Effectiveness of European Appellations of Origin on the International wine market

Giulio Malorgio
Luca Camanzi
Cristina Grazia

1 Department of Agricultural Economics and Engineering, University of Bologna, Italy

Contributed Paper prepared for presentation at the 105th EAAE Seminar ‘International Marketing and International Trade of Quality Food Products’, Bologna, Italy, March 8-10, 2007
Effectiveness of Appellations of Origin on international wine market

Giulio Malorgio¹, Luca Camanzi¹, Cristina Grazia¹
¹ Department of Agricultural Economics and Engineering, University of Bologna, Italy
giulio.malorgio@unibo.it

The objective of this paper is to evaluate the role of the Appellation of Origin system on the international wine market, given i) the GIs international legal protection system, ii) the main aspects of world wine demand evolution and iii) the strategic choices of firms on the international market.

On the demand side, we show through descriptive statistics and economic literature review, the increasing wine consumers’ appreciation of reputation and origin attributes. On the supply side, we identify the main quality strategies implemented on the international wine market and show an increasing role of origin in firms’ strategic choices worldwide.

Finally, a direct survey on Italian Appellations of Origin concerning the AO registration on the international market shows an increasing risk of an imperfect use of geographical place names. The main consequences are identified for both producers and consumers. Firstly, a misperception of products’ quality attributes can arise and menace the effectiveness of AO as informative tool. Secondly, the free riding phenomenon may arise and affect the AO collective reputation with a consequently long term demand drop. A public authority intervention is envisaged in order to reduce market distortions related to an imperfect use of geographical place names.


JEL: F13, Q13, Q17

1 Introduction

International wine markets are subject to increasing competition. As traditional wine producing Countries in the EU-25 address the domestic challenges of increasing stocks and stagnating per-capita consumption, the emergence of the so-called “New World” producers has animated extensive international discussions on the issues of labelling, brand protection and geographic Indications of Origin (GIs).

In this environment, differentiated products can offer the hope of maintaining profitability. As a sensory experience good, wine differentiation hinges primarily on the transmission and perception of information on product quality.

Consumers face the problem of asymmetric information, with the potential that the average quality in the market will be less than optimal. Conversely, producers need to find ways to efficiently transmit information on their product quality, so as to maximize the potential price premium.

In the traditional European approach, producers tend to organize through consortia which centre around the Appellation of Origin (AO) designation. This mechanism is much more than a simple geographic delineation. The consortium can be governed by history, tradition, culture, terroir, and even by tight controls
over production decisions, irrigation, plant varieties etc... Product quality is embodied in everything the Appellation stands for. The AOs play also an important role in EU exports. In fact they provide a tool for product differentiation in order to better fit demand segmentation as to create higher added value for producers.

With growth in international trade, subtle national differences in regulatory and legal frameworks can become major irritants between exporting and importing Countries. Pragmatically, there is a need to find common ground so that trade can continue to flow. Discussions aimed to find that common ground have been taking place for a number of years in different fora. From the 1891 Madrid Agreement to the more recent talks taking place within the TRIPS framework.

At present an important debate is taking place about the meaning of the notification and protection system. According to the US and other "New World" producing Countries the GIs should be based on a voluntary registration system as and identification tool. Therefore GIs should be considered as a form of territorial right and their utilization should be discussed in national legislation. On the other hand according to EU the GIs should enter in a multilateral register that should be enforced in all Countries.

The aim of this paper is to discuss the efficiency of AO system on the international wine market in order to provide a market equilibrium satisfying both producers and consumers needs, and then to give some suggestions to improve the market performance in the future.

2 Background

2.1 The protection of the Appellations of Origin on the international market

Wines and spirits are singled out for a more comprehensive level of protection, within the TRIPS Agreement (Josling, 2006). In addition to the general protection for geographical indications for wines and spirits within the general context for the protection of geographical indications contained in Article 22 of the TRIPS Agreement, additional protection is accorded geographical indications for wines and spirits.

Article 23.1 permits each Member to “provide the legal means to interested parties to prevent the use of a geographical indication” identifying wines or spirits which do not originate in the place indicated by the geographical indication in question. This prohibition, borrowing from Article 3 of the Lisbon Agreement, includes indications which refer to the true origin of such goods, or where the geographical indication is used in translation, or where the geographical indication is “accompanied by expressions such as ‘kind’, ‘type’, ‘style’, ‘imitation’ or the like.” It is envisaged that regulation of geographical indications may also be by administrative action.

The TRIPS Agreement does not set out the registration requirements for a geographical indication (Blakeney, 2001). It addresses the issue negatively by permitting, in Article 23.2, Members to legislate to provide “an interested party” to request the refusal or invalidation of the registration of a trademark which contains a geographical indication identifying wines or spirits, which contains or consists of a geographical indication which does not have the indicated origin.

Article 23.3 establish a protection for each geographical indication for wines in the case of homonymous indications. Conflicts typically arise where products on which homonymous geographical indications are used and are sold into the same
market. Concurrent use of homonymous geographical indications in the same territory may be problematic where the products on which a geographical indication is used have specific qualities and characteristics which are absent from the products on which the homonym of that geographical indication is used. In this case, the use of the homonymous geographical indication would be misleading, since expectations concerning the quality of the products on which the homonymous geographical indication is used are not met (Blakeney, 2001).

Other component of the additional protection (Article 23.4) is the establishment of a multilateral system of notification and registration of geographical indications for wines eligible for protection in those Members participating in the system.

According to Article 23, it is an infringement of a GI to use it for any similar product, or other product or service, if the use is likely to result in an appropriation of the reputation of the GI or in the weakening of its reputation (Evans, Blankeley, 2006).

For some Countries, this additional protection is regarded as an unacceptable discrimination against all other products and they have agitated for an extension of that protection to all kinds of geographical indications (Blakeney, 2001).

Article 23 stipulates that each Member shall provide legal protection for GIs ‘even where the true origin of the goods is indicated or the geographical indication is used in translation or accompanied by expressions such as “kind”, “type”, “style”, “imitation” or the like’. No mention is made of misleading the public or unfairly competing within Article 23: as the Article is headed ‘additional’ protection, the presumption is that no such conditions are required for GI protection for wines and spirits. Moreover, the scope for allowing ‘generic’ exceptions, where a geographical name has become widely used for a type of product regardless of origin, is much narrower for wines and spirits. From an analytical viewpoint this raises the obvious question as to what is the objective of tighter rules on GIs for wines and spirits? It is less easy to consider them as protecting the consumer. Consumers may still gain useful information on quality of wines and spirits from a protected geographical appellation, but if such names can be protected even when there is no attempt to mislead then one could conclude that the rents to growers in the protected regions (or the stimulus to quality improvements) are more of an influence than consumer information (Josling, 2006).

Actually, articles 24 establish important exceptions, which are likely to limit the effectiveness of the international protection of GIs for wines and spirits.

Members are exempted (Article 24.4) from having to “prevent continued and similar use of a particular geographical indication of another Member identifying wines or spirits in connection with goods or services” where that geographical indication has been used “in a continuous manner with regard to the same or related goods or services” in the territory of that Member either for at least ten years preceding 15 April 1994 (the date of entry into force of the TRIPS Agreement) or where the continuous use has been in good faith. For example, US Bureau of Alcohol, Tobacco and Firearms (BATF) permit the use of “semi-generic names” such as “Champagne”, “Burgundy” and “Chablis” if “the correct place of origin is directly conjoined to the name” (Brody, 1994).

This practice may fall within the Article 24.4 exception or within the exception in Article 24.6 which exempts the geographical indications of a Member “with respect to the products of the vine for which the relevant indication is identical with the customary name of a grape variety existing in the territory of that Member as at the date of entry into force of the WTO Agreement.”
Article 24.5 states that when a trademark has been acquired or registered in good faith before the date of application of the Agreement in that Member, or before the geographical indication was protected in its country of origin, measures adopted to implement Section 3 shall not prejudice eligibility for or the validity of the registration of a trademark or the right to use a trademark, on the basis that such trademark is identical with or similar to, a geographical indication.

Parallel to, but distinct from the TRIPS Agreement have been a number of bilateral and multilateral (including regional) agreements, which contain provisions modifying the TRIPS provisions dealing with geographical indications. For example, in 1994, the EU negotiated an agreement with Australia which included the phasing-out of European wine names used by Australian wine-makers that had entered into generic use. The Agreement also provided for mutual recognition of oenological practices of each party and improved European market-access conditions for Australian products, by removing a number of technical barriers to trade between both parties.

On March 10, 2006, the US-EU wine trade Agreement has been signed. The Agreement covers wines with an actual alcohol content of not less than 7% and not more than 22%. It addresses several key issues, sets a framework to facilitate future wine trade between the United States and Europe and provides for mutual acceptance of existing oenological (wine making) practices (with the mutual acceptance of wine making practices the US will exempt EU wine from new US certification requirements for imported wine), certification (the EU will simplify its import certification requirements for US wine) and labelling (the Protocol on Wine Labelling, sets specific conditions for the use of names of vines, vintage characteristics, production methods, product types and variety names). Moreover, the US and the EU agree to recognize certain of each other's names of origin in specific ways (article 7) and the US agrees to seek legislative changes to limit the use of 16 semi-generic names. The “traditional expressions” that the US will be allowed to use under specified conditions are: Chateau, classic, clos, cream, crusted/crusting, fine, late bottled vintage, noble, ruby, superior, sur lie, tawny, vintage and vintage character. These terms may only be used if they have been approved for use on wine labels in the U.S. on a Certificate of Label Approval (COLA). Current US laws permit these names to be used on non-European wine. The new rules will prohibit new brands from using these names on non-European wine, but will grandfather existing uses of these semi-generic names.

2.2 The Appellation of Origin as an informative and quality differentiation tool

According to the economic theory, the creation of a brand has important effects on social welfare.

First of all we know that when the quality of the product is not adequately signalled to consumers, a decrease in the average quality provided on the market is expected to arise. In this sense, the brand acts as informative tool and can increase consumers’ utility.

Secondly, the brand creation increases quality differentiation and thus let producers gain positive profits in the short-term, according to the degree of products substitutability (Dixit and Stiglitz, 1977).

Finally, as far as the brand corresponds to an actual quality differentiation, the Intellectual Property Right acts as a tool to protect both consumers and producers interests.

The main feature of the AO system in the wine market is that the access to the collective reputation of the AO requires the producers’ commitment to specific
production requirements, which constraint the firms in terms of quantity and quality. The delimited production area and the existence of specific production requirements (the maximum yield of wine from grapes, the minimum density of rootstocks per hectare, the minimum natural alcohol level by volume, the minimum total acidity, etc) create the wine’s typicality and substantially differentiate each Appellation of Origin from the other ones.

These constraining rules allow to i) reduce the informational asymmetries between producers and consumers and ii) strengthen the horizontal differentiation between AO, i.e. the wine typicality and the quality signal expressed by the collective brand.

Thus the AO acts as both an informative and a quality differentiation tool.

Quality wines represent a good example of resolution of the problem of asymmetric information (Laporte, 2001). In a context where the wine’s quality is not directly observable to consumers, AO represents an important quality sign concerning the wine characteristics by providing information about the wine geographical origin and its average quality. In fact, wine market is characterized by a very heterogeneous supply and the impossibility to observe the product quality before purchase. This leads to relevant asymmetric information between producers and consumers and consequently imply strong promotional and information research costs (Nelson, 1970, Darby e Karny, 1973). The major consequence of quality signals’ inefficiency as regard to consumers expectations on quality and typicality is the risk of a decrease in the average quality level supplied on the market, which can imply a long term demand drop (Akerlof, 1970). In this context, the AO aims at reducing consumers’ information costs.

As each AO is based on long term quantity and quality commitments, which confer to wine specific quality characteristics, the construction of an AO has important consequences on the “characteristics space” (Lancaster, 1966). In fact, it provides an increase in the inter-appellation quality differentiation and a decrease in the intra-appellation quality differentiation, in order to assure the typicality of the wines belonging to the same AO.

In general, the AO system is effective if it provides the quality differentiation (without proliferation in the number of AO), maintains the quality range within each AO and assure a remuneration meeting both producers and consumers requirements (Giraud-Héraud, Soler, Steinmetz, Tanguy, 1998).

The respect of these effectiveness conditions is menaced by quantity and quality uncertainty (agricultural revenues variability, problems in long term quality investments), free riding (Holmström, 1982), vertical relationships’ complexity and hold – up risks (Williamson, 1985). The risk is that of a drop of the AO’s collective reputation and consequently of consumers’ satisfaction. Several ex-ante and ex-post regulatory mechanisms are thus implemented in order to assure the effectiveness of the system.

Thus, beside the specific production requirements, several regulatory mechanism are implemented. Long term mechanisms can be ex-ante defined (planting rights, regional reserves as planting rights’ markets, etc.), as well as short term mechanisms (regulation of the maximum yield per hectare, stock’s management to compensate for the scarcity/surplus on the market, producers’ trade-off among vertical differentiated types of quality wine, etc.).

As for the specific characteristics of the wine sector, a quantity restriction can have a positive impact of the supplied quality (Giraud-Héraud, Soler, Steinmetz, Tanguy, 1998). The authors analyze the reasons why the possible negative effects of a supply’s control are quite limited. At first, the level of competition on the market is high (competition among different AO, competition between AO and individual brands, competition from the substitutes). Moreover, the international competition
has a strong impact on the prices. Secondly, the strong negotiation power of the retailers avoids the risk of monopolization by the producers in some specific market segments. Finally, in spite of the quantity and quality regulation’s possibilities, the producers have a continuous trade-off between AO and individual brand, thus they have the flexibility to produce and sell outside the AO and they are constantly menaced by potential entrants. Nevertheless, any form of coordination among producers is legitimized if the market is not characterized by a high level of competition and if the coordination is aimed at creating long term entry barriers and eliminate the potential competition.

3 Objectives

The objective of this paper is to evaluate the performance of the Appellation of Origin system on the international wine market, with respect to some relevant context factors, such as: i) the GIs international legal protection system; ii) the world wine demand trend and size; iii) the strategic choices of the competitors on the international market.

In particular, the analysis is aimed at identifying the key factors that determine the effectiveness of Appellations of Origin in relation to market equilibrium, that is to provide both profitability for producers and satisfaction for consumers.

We will show AO importance for producers by describing how it helps to build and give access to a collective reputation, making it profitable for them to undertake relevant investments for quality.

As regards consumers we intend to point out that AO are an effective tool for them to recognize the quality attributes they look for, especially when they are seeking an actual link with terroir.

4 Data and methodology

As for the methodology, the study will be conducted in three steps.

First of all, we will carry out a demand analysis in order to evaluate consumers appreciation of origin attributes. The demand analysis is conducted through descriptive statistics and a critical review of the related economic literature.

The second step of our methodology consists in a supply analysis that will be carried out in order to describe and evaluate alternative market strategies adopted by the main wine producing Countries.

Thirdly, we will provide the provisional results of an empirical analysis on trademark international registers (World Intellectual Property Organization and United States Patent and Trademark Office) in order to illustrate some cases of imperfect use of quality signals on the international market. This analysis is aimed at quantifying the actual risks of altering of consumers’ quality perceptions and of weakening of Appellations’ reputation on the international markets.

Such analysis is complemented with a direct survey carried on Italian AO Consortiums Association in order to describe the European producers’ efforts to register the collective brand on the international markets.
4.1 Consumers' appreciation of quality and origin attributes

The more the consumers recognize the value of origin and are willing to pay for it, the greater are the consequences of i) a weakening of the Appellation as informative tool and of ii) an appropriation of the reputation of the GI by producers outside the delimited production area. This section is aimed at evaluating the role of quality in consumers’ behaviour through descriptive statistics and literature review.

The demand analysis through descriptive statistics shows that wine's quality seems to be a fundamental factor behind consumption trends. From 1984 to 2003, the two categories "quality wine" and "table wine" have been moving in different directions. In particular, there has been a substantial fall in consumption of "table wines". Over the same period there has been a growth in consumption of "quality wines", but not sufficiently large to compensate for the reduction in the first category.

If we consider the traditionally producing and consuming Countries (France, Italy and Spain), the gross human consumption per-capita of total wine has decreased about 40% from 1984 to 2004, whereas the opposite trend is registered in the case of quality wines psr. Figure 1 shows the role of quality wines psr on the total GHC per capita in France, Italy, Spain and Portugal.

Figure 1 - Role of quality wines psr on per-capita gross human consumption in the traditionally wine producing and consuming Countries (1983-2006)

The European consumer appear to be more quality-oriented than quantity-oriented. The raising importance of occasionally wine consumption is confirmed by several socio-economic surveys. In 2003, about 67% of Italian wine consumers consume wine each day, while about 33% consumes wine occasionally. The 75% of occasional consumers is identified as «wine-passionate» consumers, which also have a «wine-culture». As for France, the INRA-ONIVINS survey 2005 confirms the increasing role of occasionally consumption.

As for the Italian market, a recent ISMEA's survey examine the role of the designation of origin in consumers’ purchase choices. According to this survey, Italian consumers recognize the Appellations of Origin as high quality products from the point of view of i) taste and ii) food safety (due to the existence of
production system’s control mechanisms). Moreover, an increasing knowledge concerning AO is registered, which underline an increasing interests in these categories of products. According to this survey, the typical AO wine consumer is characterized by the following attributes: open-minded, informed, quite young, educated, curious, he has quite high income availabilities, he invests a lot of time and effort in agro-food products consumption and is willing to invest time in searching information. Three consumers’ profile are identified: i) the instinctive, but cautious consumer that gives importance to taste and food safety (29,7% of the sample), ii) the consumer who appreciates the value of terroir, which considers the region of origin more important than the food safety attributes (33,5%) and iii) the consumer who recognize the importance of quality control mechanisms, which assure the link between the product and its region of origin (36,8%).

The demand analysis through the review of economic literature shows, moreover, an increasing relevance of objective characteristics (as region of origin, the reputation and other objective characteristics) on consumers’ willingness to pay for wine.

When a product has a high proportion of attributes that can only be assessed during consumption (experience attributes) as with wine (Chaney, 2000), then the consumers will fall back on extrinsic cues in the assessment of quality (Speed, 1998).

Several papers show the impact of objective characteristics on price differentials. This category includes the vintage’s year, the Appellation, the region, the grape variety, which usually appear on the label and are therefore easy to identify by consumers.

Combris et al. (1997, 2000) use data for Bordeaux and Burgundy wine to estimate a hedonic price function. In both studies, price is strongly explained by objective attributes appearing on the label of the bottle. The authors conclude that consumers may decide to vary their willingness to pay for wine primarily according to observable attributes. See also Nerlove (1995) and Gergaud (1998) for an analysis carried out using the data for Champagne. The relevance of objective traits is also underlined in Oczkowski (1994).

Landon and Smith (1997), use an unbalanced panel of 196 red wines from the five Bordeaux vintages from 1987 to 1991 and estimate two hedonic price equations. The authors confirm the relevance of the objective traits and show that long term reputation explains much more variation in the consumers’ willingness to pay than does short term quality changes. This finding has been confirmed by focusing only on a balanced panel of 151 wines for the 1989 and 1990 vintages (Landon and Smith, 1998). Subsequent applications to premium wines from North America, Australia, South Africa and Chile by Schamel (2000) and to Australian premium wines by Oczkowski (2001) support the presence of significant reputation effects.

Schamel (2003) estimates a hedonic pricing model of premium wines sold in the U.S in order to analyze the factors behind price differentials based on regional origin and points out that the domestic regions command higher prices than wines imported from other New World sources.

As for the Italian market, Benfratello, Piacenza, Sacchetto (2004) estimate an hedonic model using a dataset on two premium quality wines (Barolo and Barbaresco) covering the 1995-1998 vintages and show that the reputation acquired by wines and producers during the years is more important than taste in driving market prices.

Other papers, dealing with experimental studies, point out that the AO can improve consumer’s WTP (Bazoche, Combris, Giraud-Héraud, 2005).
Mtinet and Albusu (2006) examine Spanish AO wine consumer behaviour by the use of a choice experiment technique. Empirical results indicate the importance of the designation of origin and the wine aging attributes on wine selection. The grape variety variable, although it has a lower utility values, is also found to be significant (especially a foreign variety), thus confirming the emergence in the Spanish wine market of the “New World” marketing strategies based on well-known varietal wines.

4.2 Quality strategies on the international wine market

Before analyzing the main features and trends, which characterize the international wine market, it can be useful to appeal to the mechanisms of the competition on the international wine market.

Two main production – commercialization systems coexist on the international wine market. Behind these systems two main strategies can be identified: the private brand strategy and the Appellation of Origin system.

These two strategies can be distinguished through the degree of commitment-flexibility, which characterizes producers' strategic choices.

The private brand strategy is advantageous for the firms, because it allows speedier adjustments to market conditions, particularly changing in this field of the agrifood consumption. Let us consider as an example the large firms of “New World” producing Countries (Jacob's Creek, Gallo, Southcorp, etc.). These firms develop a whole series of brands, easily identified by consumers, thanks to a great volume of commercialisation and notoriety. Considerable investments in promotion are associated with these brands. For example, the UK advertising expenditure of E&J Gallo accounts for more than 2 mlm dollars (19% more than the total expenditures of Bordeaux Appellation. The firm efficiency is based on its capacity for scale economies, which allows it to meet market volume requirements and to develop strategies of price promotion. For example, around 66% of Australian wine is sold on price or multi-buy promotion on the UK market.

On the other hand the Appellation of Origin system, requires the producer's commitment to specific production requirements, which constraint the producers in terms of quantity. In exchange, the producer benefits from a collective reputation related to the Appellation. The quantity constraints may result in a loss of strategic flexibility (Giraud-Héraud, Grazia, 2006). The loss of strategic flexibility can constitute a limitation of firm's expansion in the markets which are characterized by an increasing wine consumption trend (mainly the Anglo-Saxons Countries) and thus by a great level of competition between Appellations of Origin and “New World” wines. Indeed, whereas the wine consumption is nowadays stagnating in the Countries with the highest wine production (and consumption) as France, Italy or Spain, on the other hand, it is not the same in the U.S.A, in the United Kingdom and in the Asian Countries, as China or Japan, where the competition between the AO and the private brands is very strong and leads to several strategic difficulties for the producers.

Thus, the competition between the two production-commercialization systems is particularly high in the markets characterized by an increasing consumption trend.

Let us consider as an example the UK market.

The per-capita wine consumption has increased from 1,8 to 26,20 lt in the period 1961-2004. Still wine imports in volume have increased by 16% from 2002 to 2005. In particular, European still wine imports have increased by 10%, whereas third Countries still wine imports have increased strongly (about 23%).
Nevertheless, an opposite trend is registered for the imports in value (+40% for Europe and +35% for third Countries).

<table>
<thead>
<tr>
<th>Brand</th>
<th>Mln €</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ernest &amp; Julio Gallo – Turning Leaf</td>
<td>1,5</td>
</tr>
<tr>
<td>Mateus Rosé</td>
<td>1,5</td>
</tr>
<tr>
<td>Bordeaux wines</td>
<td>1,2</td>
</tr>
<tr>
<td>Kumala (South Africa)</td>
<td>1,2</td>
</tr>
<tr>
<td>Burgundy</td>
<td>1,0</td>
</tr>
<tr>
<td>Freixenet (sparkling)</td>
<td>0,9</td>
</tr>
<tr>
<td>Blossom Hill (Californian Wine)</td>
<td>0,4</td>
</tr>
</tbody>
</table>


The two opposite production – commercialization systems co-exist on the international wine market.

Between this two opposite systems, a wide range of strategies are developed, differentiated according to the degree of firms’ strategic flexibility.

On the one hand European producers committed to the AO system are increasing their investments on the international wine market and developing private brand strategies. On the other hand an increasing role of origin and the importance of label’s protection and consumers’ safeguard is registered in the New World wine producing Countries.

The quantity constraints faced by the European producers committed to the AO of origin system, incentive them to invest on the international market in more flexible brand strategies. The objective is to create brands characterized by high volumes of sales. This strategies are thus aimed at consolidating firm’s position on national and international market (Green, et al., 2006).

As for Italy, many foreign-based companies own wineries in Italy or are investing in joint ventures (Cholette, 2005). For example, in 1995, the Marchesi de’ Frescobaldi Robert Mondavi family of Napa Valley joined forces to create a world class Italian wine (Luce). Some Italian wine companies are investing in less quantity constraining strategies. Antinori for example invested in Atlas Peak (California) and Col Solare (Columbia Valley), together with Chateau St. Michelle and Albaclara and Albis in Chile. France was an early player in international partnering and acquisition (consider for example the joint venture between Baron Philippe de Rothschild’s and Robert Mondavi to create Opus One in 1979). Domaine Caneros, Domain Chandon, Mumm Cuvee Napa, Pieper-Sonoma, and Roederer Estate are all owned by French champagne houses. Pernod Ricard owns wineries in Australia, Argentina, Chile and Spain (Cholette, 2005).

Anyway producers around the world are looking at using Appellations of Origin to differentiate their product (Hobbs, Kerr, Phillips, 2001).

Let us consider as an example the development of the American Viticultural Areas (AVAs) in California and in particular in Oregon and Washington (Rousset, Traversac, 2006).

Three types of strategies characterize the construction of wine’s image in California (Rousset, Traversac, 2006). Beside the private brand strategy and the varietal wines strategy, a third dimension characterize the wine quality image. The increasing competition by foreign wines and the evolution of consumers’ behaviour
towards an increasing appreciation of quality, implies the implementation of origin-oriented strategies.

Over 160 American Viticultural Areas are nowadays approved. An American Viticultural Area (AVA) is a delimited grape-growing region distinguishable by geographic features, with boundaries defined by the United States government's Alcohol and Tobacco Tax and Trade Bureau (TTB). The TTB defines these areas at the request of wineries and other petitioners. There are 235 AVAs in 50 states. An AVA specifies only a location. Once an AVA is established, at least 85% of the grapes used to make a wine must be grown in the specified area if an AVA is referenced on its label. Current regulations impose the following additional requirements on an AVA: i) evidence that the name of the proposed new AVA is locally or nationally known as referring to the area, ii) historical or current evidence that the boundaries are legitimate and iii) evidence that growing conditions such as climate, soil, elevation, and physical features are distinctive.

Thus the AVA implies a lower level of commitment as regards to the European Appellations of Origin. It does not limit the type of grapes grown, the method of vinification, or the yield, for example. Some of those factors may, however, be used by the petitioner when defining an AVA's boundaries.

The use of Geographical Indications in Australia started in 1993 when the Australian Wine and Brandy Corporation Act (1980) was updated to enable Australia to fulfill its Agreements with the European Community on Trade in Wine and the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS). The use of GI is aimed at "providing the legal means for interested parties to prevent use of a geographical indication identifying wines for wines not originating in the place indicated by the geographical indication in question". With respect to the European AO system, it is much less restrictive in terms of viticultural and winemaking practices. In fact the only restriction is that wine which carries the regional name must consist of a minimum of 85% of fruit from that region. This protects the integrity of the label and safeguards the consumer.

France, Italy and Spain form the leading trio of exporting Countries, accounting for almost 60% of world exports. In a decade, their exports increased significantly: France +34%, Spain +31%, Italy +21%. By contrast, they fell in Greece (-30%), Hungary (-19%) and Germany (-10%).

But it is the "New World" Countries which have seen a spectacular growth in their exports: South Africa (+770%), Australia (+500%), Chile (+270%) and the United States (+160%).

Thus, since their exports increased less rapidly, the Member States' share of the wine market fell.
Figure 2 - Market share in volume: the increasing role played by the New World wine producing Countries

After a period of stagnation since 1996 around the figure of 12 million hl, European wine exports to third Countries started to grow again and for the period 2000-03 averaged just above 12.5 million hl, more than 8% of average production.

As a result of the growth in exports of quality wines, the rate of growth in the value of exports has been even stronger at 7% per year since 1996.

Let us focus on the relative importance of quality wines on traditionally producing Countries’ national production with respect to the leading trio of producing and exporting Countries (France, Italy and Spain). These Countries account for 50% of world production and 60% of world exports.

At first, let us consider the production trend of table and quality wines. Table wines still make up more than half of Community wine production (98 million hl in the 2004/05 wine year) but their share is declining in favor of quality wines. The increase in the share of quality wines on the total wine production is mainly resulting from conversion of lands and reclassification on some table wines in response to changing demand.

The analysis of the trend of volume of exports by category of wine (for France, Italy and Spain), points out that the growth in exports of quality wines has been slower but more constant than for table wines. This points out a relatively stability of quality wines’ image on the exports markets.

The conjoint analysis of the trend in production and exports points out that the relative importance of exported volumes of quality wines with respect to the total production has increased in the period 1983-2006 from 4% to 10%. This points out an increasing importance of quality wines strategy for the traditionally producing Countries with respect to exports markets.
If we focus on the last years, a decreasing trend is registered from 2002 to 2005 (-11%), followed by an increase from 2005 to 2006 (+14%). The same trend in the last years concern the relative importance of exports to third Countries.

5 Results

The demand analysis points out that European consumer is more quality-oriented than quantity-oriented, and a similar trend is registered on the US market as well.

The increasing role of origin, reputation and other objective characteristics on consumers’ Willingness To Pay (WTP), both on the European market and abroad, is confirmed by the economic literature.

The supply analysis has pointed out that two opposite production-commercialization systems characterize the international market.

On one hand, the table/variety wines’ system includes European Table wines and "New World" brand wines. This system is characterized by technological investments and innovation effort, great volumes under the same brand, high promotional investments and a geographically non constrained supply.

On the other hand, the AO is based on the certification of wine’s origin and specific production requirements. In this case the access to the collective reputation results from long term quantity and quality commitments, which constitute the elements of wine peculiarity and limit the firms in their strategic choices.

However, recently also the "New World" wine producers have oriented their strategy to increase the value of wine origin. Producers around the world are looking at using AO to differentiate their product.

In spite of a reduction of the market share of traditionally producing Countries, the role of AO is increasing with respect to the strategies of traditionally producing Countries on the international market.
Nevertheless, these Countries face an increasing menace on the international wine market. This is represented by the risk of an imperfect use of the geographical place name. Thus, traditionally producing Countries face an element of uncertainty concerning competitors’ behaviour on the international market.

**Terroir** is defined as the essential link between location of production and a specific quality attribute. Thus, if there is not a clear link between the geographical place name and the actual region origin then two risks arise.

Firstly, a GI can become meaningless to the consumer and the value of **terroir** can be lost. A wrong perception arise on the product's quality attributes (Josling, 2006). The consumers’ quality uncertainty increase and the AO fails as informative tool.

Secondly, the free riding phenomenon can arise (Giraud-Héraud et al., 1998), which can affect the AO collective reputation and cause a long term demand drop.

According to a recent ISMEA survey, several AO are imitated on the international market (see for example the Italian AO Chianti and Lambrusco or the French AO Champagne, Cognac, Bordeaux, Bourgogne, Chablis, Medoc, Beaujolais, Saint-Emilion).

Our research conducted on USTPO database, with respect to the Italian DOCG, shows that on the US market there is a relevant risk of misperception concerning the geographical place name and the wine’s actual origin.

At first, several DOCG are not registered (neither from the Consortium nor from other firms not related with the actual product’s origin or with the wine sector): Albana di Romagna, Bardolino, Carmignano, Ghemme, Soave Superiore, Taurasi, Torgiano Rosso Riserva, Valtellina Superiore, Vermentino di Gallura, Vernaccia di San Gimignano, Gattinara.
Table 2 - Registration as on the US market of Italian DOCG

<table>
<thead>
<tr>
<th>Registered by the Consorzio di Tutela</th>
<th>Risk of mis perception</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Registered in wine sector (high risk)</td>
</tr>
<tr>
<td>Asti spumante – Moscato d’Asti</td>
<td>Consorzio dell’Asti (Trademark), Asti (Certification Mark)</td>
</tr>
<tr>
<td>Barbaresco</td>
<td>Consorzio dell’Asti (Trademark), Asti (Certification Mark)</td>
</tr>
<tr>
<td>Brachetto d’Acqui</td>
<td>Brachetto d’Acqui (Certification Mark)</td>
</tr>
<tr>
<td>Brunello di Montalcino</td>
<td>Brunello di Montalcino (Certification Mark)</td>
</tr>
<tr>
<td>Chianti Classico</td>
<td>Chianti Classico (Trademark), Chianti Classico dal 1716 (Trademark), Consorzio Vino Chianti Classico (Collective Trademark)</td>
</tr>
<tr>
<td>Franciacorta Spumante</td>
<td>Franciacorta DOCG (Trademark)</td>
</tr>
<tr>
<td>Gavi o Cortese di Gavi</td>
<td>Gavi, Gavi Fund, Piazza Gavi</td>
</tr>
<tr>
<td>Montefalco Sagrantino</td>
<td>Montefalco Sagrantino (Certification Mark)</td>
</tr>
<tr>
<td>Ramandolo</td>
<td>Ramandolo (Trademark)</td>
</tr>
<tr>
<td>Recioto di Soave</td>
<td>Recioto di Soave (Certification Mark)</td>
</tr>
<tr>
<td>Vino Nobile di Montepulciano</td>
<td>Vino Nobile di Montepulciano (Certification Mark)</td>
</tr>
</tbody>
</table>

Source: elaboration on United States Patent and Trademark Office (USPTO)

Secondly, other DOCG are not registered by the Consortium, but their geographical place name has been registered as trademark or service mark by non-wine related firms (Barbaresco, Barolo, Chianti, Gavi o Cortese di Gavi).

The risk of misperception is relatively high for the DOCG Chianti, which has not been registered by the Consortium. In fact, its geographical place name appear in wine-related trademarks (Arbor Valley American Chianti, Inglenook Chianti, Good Chianti, Chianti Station).
The risk of misperception can arise in spite of the registration from the Consorzio di Tutela. For example, the DOCG Asti has been registered by the Consortium, but the geographical place name “Asti” appears in trademarks registered by non-wine related firms.

An effective intervention of the Consortium is registered for Brachetto d’Acqui, Brunello di Montalcino, Chianti Classico, Franciacorta Spumante, Gattinara, Ramandolo, Recioto di Soave and Vino Nobile di Montepulciano.

A relatively important action is that of individual firms, which register their individual brand (containig the geographical place name of the AO). Let us consider for example the trademarks, Marchesi di Barolo, Primore Casa Vinicola in Gattinara, Gavi La Scolca, Martini & Rossi Asti Spumanti Martini, The Bosca Millennium Collection Asti, Poggio Rosso Chianti Classico, Barone Pizzini Franciacorta DOCG brut.

In some cases the individual registration strategy allow the firm to protect its brand (and indirectly the geographical place name of the concerned AO), in spite of a lacking intervention of Consorzio di Tutela (Ruffino Chianti 2004 dal 1877 DOCG, Chianti DOCG 2001 Piccini, Chianti Vino Pasolini).

In order to give an insight into traditional wine producing Countries attitude towards brand registration in international markets we started a direct survey among the most representative Consortia in Italy.

Consortia were chosen from the National Confederation for Voluntary Consortia for the Oversight of the Denominations of Origin (Federdoc).

Preliminary results refer to 21 Consortia that account for 40,3% of Italian production with Appellation of Origin and that include 9 out of 24 Appellations of Origin Controlled and Guaranteed (37,5%).

<table>
<thead>
<tr>
<th></th>
<th>Italy</th>
<th>Sample</th>
</tr>
</thead>
<tbody>
<tr>
<td>AO production 2004</td>
<td>12,740</td>
<td>5,140</td>
</tr>
<tr>
<td>(000 hl)</td>
<td></td>
<td>40,3%</td>
</tr>
<tr>
<td>AOCG</td>
<td>24</td>
<td>9</td>
</tr>
<tr>
<td>(n.)</td>
<td></td>
<td>37,5%</td>
</tr>
</tbody>
</table>

Source: Direct survey on Appellations of Origin associated to Federdoc

The survey shows that almost one out of two Consortia interviewed (48%) have not taken any action yet to register their Appellation of Origin as a brand, neither on the national or EU market, neither on the international market. At least two of them are presently evaluating the cost of registration in few Countries which are their main importers.

Among those Consortia that already have registered a mark we notice that quite a few (19%) have taken this action only to protect their Appellation on the National or European market.

Therefore only one third of the Consortia considered makes use of international marks, in the form of individual trademarks, collective marks and international marks (according to the Madrid Agreement).

The most used tool for Appellation protection on the international markets is the Individual trademark, chosen by 24% of Consortia of our sample, followed by the collective mark which is used by a smaller percentage of Producers.
Associations – 19%. Only in one case (5%) we recorded the use of the Madrid Agreement through which the Appellation is protected in 31 Countries.

Table 4 – Attitude of Italian Consortia towards marks

<table>
<thead>
<tr>
<th>Strategy</th>
<th>Consortia (n.)</th>
<th>(%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>No action</td>
<td>10</td>
<td>48%</td>
</tr>
<tr>
<td>Presently evaluating costs of registration</td>
<td>2</td>
<td>10%</td>
</tr>
<tr>
<td>Registered international marks</td>
<td>7</td>
<td>33%</td>
</tr>
<tr>
<td>Trademark</td>
<td>5</td>
<td>24%</td>
</tr>
<tr>
<td>Collective mark</td>
<td>3</td>
<td>14%</td>
</tr>
<tr>
<td>Madrid Agreement</td>
<td>1</td>
<td>5%</td>
</tr>
<tr>
<td>National or European collective mark</td>
<td>4</td>
<td>19%</td>
</tr>
<tr>
<td>Total</td>
<td>21</td>
<td>100%</td>
</tr>
</tbody>
</table>

Source: Direct survey on Appellations of Origin associated to Federdoc

As regards the Countries in which Appellations seek for protection, Canada and the US are leading the list (71% of cases), followed by Japan (57%), Argentina, Australia, Chile and South Africa (43%).

Another relevant group of Countries includes Brazil, Philippines, Mexico, New Zealand, Venezuela, in which 29% of our sample Consortia registered their marks.

Finally there are several Countries such as India, Indonesia, North Korea, Paraguay, Peru, South Korea, Switzerland, Taiwan, Thailand and Uruguay, where only one Appellation is registered as mark.

Table 5 – Countries in which marks are registered by Italian Consortia

<table>
<thead>
<tr>
<th>Countries</th>
<th>Registered marks (n.)</th>
<th>(%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Canada, USA</td>
<td>5</td>
<td>71%</td>
</tr>
<tr>
<td>Japan</td>
<td>4</td>
<td>57%</td>
</tr>
<tr>
<td>Argentina, Australia, Cile, South Africa</td>
<td>3</td>
<td>43%</td>
</tr>
<tr>
<td>Brazil, Philippines, Mexico, New Zealand, Venezuela</td>
<td>2</td>
<td>29%</td>
</tr>
<tr>
<td>India, Indonesia, North Korea, Paraguay, Perù, South Korea, Switzerland, Taiwan, Thailand, Uruguay</td>
<td>1</td>
<td>14%</td>
</tr>
<tr>
<td>Total</td>
<td>7</td>
<td>100%</td>
</tr>
</tbody>
</table>

Source: Direct survey on Appellations of Origin associated to Federdoc
In the last three years the overall registration process costed about 126,000 euro and it has been more expensive for trademarks (almost 89,000 euro) than for collective marks (37,300 euro), but this is due to the greater use of the former as compared to the latter.

At present two important Consortia are pursuing registration of both trademarks and international marks in many other Countries such as Albania, Algeria, Bulgaria, Croatia, Cuba, Malta, Morocco, Romania, Singapore, Tunisia, Turkey, Vietnam.

The main difficulties come up in the registration process relate to refusals, in particular in Australia, Canada Russia and Switzerland.

Other issues arose because of the bureaucratic burden, the excessive time length and costs (consultants and personnel) required by the procedure.

As for the legal actions in protection of the Appellation or the mark the survey shows that Consortia had to spend even more than for the registration process (164,000 versus 126,100 euro).

However we notice that in most cases they are oriented at protecting the Appellation of Origin, with a cost up to 114,000 euro, while the protection of the trademark / collective mark occurred more rarely with a lower overall cost.

6 Final remarks

We can observe that the present IPR system should be improved in order to avoid an improper use of geographical place names. In addition to this a more intense promotional effort should be provided by both economics agents and institutions in order to take full advantage from the opportunity given by the AO system. In the present IPR system we can notice a weak performance of AO on international markets where in some case we can notice a double registration of brand, and double costs for produces: one as AO brand and one as industrial brand. Furthermore we have a weak recognition about specific investment and quantity and quality commitment for AO producers and some risk of altering of consumer quality perceptions.

The higher competitiveness in the international wine market, in the last years, increased all strategies to differentiate production and at the same time increase the demand of a protection system to guarantee high investment and commitments of producers. For that it became important to fit and change market rules to news scenarios of international market wine.

The debate at national and international level, concerning industrial brand and AO brand, is linked to distribution of monopole rent derived from monopolistic competition by the brand. About industrial brand, being property of a firm it benefit directly. About AO brand, the beneficiaries are all the producers of the area, considering as a club. Management of AO is always a collective concern, with all difficulties because of different interests and behaviours of the beneficiaries. For that it needs a strong economic regulation and specific controls to adapt, by one hand, supply to demand to avoid short term opportunist behaviours and stabilize product’s quality in the long term, and, by the other hand, to increase its notoriety and guarantee information and trust to consumers. Individual and collective brand should coexist, with differentiated and specific dynamic to fit at wider segmented market wine.

Anyway AO implies specific techniques, a traditional competence linked to territory, a collective patrimony, with an economic value and also a strong social
and cultural dimension that they constitute a determinants factors of quality policy for European producers. For that it should be take in consideration with more deepness.

7 References


Esposito, P. (2005), Vino: USA e Australia trattano con l’UE, VQ, 6.


ISMEA (2005). Il posizionamento del Made in Italy agroalimentare all’estero.


8 Contact information

Giulio Malorgio
Dipartimento di Economia e Ingegneria agrarie (DEIAgra)
Alma Mater Studiorum-Università di Bologna
viale Giuseppe Fanin, 50
Tel. ++39 051 2096145