as warranties, buyers are unable to distinguish quality from "lemons" and sellers cannot receive a "fair" price, so sellers with quality used vehicles keep their vehicles off the market. Thus without reliable quality guarantees, *all* products will be low quality – and the incentive for quality production disappears. Information asymmetries exist not only at the final point of sale, but also in transactions throughout the supply chain. As a result, growers have knowledge of their grape quality, but the ability of a merchant to reliably verify the quality of large grape quanti-

10 Even within the French case, more regions are more producer-driven than others. For example, Burgundy is more producer-driven than Bordeaux; see Colman (2008) or Laferté (2006).

ties is constrained. But unless growers can secure a fair price for their quality grapes, they have no incentive to sell grapes with high production costs to wine merchants. In the case of wine, this problem manifests itself in the planting of higher yielding, lower quality varieties; increasing grape yields (known to decrease grape quality) and planting too densely; pruning and picking carelessly; or keeping quality grapes for personal consumption and selling the remainder to the merchant. There is an information asymmetry that needs to be solved to maintain incentives for quality grape production.

The second type of market asymmetry is a power asymmetry. While an information asymmetry may benefit growers, wine merchants may possess a *power asymmetry* in the absence of institutionalized cooperation. Often a region has a very small number of wine merchants and thousands of growers. The merchant sets the price and the grower has little choice but to accept it, even if it is below production costs. This puts downward price pressure on growers, who may again be forced to skimp on quality. Thus both types of market asymmetry undermine quality production. Next we will investigate how and why French producers organized to solve these problems. The French case demonstrates the significance of producer politics in constructing and protecting quality markets.

4 Understanding the French wine market

Two principal points of variation caused French and Italian quality producers to organize in different ways: historical market structure (economic history) and institutional structure (political history). French producers had recognizable geographic brand names, a legitimate national bureaucracy, and political power, which enabled producers to translate their interests into effective national policy (Loubère 1978: 354). French wine regulation developed as French wine producers sought to create market barriers to guard against an increasingly competitive market, building upon pre-existing political capacities to solve the previously described endemic market failures and to construct a specific idea of quality production. The history of cooperation, strong producer groups, and strong (and potentially meddlesome) state apparatus provided an incentive for the two groups to make concessions to one another and to protect shared geographic brands.

French producers have a history of politicized, organized wine producers dating from the mid- to late nineteenth century (Simpson 2011; Loubère 1978). Unlike their Italian counterparts, French producers were often landowning peasants with the right to vote and the ability to apply political pressure; they more frequently specialized in wine production, and beyond that they specialized as grape growers or wine merchants, whereas their Italian counterparts tended towards polyculture farming. For example, the *Société des viticulteurs de France* became an important contact between many local wine or-

ganizations and the wine group within parliament (Loubère 1978: 354), and growers and merchants had a history of local institutionalized cooperation dating from the late nineteenth century.

French wines have dominated the quality market since the seventeenth century, when European aristocracies exhibited preferences for certain Champagnes, Burgundies, and Bordeaux. But beginning in the late nineteenth century, French wine merchants began branding cheaper, extra-territorial grapes with the names of these known French wine regions. French growers blamed wine merchants for low grape prices – especially in Champagne and Bordeaux – and in 1910 and 1911 there were violent attacks on merchant houses by Champagne growers. Champagne merchants took the initiative to reach a peace with growers, largely driven by the desire to keep a strong state from "destroying" a quality market (Kladstrup/Kladstrup 2010).

French producers aimed to strengthen supply chain linkages to exclude lower-priced, new market competitors through the establishment of the shared geographic brand, consistent with the logic proposed by Harrison White in "Markets from Networks" (2002). The following bargain was struck: if wine merchants only bought "Champagne" grapes from producers in a clearly defined area, growers would follow detailed production instructions, including allowable grape varieties, yield limits, planting standards, and pruning standards. Thus *terroir* is constructed from two components: geographic origin and production processes. The first component protects growers (solving the power asymmetry) and the second component protects merchants (solving the information asymmetry). Essentially, growers obtain access to a type of monopoly over Champagne grape production, assuring wine merchants that grapes are of a certain quality level.

In order to protect their markets from lower-priced competitors, the grower-merchant council (the interprofessional council) serves as a local regulatory body uniting these actors under a geographic brand. The council splits power equally between growers and merchants. The growers are organized into *syndicats* (unions), and within the syndicat, each grower has one vote, regardless of output. Membership in the syndicat is mandatory for AOC growers. The elected leaders of the syndicat share power and have the same number of positions as the wine merchants' union in the *Comité interprofessionnel,* and the presidency of the *Comité interprofessionnel* rotates between a grape grower representative and a wine merchant representative. Information – including price information or best practice production – is shared both within the syndicat and across the interprofessional organization. The principle mission of the interprofessional body is to promote and protect the shared geographic brand and, to that end, their tasks have included investing in shared research, in advertising and promotion, and in creating and protecting their agreed rules of production.

In 1935, a quasi-governmental institution (the INAO) and national regulation (AOC) emerged to support and reinforce these local institutional innovations (Loubère 1990; Colman 2008). These organizations then linked growers and merchants with the support of the state. This also enabled growers and merchants to jointly define "best production practices" under the geographic brand; the INAO could then accept or reject this producer-definition of quality (but they cannot amend it). In essence, the emergence of the appellation device empowered producers to construct their own definition of quality and to legitimize it through the state.

Importantly, the *Comité interprofessionnel* provides a legitimate and institutionalized voice for two formerly adversarial groups to reach agreement on production standards and prices. The council tends to equalize power between two previously unequal players: traditionally weak, numerous and interchangeable grape growers and the larger, more powerful (downstream) wine merchants. The grower organization was sufficiently effective to provide a meaningful guarantee to French wine merchants. These structures solve both the informational asymmetry and the power asymmetry. And unlike the structure of French labor unions, in which ideological cleavages divide workers' groups and cause them to compete and struggle to maintain durable bargains with employer groups, united grower groups provided a sufficient force to effectively cooperate with organized merchants and then, with the support of the INAO, to change the structure of the market. Indeed the French interprofessional structure resembles the corporative-associative order as they are stable and strategically interdependent interest associations that contract together to achieve a symmetry in their respective resources, and each association has a monopoly as an intermediary for the group they represent (Streeck/Schmitter 1985: 126).

This corporatist organization, as Wyn Grant suggested, has the potential to change the balance of political power in favor of the weaker groups in a capitalist market society (Grant 1985). As growers began cooperating with wine merchants, they ensured that high grape quality and adherence to traditional methods became profitable throughout the production chain. For example, Champagne grape growers have a monopoly over Champagne grape production, enabling them to earn as much as € 5.50 per kilo. Champagne wine merchants pay more for their wine grapes than any other wine merchants, but instead of making Champagne uncompetitive, the quantity of Champagne wine is severely constricted, leading buyers to bid up prices in the luxury market: Champagne sells for an average of € 21.34 per liter, four times the average price of regulated French wines (EC-EUROSTAT 2008). This protects farmers, but wine merchants are better off as well, as both parties benefit from the restricted supply, the perceived qualitative difference, and the subsequent idea of Champagne as a status product.

While the French state is typically associated with the principle of *dirigisme* (state-directed policy), the quality wine market is, to the contrary, an example of strong producer groups effectively utilizing the state to enhance and protect their market. Specifically, the French nationally centralized partners (the INAO) institutionalized the

political dominance of elite producers and their idea that historically-proved superior land produces superior quality wines. The INAO has, in turn, shaped the definition of quality and subsequent political objectives of the French Ministry of Agriculture. The INAO comprises "quality wine experts," which include growers, wine merchants, geologists, lawyers, and other professionals. But because Northern and Central France typically produced quality AOC wines for most of the twentieth century, and Southern France typically produced table wines, the quality wine experts tend to be overrepresented compared with traditional AOC producers and their interests. The dominance of traditional quality producers in the INAO contributes to the current notion that "quality" at the INAO is not found in regions producing high-quality *terroir* wines; instead, "quality" is less important than "tradition" (personal interview, Bernard Martin, 2011, INAO Narbonne). This definition prevents new and innovative southern quality producers – such as those in the *vin de pays* appellation *Cité de Carcassonne* – from securing an AOC. This approach defends the economic rents of those who have already secured an AOC, while more broadly protecting an elite-defined notion of quality.

Importantly, the history of French centralized quality regulation helped the Ministry of Agriculture's "AOC" label to be perceived as legitimate. The French state has played a significant role in regulating quality production since the seventeenth century (Shonfield 1965: 79), constructing centralized, hierarchical definitions of quality (such as the AOC). During this time, quality was determined by the Sun King (Louis XIV), regulated by his finance minister Colbert, and the king's taste would be replicated by his court and through the social hierarchy. Consumers demonstrated their sophistication by converging on the king's definition of quality (Elias 1978). Both the French model of AOC production and consumption are oriented towards and reward deep principles of class and exclusion that characterized the *ancien régime.* The French AOC mark is not a sign of quality, but rather a mark of tradition. Implicit here is the idea that producers who historically have produced quality wines have superior methods (and thus a superior product) compared with market newcomers; their market longevity is evidence of their quality. This circular logic protects the "first movers" in the market.

The French AOC wine idea is based more upon the idea of *noblesse du robe* than *noblesse d'épée* – in other words, quality is something inherent and "God-given" rather than something that can be attained through effort and merit (Fourcade 2012). For wine categorizations *other* than the AOC – for example, the French IGT or even the Italian DOC or DOCG – any group of producers can theoretically obtain the know-how to produce quality wine (provided that soil and climate are conducive to quality wine production). The elite structure of the AOC resonated with a certain sense of identity on the part of consumers who want to differentiate themselves. By attributing value to a feature that is impossible for most to perceive – the process of production – the French created both a restricted market supply (providing them with greater control over both price and distribution) and – among consumers – a clear group of "insiders," differentiated by their defined and refined taste. This is because taste and knowledge must be slowly acquired and built up, it cannot be bought, and cannot be faked by the "nouveau

bourgeois." In other words, the AOC was homologous to the French system of class, differentiation, and distinction. Politics and history, then, influence which structures resonate with consumers as legitimate.

The principal success of the AOC lies not in protecting quality producers – who already had a degree of individual brand recognition – but rather in limiting price competition and spreading quality production from a small number of producers in a limited number of regions to the majority of producers in a plurality of French regions. Elite French producers have succeeded in institutionalizing the notion of *terroir* not only at the national level but also – and critically – at both the European and international levels. In 2011, the European Union institutionalized the protected designation of origin mark (PDO, created in 2011), modeled on the French AOC system. The French Ministry of Agriculture, profoundly influenced in geographic policy by the wine industry–dominated INAO, played a pivotal role in fighting for French producer interests and protecting *terroir*-based regulation at the EU level (Smith/de Maillard/Costa 2007). The notion of *terroir* was further disseminated at the international level by the French-dominated International Office of Wine and the Vine (OIV). Through these institutions, French producers have successfully institutionalized a French notion of quality, based on *terroir*. Even in the New World, producers and consumers speak of *terroir* and area of geographic origin. The notion is institutionalized beyond the French context, providing a type of "first mover" advantage to French producers.

In sum, French quality wine regulation was born out of economic crisis, a history of political cooperation, and a strong state apparatus with a history of defining and regulating hierarchical notions of quality. French producers had three advantages that the Italian state lacked: some history or quality production (and some market renown); a state with a history of quality regulation; and a history of politically active producers. Without these political tools, Italian producers remained weak, fragmented, and disadvantaged, which profoundly constrained their ability to create the strong institutions and durable compromises that characterize protected quality markets.

5 The Italian case

Italian producers lacked the political positioning and experience of economic hardship that propelled their Gallic counterparts to form effective, bottom-up producer organizations. Italian farmers tended to be polycultural farmers and they did not have strong identities as "grape growers" and as "wine producers" (personal interview, Aldo Vacca, 2011). This had two consequences. First, farmers were more protected from market volatilities. Second, they were less likely to see themselves as belonging to a wine "pressure group." In addition, small farmers lacked the right to vote, so they had limited means of

pressuring the government, even if they could have specified their interests. When they finally got the vote – just before the beginning of World War I – "they were too politically naïve to know how to use it" (Loubère 1978: 356).

Italian quality wine regulation developed as an attempt to improve wine quality, rather than in response to an economic crisis. Italy's Ministry of Agriculture established the DOC in 1963, at a time when Italy was industrializing rapidly and most Italians still drank mass-produced wine (Clavel 2008). The flow of workers from rural farms to northern urban centers expanded rapidly throughout the 1950s and into the 1960s, and the Italian economy lifted people out of poverty at the highest rate in the country's history. During this time, grape growers and wine merchants were not experiencing market contraction – if anything, production benefited from market expansion (although the gains from this growth were not necessarily captured evenly by merchants and growers). The need to stabilize fluctuating grape prices – the main driver behind French regulation in the early twentieth century – was less relevant to the Italian wine market in the postwar period. Their problem was rather chronically low prices: Italian producers needed instead to create value and enhance quality.

The AOC had already proved effective in increasing price and quality for French producers, and the Italian Ministry of Agriculture created institutions to parallel the French system in an attempt to duplicate its market success. At the national level, the Italian *Comitato nazionale vini* mirrored the public–private French *Institut national de l'origine et de la qualité* (INAO).The *Comitato* comprised technocratic industry experts who are independent of the government, although formally under the Ministry of Agriculture, parallel to the relationship linking the INAO to the French Ministry of Agriculture. At the local level, the various DOC *consorzi* were equivalent to the local French *Comité interprofessionnel,* made up of local growers and merchants creating shared production standards. Like France's *Comité interprofessionnel,* the Italian *consorzi* split voting power evenly between growers and merchants, at least for the DOC's first three decades. The *disciplinario,* meanwhile, is the Italian version of the AOC's *Cahier des charges:* a written document of the attributes of a protected wine (including appellation boundaries, maximum yields, and allowable grape varieties).

Italian wine regulation attempted to increase the price and quality of Italian wine by restricting the quantity of protected grapes, codifying traditional best practices, protecting shared geographic names from being expropriated, and increasing cooperation between local producers. Two important consequences have arisen as a result of the origins of wine regulation as a tool to build, rather than to protect, a market. First, local organizations were created to serve as an economic development tool, but these organizations emerged without the parallel construction of a common political identity or negotiated compromise. The oscillations of the French market in the early twentieth century caused actors to forge institutionalized compromises and to work together to protect their markets from (perceived) lower-quality, less expensive competitors.

Local Italian growers united through local production organizations that paralleled the French organizations, but lacked the political cohesion of their French counterparts. They had not experienced the high and low prices that caused French producers to act to develop market barriers; there was no long history of cooperation among producers and, due to the polycultural production mandated under Mussolini, producers did not identify themselves as wine producers nor as "growers" or "merchants." In addition, Italian grape growers did not hold any power vis-à-vis wine merchants when regulations were implemented because their grapes were not in demand. Italian grape growers remained politically weak under the new geographic regulations, and political and economic power tended to remain with large producers, wine merchants, and even distributors. As a result, a negotiated corporatist compromise between supply chain actors was never achieved; a strong compromise between two powerful groups was not an option in the Italian wine context. Instead, local wine politics were characterized by division, distrust, and factionalism.

On paper, Italian quality regulation was identical to French quality regulation. In practice, however, these regulatory regimes functioned in radically different manners. Italy had not traditionally been associated with quality wine production, and, as one of my interview subjects explained, "Italy has a long tradition of wine-producing, but not of quality wine production. This emerged only over the last 30 years" (personal interview, Vincenzo Zampi, 2010). While the French wine regulatory regime was a bottom-up construction intended to enhance and protect quality wine production, one objective of Italian wine regulation was to improve upon existing production practices. The *Comitato nazionale vini* liberally granted the DOC as a means of both improving quality by codifying emerging "best practice" procedures and differentiating "quality" producers by means of a government quality mark. As one observer explained: "We made DOC instructions to improve production practices. The point was to learn how to make good wine, and to sell the wine at a good price. There weren't any quality Italian wines at that time that were at risk of being imitated" (ibid.). In this sense, the goal of Italy's *Ministero d'agricoltura* was market building, not market protection.

The initial Italian DOC regulation failed to create quality wine production, and in 1992 the structure of the local *consorzio* was amended to reflect the market preferences of larger, successful producers, the same producers who reportedly have ties with the national *Comitato* (personal interviews, Italian wine journalist, 2010; assistant to *Comitato* member, 2011). The local *consorzio* structure changed from the initial French style (with an even division of power between growers and merchants) to a new model, in which voting power is proportional to production output, regardless of supply chain position. In other words, it is irrelevant whether someone is a grower, a merchant, or both. Votes are weighed by production volume, which favors large producers and merchants. This change was made to encourage Italian producers to adapt a "market mentality," but the consequence of this procedural shift is that it further divides small producers, (who try to compete on a differentiated product) from large producers (who produce on economies of scale). Instead of increasing the political power of small growers, the voting

structure just reflects any power asymmetries that exist in the marketplace: grower power remains weak, and the ability to define brand and value is located with large firms or with actors who have the ability to transform the grape.

Weak grower protection is associated with buyer-driven supply chains and increased market competition. Specifically, large producers and merchants buy the majority of their grapes from growers, thus they have the objective not to make grapes scarce, expensive, and special, but to minimize the cost of the grapes they buy. And over the past few decades, one can observe an emphasis on market expansion in some quality Italian wine regions, undermining the quantity constraints the luxury market relies upon. This may explain why the number of bottles of Brunello di Montalcino and Rosso di Montalcino each increased by nearly 50 percent in eight years, from 1998 to 2006 (Corrado/ Odorici 2008: 9). Some of this increase is due to the city's expanding geographic limits, which today makes Montalcino the third-largest Italian city (as measured by surface area). The interests of the larger producers trumped the interest of the small producers and of grape growers. While some informal, flexible producer organizations emerged, these organizations cannot be characterized as corporatist and they failed to provide a reliable solution to the market power asymmetry or the informational asymmetry. As a result, grape prices remained weak and grapes remained of variable quality.

Today, large branded firms dominate the Italian wine sector – 32 percent of Italy's national wine market share is held by only nine large firms.[11] According to a study by Stasi, Seccia and Nardone (2010), only one large Italian wine firm has sufficient brand loyalty to maintain a relatively inelastic demand curve, despite this high level of market concentration. The other eight large firms' wines are essentially interchangeable, leaving them with little or no ability to increase marginal revenue over marginal costs. The study indicates both the extreme concentration of the Italian wine market, and, given that larger Italian wineries are not vertically integrated, these concentrated firms could theoretically exercise monopsony when setting grape prices for farmers (ibid.: 2). In other words, without mechanisms of coordination, the balance of power within the wine market remains heavily skewed in favor of large firms and to the disadvantage of small growers. These large firms tend to be price competitive with one another, and in order to maintain low prices, this price pressure is pushed upstream to the growers, who lack power to negotiate for higher prices and few (if any) additional buyers for their (often perishable) goods. As a result, most growers have no choice but to sell at whatever price the buyer is offering, even if that price is at or below cost.[12]

11 The next 37 percent of market share is held by 684 firms, with Italy's more than 72,000 other wineries divvying up the remaining 31 percent of market share.

12 According to the statistics branch of the Italian Ministry of Agriculture, there is a strong geographic component to this power asymmetry as well, with small growers concentrated in Southern Italy and large firms who capture the market value of transforming the grapes into wine concentrated in Northern Italy, notably Emilia-Romagna (ISMEA 2008a).

According to economic principles, this market structure should increase the downward price pressure on Italian grape growers, causing producers to seek cost-minimization strategies that may or may not be compatible with quality production. This is especially true given the widely accepted notion that increased grape yield leads to diminished grape quality, as previously noted. Yet low grape prices would encourage growers to increase their yields by pruning less or by planting higher yielding varieties, as they are paid on production volumes. These two variables – large branded firms and downward price pressures on grape producers – would be expected to contribute to the relatively stronger reliance on technology in wine-making, due to the ability of technology to construct a more standardized brand taste and to cover grape flaws. Additionally, the inability to solve informational asymmetries within the wine world should be associated with a shift towards technology and "know-how" in wine-making and away from an emphasis on unique grape qualities and *terroir*.

This may provide a short-run market advantage to some large firms, but overall it inhibits quality producers from attaining product attributes associated with singularity, uniqueness, and higher prices. Specifically, the differences in the location of supply-chain power shape French and Italian wine styles. As noted above, technology masks grape flaws. As a result, standardizing technology becomes important when winemakers have grapes of variable or of unknown quality. This may be a more common problem in markets with fragmented cooperation among supply chain actors. The wine blog *The Zinquisition* summarized these differences between French (*terroir*-driven) wines and Italian (style-driven) wines:

> *Terroir*-driven wines are often associated with wines of a "natural" style … with limited human intervention. Style-driven wines are wines where a winemaker strives to create a wine of a certain style … These wines are also thought by critics to reveal less of their *terroir* as those subtleties are masked by the (human) intervention. (Cited in Corrado/Odorici 2009: 115)

Robert Parker makes a similar point: technology (the domain of the winemaker) brings "standardization to such a point that it becomes difficult to distinguish between an Italian, a French, a Californian or an Australian Chardonnay" (Parker's *2002 Wine Guide*, cited in Karpik 2010). Finally, technology also becomes important when brand "consistency" drives product strategy. Karpik notes the difference between these two markets: the appellation quality market of differentiation and distinction and the brand quality market of consistency:

> As the story is often told, the competitive struggle amounts to a conflict between … appellation wines and brand wines … what is at stake in this opposition? It is not quality versus no quality, but two different conceptions of quality. Brand wine is characterized by large-scale production of good, pleasant-tasting, stable, and homogenous wines, where appellation wines feature particularism, variability, and surprises – some pleasant, some unpleasant. Or, to put it differently, on the one hand, there are a limited number of wines with an easy choice and a predictable outcome and, on the other, numerous wines with a complicated choice and uncertain results. (Karpik 2010: 145)

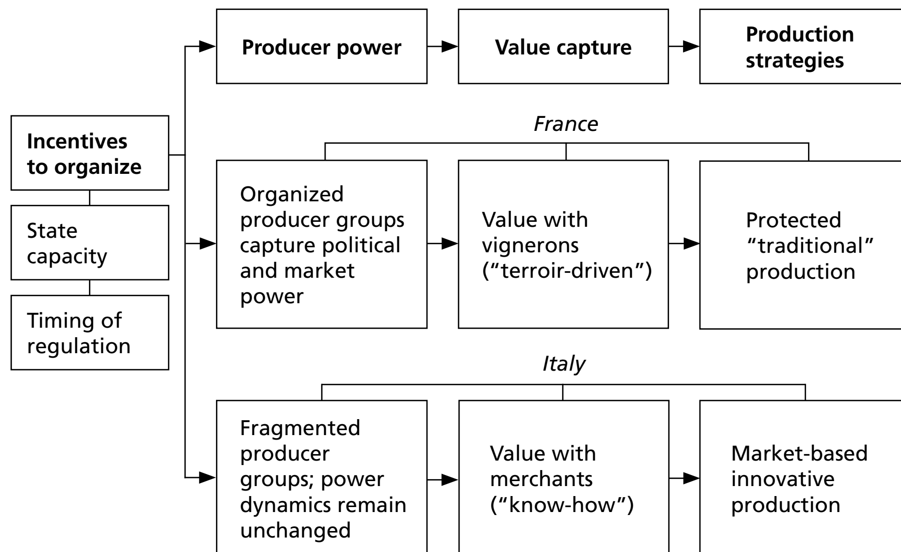
But, undoubtedly, the French appellation wines – the "numerous wines with a complicated choice and uncertain results" – dominate Italian branded wines (appellation or not) in terms of price and market share. The difference in supply chain value and in definitions of quality, then, affects the extent to which a product distinguishes itself from similar competitors. French quality is perceived to be above concerns of market demand, as the *terroir* principle protects "tradition" and explicitly inhibits market adaptation. The supply chain structure creates a protected, producer-driven market. On the other hand, the weaker Italian producer organizations and the less effective state regulation inhibit the protection of primary supply chain inputs, leading producers to find themselves in a competitive, buyer-driven market. Unable to create demand, Italian producers tend to respond to market signals. And according to wine journalist Franco Zilliani, even Italian wine guides "create" demand by anticipating the preferences of their readers (personal interview, 2010). As Aldo Vacca, wine historian and president of the Barbaresco wine cooperative, described (personal interview, July 2011):

> The traditional market is more unique. It is more intriguing, more complex, you don't have all of this fruit but eventually you have layers of complexity … [Some producers have] started to realize what I always thought – if we want to sell our wines, we need to give a unique product. So maybe not wines that are fashionable at the moment, maybe not the most popular, but different. Otherwise, everyone is in the same market space.

These market observations raise questions about organization, power, and long-run market protection. Legitimate institutionalized solutions to market asymmetries can be primarily addressed politically, or they can be left to be coordinated by the market. Thus, producer politics and subsequent market protection shapes the emergence of buyer-driven or producer-driven market structures. As we see in Figure 1, political incentives to organize led to divergent patterns of producer organization between the French and Italian quality wine markets, and these patterns shape the subsequent distribution of power within the supply chain, leading to different definitions of quality and subsequently different levels of market protection. Specifically, the French quality wine sector follows a corporatist organizational structure, in which power is shared between growers and wine merchants. In Italian wine production, the sector's organizational structure is associative: it relies on cooperation without any formal redistribution of power between one set of supply chain actors and another. The seeds of these differences are found in the early politicization and institutionalization of power structures in the two cases. How producers produce and conceptualize quality, and their subsequent level of market protection, is a political outcome.

As in the French case, the extent to which producers are reliant on effective regulatory protection or on market competition is critically shaped by assessment by the national bureaucracy. The young Italian state (modern Italy was united only in 1861) had no history of regulating quality. Quality was hierarchical and defined by the local courts; a centralized, national quality hierarchy never emerged. Quality knowledge is deep in

Figure 1 From political incentives to production strategies



Italy, but it is not centralized. It is taught by the family, it is taught by direct experience, it is a part of the regional fabric. It is taught at the local level. The Italian state has not established a reputation as a legitimate guarantor of quality.

There are strong ties between the Italian state and some groups within Italian civil society, especially elite groups. However, the Italian bureaucracy is perceived to lack the autonomy needed to construct and implement regulation to the benefit of Italian society as a whole; specifically, many view the state bureaucratic structure as vulnerable to manipulation by the elite.[13] This perception shaped both producer and consumer behavior. First, the historical perception of the state as clientelistic influences the strategies of producers, who may seek to use elite networks to create favorable policy outcomes. At the same time, this perception of national regulation as historically shaped by clientelistic ties undermines the strength of any regulation, even regulation that may theoretically be obtained through legitimate means, and/or regulation that may protect legitimate wines.

Finally, using the state as a clientelistic tool can undermine the ability of Italian producers to produce quality wines. DOC protection was sometimes granted as an electoral quid-pro-quo (you vote for me, I deliver a DOC); other times *Comitato* members would grant themselves DOCs (personal interview, wine journalist Franco Ziliani, 2009). This political nature of the DOC inhibited the regulation from delivering effective results. "When you want to create a new area, you need to allow people to experiment, learn,

13 For specific accusations of political corruption in quality wine regulation, see Franco Ziliani's blog <www.vinoalvino.org>.

and find the best quality. Instead, politicians are in a rush to give value-added to their constituents" (personal interview, Zampi, 2010). Instead, the DOC provided a quality guarantee to many wines that had not yet found their highest quality production practices as a means to secure political patronage (personal interviews: Franco Ziliani, 2009; wine industry expert, 2009; Italian enologist, 2010; Vincenzo Zampi, 2010). This harms the evolution of the sector in three ways. First, it may slow down the process of innovation (at least among some producers). Second, it may stigmatize the shared local geographic brand if the region is associated with a low-quality wine. Third, the protection of lower-quality wines weakens the value of other DOCs, as the government mark no longer signifies an effective quality guarantee.

Thus, production protected by the nascent DOC was frequently subpar and sometimes actually damaged the wine (personal interviews: Vincenzo Zampi, 2010; Aldo Vacca, 2011); producers could make better quality wines by leaving the appellation. The "SuperTuscan" phenomenon in the 1970s is an extreme example of this) – when a few producers believe the local Chianti DOC regulations could be improved upon by dramatically changing some of the production rules. One production rule required all Chianti producers to add white wine grapes to Chianti, which SuperTuscan producers perceived as a regulatory requirement rooted in politics rather than quality (interview at Antinori 2009). The new SuperTuscan wines not only garnered Italian wine producers international recognition and "luxury" prices – it meant that the most expensive were in the "lowly" table wine category. In this case and in others (such as the Sicilian Nero d'Avola), consumers found higher-priced, higher quality wines outside the DOC regulation. These developments weakened the legitimacy of the DOC mark and encouraged the emergence of alternative judgment devices; by the early 1980s wine guides were prominent in the Italian quality market (Corrado/Odorici 2004). One quality winemaker and political leader in Emilia-Romagna, summarizing the market influence of the DOC, said: "Regulation is less important than wine experts. People don't trust the government mark." Elite–state linkages undermine the producer–state feedback loop, weakening the "fit" of the policy, the level of consumer trust in the appellation mark, and the producers' ability to create a "constructed comparative advantage." Table 2 contrasts this market structure to the French market structure.

Table 2 A comparison of wine market structures

Market characteristics	French quality market (AOC)	Italian quality market (DOC)
Nature of competition	Quality	Hybrid: Price/quality intersection
Who sets standards	Wine industry	Market
Dominant judgment devices	Appellation	Cicerone / local direct knowledge
Patterns of producer organization	Corporatist-associational	Autarchic-associational
Producer- or buyer-driven	Producer-driven	Buyer-driven

6 Conclusion

High value-added wine markets provide an example of how producers *politically* construct the rules for value. These markets are distinguished by limited supply, hierarchical and elite-defined notions of quality, and prices that vastly exceed production costs. They rely heavily on politically constructed market signals to indicate quality. French producers were the first to compete in the status wine market, and they responded to an increase in market competition by constructing a new definition of quality. This conception of quality valorised their product and kept potential competitors out of their market space. French grape growers were able to define this authenticity regime in terms of *terroir* – or the traditional best expression of a delimited geographic area – due to their political organization and the regulatory legitimacy of the state. Italian wine regulation, conversely, was developed with the intention of increasing market share. This reality, combined with the ways in which Italy's patterns of political organization differed from those of France, resulted in the emergence of an alternative authenticity regime in the Italian market.

As we have seen, the difference between the French and Italian quality markets lies essentially in how they solved the problem of market asymmetries and where the monopoly (oligopoly) lies. French producers solved the market asymmetries politically through producer organization and the state. All producers within a given region have access to a shared brand and there is a type of "shared monopoly" – a monopoly that creates a degree of market differentiation and, therefore, market protection. Italian producers have nominally identical regulation, but in practice shared geographic brands are weak in comparison with France. While a few producers have created successful brands, in the Italian case market asymmetries persist: producers have tried to solve this problem through vertical integration but given the sheer number of Italian producers (estimated to be over a million), vertical integration merely pushes market asymmetries further down the supply chain; instead of asymmetries occurring between growers and merchants, they are between wine producers and distributors, between producers and retailers, or between distributors and retailers. And French wine regions still produce the most sought-after wines in the world, raising the question of whether their historical dominance is evidence of the superiority of French wines or of a superior method of protecting early market advantage.

The most important insight these differences provide is that they contest the liberal economic assumption that free markets – with atomized producers offering different products and buyers pursing different market preferences – will lead to efficient, utility-maximizing outcomes. Such a market model is appealing in theory. However, the data suggest that the consistent price and assigned value differences between French and Italian quality wine producers rest less in the mysteries of market logic and more in divergent politics. French and Italian market structures require an understanding of patterns of producer organization and the role of the state in legitimizing standards. The distinction between producer-driven and buyer-driven markets has important

implications for the construction and protection of market value: producers who create market demand operate in a more protected market space than producers who follow demand. As a result, the former have the potential to launch themselves to a higher-value tier than producers in the latter category.

How can we reconcile the fact that higher price points are associated with regulation that inhibits market responsiveness and protects economic inefficiency? One reason could be that too much competition may actually be *detrimental* to the creation of value-added markets. Some authors have already described the potential tension between the notion of market efficiency (competition) and of "market slack" (Hirschman 1970) or market "monopolists" (Brooks 2012; Schumpeter 1942; Kim 2005). In *Exit, Voice, and Loyalty,* Albert Hirschman argues that a degree of "market slack" – or market inefficiency – allows firms to invest in the development of new products, improve production, take risks, anticipate market demand, and look to protect long-term market interests. Schumpeter takes this argument a step further, arguing that monopolies are better for the economy than competitive firms: "there are superior methods available to the monopolist which either are not available at all to a crowd of competitors or are not available to them so readily" (1942: 101).

Behind the idea of "monopolistic value creation" is the notion that firms should aim for unoccupied market space, where they can secure long-run market stability and a degree of market slack. This idea parallels the notion of protected producer-driven markets. Successful French AOC regions successfully organized to protect their first mover market position, shaping the terrain and the rules of the game for their potential competitors. The French strategy provides examples of how producers can create demand instead of responding to it and how "inefficient production" can benefit upstream producers, consumers, and even wine merchants. For other successful, high value-added sectors, a degree of protection of upstream supply-chain power (power with suppliers, as opposed to distributors or retailers) is key to constructing a degree of market protection (Carter 2012). Upstream supply-chain power relies on establishing the perception of unrivaled quality for a limited-quantity input.

A firm or cluster of firms that has a degree of market protection, but competes in the broader marketplace can enable firms to establish a stable market niche. Competition can lead to efficient production and low prices, but too much competition can lead to commodification, a transferring of market risk to the most vulnerable production actors, and a collapse of market options for consumers. On the other hand, vertical and horizontal supply chain cooperation can decrease transaction costs, increase trust between actors, and contribute to the long-run health of a company or sector. It can help develop a sufficient economic cushion to fund research and development, enable creative risks, and facilitate innovation. At its worst, cooperation can produce monopolies or oligopolies and protect inefficient producers. Ideally, producers strike the balance described by Schumpeter: enough market protection to provide a buffer from intense price-based competition, but enough exposure to product substitutes that encourages

innovation and quality production. The idea of political protection – especially protecting upstream suppliers – is central to building and maintaining value in competitive, integrated markets. The wine sector offers a valuable opportunity to explore the ways in which understanding the role of politics is not a luxury; rather, quality markets are fundamentally derived from and dependent upon politics.

Appendix

Methodology

I obtained the qualitative data for this project through 148 semi-structured interviews, normally ranging between one and two hours in duration. I conducted these interviews with an array of experts, producers, and policy makers, across the high and low ends of the French and Italian wine sectors, in a total of eight wine-producing regions. My interview subjects included the following: grape growers; wine merchants; wine promoters; cooperative directors; geographically-based appellation organizers at the local, regional, and national level; wine journalists; wine historians; wine economists; and wine lawyers. In France my interviews were conducted in Champagne, Burgundy, Bordeaux, Languedoc, and Paris over three visits totaling 15 months. I conducted my Italian interviews in Sicily, Tuscany, Piedmont, Puglia, Lazio, the Veneto, and Emilia-Romagna. These interviews were also conducted over three visits totaling six months. I triangulated my research via interviews with producers, political organizers, and wine lobbyists in both the United States (California and Oregon) and Germany (Rhineland-Palatinate), as well as with actors from luxury manufacturing in France and in Italy (producers, professors and instructors at French and Italian fashion/luxury technical schools, lobbying firms, producer organizations, lawyers at top luxury houses). Finally my secondary data were collected through sources available to me during my stay at INRA (France), and visits to ISMEA (Italy) while a scholar at Collegio Carlo Alberto (University of Turin). In addition to these data sources, I relied heavily on export data collected through the Wine Economics Research Centre at the University of Adelaide.

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