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Rent-Seeking and Decline in the French Wine Industry

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Abstract
The judgment of Paris, in which California wines first surpassed the French in a blind tasting, shook the world in 1976. But it was not until 2003 that New World wines outpaced French exports. Demand-side factors affect French wine; however, the supply side is more intriguing. France's regulatory environment can be sustained only through monopolistic rent-seeking and taxpayer subsidies. In keeping with the transitional gains trap literature, rents appear to have been exhausted; while some segments of the French wine industry would benefit from the ability to innovate, much of the industry would likely collapse without the current framework.

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I. Introduction

Although France still enjoys a world-class reputation in the world of wine, its dominant position has been eroded over the years. First came the 1976 "Judgment of Paris," in which California wines first surpassed their French cousins in a blind tasting. Then, in 2003, French exports (by value) were outpaced for the first time by wines from the New World. What happened? To an extent, France's decline can be explained with traditional tools of economics, especially due to falling demand. However, the supply side is much more intriguing;

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in a deliberately broad simplification, New World wine production can largely be characterized by innovation, whereas French wine production (mostly) follows a pattern of tradition, from *terroir* and *Appellation d'Origine Contrôlée* (AOC), to a widespread reluctance among producers to innovate.

Others have already explored the more traditional economic conditions and implications surrounding wine production (see, e.g., Auby, 2007; Jenster et al., 2008; Ginsburg, 2006; or McCluskey, 2004). This paper examines the problem from a regulatory perspective.

Section II addresses the problem of lost French dominance, with a historical overview and explanations from traditional economics. Section III moves beyond neoclassical economics, using institutional analysis and Public Choice theory to study the French scene, with a particular emphasis on explaining and analyzing the AOC system and its foundations. The final section concludes.

II. Scene-Setter: From Domination… to Judgment… to Decline

Over the centuries, France established itself as a world leader in both quality and quantity of wine production. As recently as 1999, France produced 51% of world wine exports (by value) (Taber, 2006, p.235). But even such domination did not come without its share of anguish and state intervention. As early as 92 AD, Rome ordered the destruction of one half of the vineyard surface of Gaul (Marty, 2004, p. 18), in an attempt to protect Italian winemakers from their "French" competition (Déroudille, 2008, p.18). In 1395, Duke Philip the Bold of Burgundy established the exclusivity of Chardonnay and Pinot Noir in Burgundy; Gamay, considered "too productive," was relegated to Beaujolais (Taber, 2006, p.26; Déroudille, 2008, p.19). The greatest crisis occurred in the early 20th century. In response to increasing fraud, and the ensuing riots, France established a broad regulatory system of wine appellations in 1935. Under this system (AOC), just about every aspect of French wine production is controlled by law.

These crises were ultimately growing pains in France's ascent to domination of the world wine market. Until the third quarter of the 20th century, "France ruled the world" (Taber, 2006, p.17). However, two turning points changed the situation radically; these occurred in 1976 and 2003.

The famous judgment of Paris took place in 1976.[1] For the first time, New World wines beat their more established French cousins in a blind tasting by French judges. A breach had been opened in France's uncontested spot as leader of the pack. To be sure, France still remains at the top. But the top is now less lonely, and many New World wines now offer serious competition.

The second turning point came in with a whimper, unlike the bang of 1976. In 2003, for the first time, France lost its top spot, as New World wines outpaced French production (by value); France, long the dominant producer, fell to a mere 38% (Taber, 2005, p.235)—still nothing to sneeze at, for one lone country within the rest of the world, but a radical change for a country so long accustomed to being the uncontested leader.[2]

This drop in leadership was met with a flurry of activity, a profound self-questioning, and a string of expert seminars, all addressing the *crise viticole* (viticultural crisis) in France. A few recent book titles illustrate the general mood: *France Against the New World Wines: How to Defend French Prominence*; *They Are Going to Kill French Wine: INAO, the Evin Law, Unfair Competition: The Programmed End of the French Exception*; or *Wine Versus Globalization* (the cover of which features a picture of a globe *qua* bowling ball rolling toward a set of French wine bottles). Indeed, the 1976 and 2003 turning points are part of an ongoing crisis in French wine. Vintner demonstrations and road blockages, which had subsided by the end of the 1970s, returned in the summer of 2008. Whereas world wine production and acreage devoted to viticulture have been increasing steadily, the French vineyard surface has been declining (Déroudille, 2008, p.86). Since 1990, fully one-sixth of French vines have been grubbed up (Marty, 2004, p.41).

What happened? There are a number of explanations from traditional economics.

First, basic economics explains France's declining market share (see, generally, Marty, 2004, p.30; Déroudille, 2008, p.6). The rise in the euro's value has made French exports more expensive. French land, tax, and labor costs are typically higher than New World costs. Whereas France (along with Europe generally) has been diminishing

[1] For an exhaustive description, see Taber (2006).

[2] See also Marty (2004, pp.28, 115) for world wine statistics.

its vine acreage, the New World has been increasing it. Over the past 15 years, New World vintners have been increasing their production, yields, and know-how; simultaneously, New World wineries have made massive investments in marketing, but French producers have not. Nature also plays a role, complemented by laws: New World climates tend to be more regular than the French, and New World regulations allow for technological compensation (such as irrigation), which is typically forbidden in France. Finally, industrial organization and marketing are important factors. The French market tends to be segmented among thousands of individual producers, whereas New World production tends to be concentrated in conglomerates. To name but one example, the "Chablis" appellation in France is shared by 400 producers (Rousset-Rouard and Desseauve, 2002, p.54). In the United States, four producers make 50% of American wine, and 25 producers make 95%; France boasts 114,000 total producers. One "Gallo" can concentrate marketing dollars much more effectively than hundreds of isolated French producers. Finally, the New World markets its wine by brand, whereas France does so by appellation, with the brand playing second fiddle, at best. Naturally, this makes investment in marketing (as well as marketing itself) difficult. In sum, New World wine producers strive to make their product accessible and comprehensible to consumers, whereas French producers typically do not (Rousset-Rouard and Desseauve, 2002, p.44).[3]

Second, a comparison of regulatory environments helps explain the decline. New World wine producers are allowed much more flexibility in their wine production. They can irrigate, but they can also add flavors (oak shavings, which are much quicker than aging in oak barrels, being but one example) and mix varietals to suit consumer tastes. New World wine producers can ship grapes from one region to another to compensate for poor harvests; they can also grub and replant varietals to suit fluctuating consumer demand (in the so-called *Sideways* effect, whereby American consumer demand shifted dramatically from Merlot to Pinot Noir after the movie *Sideways*, and producers responded; see, e.g., Cuellar et al., 2009). New

[3] One could also list the two American boycotts of French goods in the past decade: the first in 1993, when France resumed nuclear testing, and the second in 2002, when France opposed the American-led invasion of Iraq. However, Ashenfelter et al. (2007) and Bentzen and Smith (2007) dismiss their impact as minimal.

World vintners also enjoy much more leeway in labeling than their French counterparts. Whereas French regulations are strict, New World producers can get away with the "85-15" rule: that is, if 85% of the wine is a given varietal or a given vintage, it can be marketed as that varietal or vintage. In France, the wine must be 100% of that varietal and vintage (Marty, 2004, p.44). Finally, over the past decade, France has engaged in an anti-alcohol crusade. In addition to increased highway enforcement, this campaign has also entailed strict advertising restrictions (Marty, 2004, p.51, Ch. 5).

Finally, regulation and attitude come together in the targets of government support: French vintners receive subsidies from the French government and the European Union amounting to €295 million/year;[4] of that, 96.5% goes to production and a mere 3.5% to marketing (Déroudille, 2008, p.103)—this in a market (nationally and internationally) that is already suffering from overproduction.

Although these explanations shed light on the situation, they still beg many underlying questions. French vintners can do little to affect the labor market or climate within which they operate—but what about appellations? If innovation and marketing are the key to New World success, why does France not emulate these models? To answer this, we must turn to non-traditional economic tools, such as Public Choice theory and the New Institutional Economics. But first, a word on the French appellation system is in order, as it forms the lynchpin, both formal and informal, of the current problem.

III. The AOC System

"Wine is not just a varietal," opines René Renou. "It includes a dimension of terroir, of culture, and of dreams" (Rousset-Rouard and Desseauve, 2002, p.139). Strong words indeed, when coming from the former president of France's INAO (*Institut National d'Appellations et d'Origines Contrôlées*), "a powerful Paris-based body which controls an increasing proportion of French wine production" (Robinson, 2006, p.26).[5]

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[4] Just about US$400 million/year, as of February 2011 exchange rates.

[5] As of 2007, the INAO's name was changed to INAQ (Institut National de l'Origine et des Qualités); see Auby, 2007, p.34. As most of my references refer to INAO, I will stick with the original name.

1. The AOC Explained

The French appellation or AOC system "is France's prototype controlled appellation, her much-imitated system of designating and controlling her all-important geographically based names" (Robinson, 2006, p.26). The coveted AOC designation covers France's top wines (43.6% by production, but 81% by value, per Auby, 2007, p.30); nonetheless, all wine production is regulated to a greater or lesser degree. I focus here on the AOC, as it represents the heart of the matter.

The AOC system starts with the *terroir*, or "total natural environment of any viticultural site" (Robinson, 2006, p.693), including soil, local topography, climate, sunlight exposure, and hydrology. In both French mentality and regulation, a wine's defining characteristics start with its *terroir*. In many ways, the varietal is considered to be secondary, as it is but one component of a wine's make-up.

Although *terroir* forms the basis of the AOC designation, it is but one component. AOC, indeed, contains criteria for a wine to gain the coveted AOC rather than being relegated to a less prestigious designation.[6] AOC includes the following criteria (drawn from Robinson, 2006, p.27): production areas, down to the township or plot; the maximum and minimum proportions of permitted grape varietals; grape ripeness and alcoholic strength of the wine; maximum yields and minimum vine age; viticultural details such as vine density, pruning details, vine training, and irrigation; wine-making details; destemming; and subjective elements, such as *usages locaux* (local custom—an enforcement point to which I return below) or the wine's "congruence" with what a wine of its AOC should be like, as determined by a panel of experts.

2. AOC as Designation

This brief summary of the AOC should make it clear that the French market is much more regulated than the New World's, where innovations and alternations are common. The New World allows for "legal tools that allow for correction of nature's flukes" (Marty, 2004, p.44, translation my own). Whereas the French embrace what nature

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[6] For a more detailed summary of "the INAO's detailed texts of its nearly 500 wine appellation regulations," see Robinson, 2006, p.27; Déroudille, 2008, pp.110–13; Taber, 2006, p.19.

gives them year to year, the New World tends to strive for consistency, through blends and innovation, in response to consumer desires.

In terms of designation, signaling, and marketing, the French system emphasizes appellation rather than brand (Rousset-Rouard and Desseauve, 2002, p.31). Whereas it makes perfect sense to seek, say, a Yellowtail Chardonnay, it makes no sense to ask for a Louis Jadot Gamay–where is it from? What is the specific appellation, etc.? What is the AOC within the greater family of Beaujolais, etc.?

By way of illustration, we can look at Burgundy. Four grape varietals are allowed in Burgundy wines (two red, Pinot Noir and Gamay; and two white, Chardonnay and Aligoté). Most reds are monovarietal Pinot Noir, with multiple categories of AOC, depending on quality. There are about 150 total appellations in Burgundy; approximately 400 producers share the Chablis appellation (Rousset-Rouard and Desseauve, 2002, p.54). As opposed to the United States, where "Chablis" is marketed as a de facto varietal, in France it is (a) 100% Chardonnay and (b) from a specific sub-region of Burgundy.[7] Within the AOCs, we have multiple categories, ranging from vineyard to village to region.

To further illustrate the point of marketing complications, the New World tends to produce mostly single varietals. France has not traditionally produced these, at least not *qua* single varietal. For example, Burgundy reds are rarely marketed simply as "Pinot Noir," because of the importance of *terroir* and AOC. Likewise, the Burgundy white (Chardonnay single varietal, almost exclusively), the Loire Valley, and Beaujolais wines are usually single varietals, if labeled and marketed by AOC rather than as, say, a "Chardonnay," "Sauvignon Blanc" or "Gamay." Rather, they would be sold as, say, Chablis, Sancerre, or one of the numerous Beaujolais AOCs, respectively. Lately, in response to New World competition, some French producers have been marketing *monocépage* (single varietal) wines, but the practice is still isolated.

Finally, there are many complications. For example, Pouilly-Fuissé is a Burgundy white, composed of Chardonnay, whereas Pouilly-Fumé is a Loire Valley AOC made up of Sauvignon Blanc. A

[7] For a good primer on Burgundy, see Levallois, 2002, p.344; see also *Science & Vie*'s September 2009 special issue on "La Science du Vin" (pp.116–17) or Robinson, 2006, pp.112–16.

Pommard is a Burgundy (Pinot Noir), whereas a Pomerol is a Bordeaux (a blend of Merlot, Cabernet Franc, Cabernet Sauvignon and Malbec). Even French consumers are confused—let alone consumers from other countries!

3. AOC as Control and Enforcement

The AOC also enforces compliance. The INAO, through its regional committees, certifies new appellations and AOC applications from new parcels and producers (or denies them). In addition, the INAO certifies that wines comply with their existing appellation standards through routine annual tests and the tedious certification paperwork that vintners must file—but also through surprise inspections by armed government agents and raids of wineries suspected of cheating or unauthorized vinification.

As we will see below, the AOC system, through the INAO, not only provides for classification and description of existing wines but also acts as a gatekeeper for new appellations.

4. A Brief History of the AOC

The AOC system was originally established as an anti-fraud and consumer protection measure.[8] Unscrupulous vintners would purchase cheap wine (predominantly from North Africa and Languedoc), which they would blend with more expensive varietals, and then sell the ensuing wine with a (fraudulent) regional name. Thus did France see "Bordeaux" wines with a high North African wine content or "Champagne" wines with cheaper grapes from Burgundy and Beaujolais. The AOC system was established, initially and officially, as a mechanism to ensure that the label matched the content. The system began in the 1910s in Champagne and was enshrined nationally in 1935; it has evolved ever since, with periodic additions and changes.

In practice, however, there were two other underlying, and unofficial reasons: social unrest and "protection."

First, vintners in the higher-price regions were less than pleased by what they considered to be unfair competition from cheaper regions—regardless of one's views on competition and *terroir*, the competition certainly was unfair if the final product was fraudulently

[8] For details, see Déroudille, 2008, Ch. 4; Robinson, 2006, pp.26–27.

labeled with respect to its origin. Repeatedly throughout the 20th century, vintners have taken to the streets, with more or less violence, to demand protection from torts real or imagined. Violence and unrest periodically surface in different regions, with vintners in Languedoc blocking roads as recently as the summer of 2008. The French government and the various actors in the wine business (from big houses to local producers) are all too aware of the threat of social unrest; the AOC system, while originally an anti-fraud measure, can also be seen simply as a method of maintaining control over prices and production to prevent social unrest, as part of the French government's overall coddling of the agricultural sector.

Second, the AOC system can be seen as one of protection, first, of accuracy in labeling, but eventually and ultimately of the wine itself—that is, of wine tradition. Whereas the AOC started as an anti-fraud mechanism, it quickly grew into an all-encompassing regulatory regime. After all, fraud prevention is one thing. Rent-seeking is another entirely—and, as Klein (2002) explains, it is possible to get the former without the latter, through market-based assurances. Alas, government-based standards and assurances inevitably lead to rent-seeking. The AOC systems thus warrants analysis from a public choice perspective.

5. A Public Choice Analysis of the AOC System

Through a basic Public Choice analysis, we can understand the AOC as a bit more than merely a mechanism to protect consumers from fraud. In sum, *qui bono*? Whom does the regime benefit, and which individuals or groups are able to maintain it? From a Public Choice standpoint, it may very well be the case that the AOC regulatory regime protects consumers from fraud, and it may very well be a defense of tradition. But instead of stopping there, we can dig a little deeper, eschewing the more romantic, traditional view of politics as a vehicle for "the public good." By definition, a defense of the status quo is also a defense of vested interests.

The French AOC system is ultimately managed by French wine producers (Rousset-Rouard and Desseauve, 2002, p.49). Likewise, Marty (2004, pp.58–59) explains that, for a wine to obtain and keep the AOC label, it must be validated by a commission… that is made up of wine producers (see also Rousset-Rouard and Desseauve, 2002, p.94). In other words, the inmates are guarding the asylum, and we have a basic case of rent-seeking (see Tullock, 1967). Although the system does not necessarily imply dishonesty, there certainly is a conflict of interest. Déroudille (2008, p.108) cites a French Senate report that 96% of wines presented for AOC are certified; he worries that the AOC is perceived as an entitlement to guarantee producer revenue rather than a real quality threshold. Similarly, Marty (2004, p.59) estimates that 20% to 40% of French AOC wines do not merit the label, although their producers are able to cinch it. Likewise, Déroudille (2008, p.105) concludes that the AOC system comes down largely to rent-seeking and protection of a vocal minority of producers and vintners. So, while there may be (and indeed probably is) an element of protecting tradition and preventing fraud, there is also an important rent-seeking consideration in the current AOC system. Marty (2004, pp. 62–63) explains that it will be difficult to change the AOC system or crack down on subpar wines that manage to secure a certification because the AOC has become one of many French *avantages acquis* (acquired advantages) in the great rent-seeking game.

Another issue with the AOC is its establishment of barriers to entry—and the ensuing lack of innovation as insiders can remain complacent. To be sure, that is exactly the stated purpose of the AOC system: to protect the good and keep out the bad. But any barrier to entry will favor insiders who can effectively engage in rent-seeking while thwarting innovation. One wine expert worries (in Rousset-Rouard and Desseauve, 2002, p.30) that the French AOC system is too confining and prevents the inclusion of deserving varietals. Taber (2006, p.20) concludes that "the restrictive French wine laws certainly stifle winemaker creativity."

IV. From Neoclassical Economics to Public Choice… and Back

So what are we to make of all this? In sum, (a) the French system restricts entry and protects insiders in a traditional rent-seeking story, and (b) something isn't working, as France (overall) is losing market share.

Something in the neoclassical economic explanation just doesn't add up. French vintners face many exogenous factors, but orthodox neoclassical economics would seem to dictate that if lack of innovation and marketing lies at the root of the problem, there is a simple solution…innovation and marketing! Yet this is not what we are seeing. Instead, for the most part, French producers are clinging to tradition at the expense of profit—by hiding behind monopolistic rent-seeking.

The transitional gains trap literature (Tullock, 1975) helps explain why the current regulatory system is not working… yet persists:

> many government programs which appear to be designed to help some particular industry or group do not seem to be succeeding [because] the program, when inaugurated, generated transitional gains for the individuals or companies in the industry, but…these have been fully capitalized, with the result that the people in the industry now are doing no better than normal. On the other hand, the termination of the particular scheme would, in general lead to large losses for the entrenched interests.

The question, then, is whether French producers expect to lose more from the termination of the AOC than the expected gains from the ensuing ability to innovate. The resolution to the apparent paradox comes from a disaggregation of French producers. Taber (2006, p.281), for example, breaks French wine production into three price brackets: under $10, $10–$20, and $50+. He suggests that France has clear dominance in the top bracket, where it is well established internationally as the *grande dame* of fine wine. He also suggests that France is weak in the lower range, where it is, and will be, unable to compete with cheaper, more flexible, more accessible, more consumer-driven production from the New World (and likely China—see Kheniche, 2009, pp.96–97). The battle will thus take place in the middle bracket. *Wine Magazine* journalist Peter Brown (in Rousset-Rouard and Desseauve, 2002, p.118) echoes this prediction.

This analysis of the market, combined with the rent-seeking and transitional gains trap explanation, leads to the conclusion that there are divergent interests among French wine producers, yet they can all benefit through collusion. Although the French wine market overall has lost world dominance, individual producers still benefit from the regulatory regime, if for different reasons. The top producers capture rents while excluding domestic competitors and using the AOC as an international marketing brand. Mid-market producers hide behind an AOC system that is overly generous to insiders at the expense of outsiders. And lower-end producers fall back on state subsidies, thus not having to compete with more cheaply and efficiently produced foreign wines. Ultimately, though, it is not just the low-end producers who benefit from subsidies; it bears repeating here the earlier—and very telling—statistic that 96.5% of France's generous viticultural subsidies go to production, rather than marketing (Déroudille, 2008, p.103)… in an industry that suffers from over-production and under-marketing!

Non-traditional methodology (along with fieldwork) sheds light on the situation; it also brings to light a fourth segment of the French wine world (beyond top, medium, and low-end producers), which has intentionally been neglected hitherto.

1. Analytic Narratives

One can study human behavior in books; an armchair economist[9] will indeed get far just by reading and observing the world from afar. However, culture and institutions are amorphous, rich, messy, wonderfully elusive, living, dynamic concepts. As Boettke (1998) writes, "we still have to figure out how institutions are adopted, or how previously existing institutions mutate to serve the functions required. This remains another 'black box' within economic theory that must be opened." This paper takes a modest step toward opening this black box. There are significant advantages to qualitative work, especially when used to complement quantitative work: qualitative work can help refine the quantitative through nuance, it allows for disaggregation of actual versus stated preferences, and it can dissolve the aggregates of quantitative work and return to the only acting entity—the individual. Finally, it can help pierce the lobbying veil and pretenses of public good.[10]

The combination of methodologies (quantitative and narrative) can yield interesting and insightful results, as the rigor and breadth of quantitative analysis can complement and be complemented by the depth and richness of targeted qualitative work. On a lighter note, the villain Auric Goldfinger comments to Agent 007 of the British Secret Service: "Mr. Bond, they have a saying in Chicago. Once is happenstance. Twice is coincidence. The third time, it's enemy action" (Fleming, 1959, p.222). In that spirit, although I am aware of the pitfalls of anecdotes, patterns do emerge from conversation and

[9] Landsburg (1993).

[10] See Higgs (1997), Bates et al. (1998), Rodrik (2003), Stringham et al. (2008), and Wenzel (2011) for examples of this methodology.

observation. One is reminded of Hayek's stricture that "the facts of the social sciences" are the beliefs held by acting individuals (Hayek, 1948a). Thus, after looking at expert opinions and statistics on French wine, I turn to a more informal approach: fieldwork interviews with French vintners, conducted in two regions: Languedoc and Burgundy. These regions are representative of the overall economic breakdown, because Languedoc is characterized (overall) by low-cost mass production (as well as the elusive fourth sector described above), and Burgundy is known (overall) for top-tier production.

2. Languedoc

Languedoc is France's oldest and largest viticultural region. For years, it had a reputation as France's "wine lake," producing massive quantities of cheap, low-quality wine—the origin of the bottle of *pinard* (swill) each French soldier received as a daily ration as recently as World War One.

However, lower-cost competitors appeared. The first set of revolts, in 1907, started because Languedoc wine was being undercut by cheaper wines from Algeria, the latter often mixed into higher-priced wines from other regions, such as Bordeaux. In the 1970s, "wine commandos" surfaced in Languedoc to destroy foreign wines that were cutting into the local vintners' incomes. As recently as the summer of 2008, local vintners took again to the streets, this time to demonstrate against such vague threats as globalization and such specific threats as competition from New World wines.

Along with continued traditional production, Languedoc has shown much willingness to innovate in recent years, from cheap and decent *monocépages* marketed to foreign consumers and French drinkers seeking to match international trends, to greater experimentation with innovative blends. The region thus exemplifies a fourth segment of the French wine market, beyond the low/middle/top breakdown: entrepreneurs who seek to break free from the AOC's stultifying stranglehold. The following themes emerged from my fieldwork in Languedoc:

1. a need for an entrepreneurial approach to face the economic reality of New World wines;
2. embracing of the need for change through dynamism and innovation; and

3. experimentation grounded in the lessons of the past, i.e., pushing the envelope from within the AOC and tradition… or accepting temporary loss of AOC, in favor of a lesser designation.

In addition to vintner interviews, I spent several hours speaking with the engaging, exciting and enthusiastic president and chief economist of the CIVL (*Comité Interprofessionnel des Vins de Languedoc*) trade association. This umbrella organization is well aware of the challenges faced by the region and has engaged in an aggressive communication campaign to market the region's wines under the more accessible moniker "Sud de France" while offering a combined budget to counter some of the industrial organization difficulties (of fragmented supply) discussed at the top of this paper.

Four quotations summarize the approach to wine that is prevalent, if not necessarily universal, throughout Languedoc:

- "In Languedoc wines, if you don't move, you die."
- "The AOC system is antiquated. What really matters is the heart and the guts of the winemaker."
- "The label is irrelevant. What matters is the wine."
- "To please yourself—that's nice. But it doesn't work."

Taber (2006, p.285) echoes my findings, explaining that Languedoc has produced exciting developments of late; in the late 1970s it moved into new appellations, and it has been using innovative marketing to attempt continued competitiveness in the low- to moderate-price international market, where it suffers greatly against lower-cost and more nimble foreign producers—but can (and does) effectively use its French origins as a competitive advantage.

3. Burgundy

Burgundy could hardly have a more radically different history than Languedoc. It is known internationally for its wines, with great names, great reputations, and hefty price tags. From the Montrachets, Pulignys, Gevrey-Chambertins, and Pommards to the more modest Pouilly-Fuissé and Chablis, Burgundy's wines enjoy a well-deserved reputation. The region has emerged as the *grande dame* of France's wine production (although it contests the title ferociously with Bordeaux). In the words of Bazin (2002, p.110), Burgundy's love affair with wine can be likened to a golden wedding anniversary, compared to the New World's heady engagement.

Burgundy has emerged as a leader in the international world of wine, with international appeal and recognition (and emulation in the New World). Historically, the region has acted in concerted fashion to focus on quality and price while limiting production. There are currently about 100 AOCs in Burgundy (out of about 450 in France)—with AOCs often restricted to one or a handful of parcels within a single village. Although there are different grades of AOC, according to the plot or region whence the wine comes (see section above on AOC), there is no alternate designation in Burgundy for *Vin de Pays* or *Vin de Table*.

The following themes emerged from my fieldwork:

1. the region is essentially locked into tradition; there is to be no monkeying around with the lessons of the AOC or outside of the AOC;
2. there is a pervasive and deep sense of history: the monks experimented over hundreds of years and found the best parcels, which were then locked into the AOC laws—end of discussion;
3. experimentation is great, really – but it has already been done, over the centuries; and
4. finally, AOC is a precious marketing asset.

Whereas Languedoc's trade association opened its doors to me and gave me hours of its president's and chief economist's time, nobody at the Burgundy equivalent—**nobody**, not even a public relations officer—was available to see me. This may have been happenstance…or coincidence…but I think not: Burgundy does not need to prove itself, in the same dynamic, entrepreneurial way that Languedoc does…

The following three quotations summarize the situation in Burgundy:

- "The AOC system represents the results of many people working hard; it would be a pity to do just anything [instead of respecting tradition]."
- "Why make *Vin de Pays* when you have AOC land and rights, and they are well recognized [throughout the world]?"

- "[To experiment with new blends and methods would be] to cast doubt on everything."

Bazin (2002, p.103, translation my own) echoes the conclusions from this brief fieldwork: "nothing appears to be capable of modifying the flow of the Burgundy river."

V. Conclusion

In sum, France's wine industry as a whole is hurting from its regulatory regime, but different groups collude to maintain a system that benefits all—sometimes at the expense of other subgroups, but mostly at taxpayer expense. It is thus misleading to speak of "France's wine producers," which can in fact be appropriately broken down into four significant segments: top, middle, and low-end producers, but also dynamic entrepreneurs. The top producers can enjoy the AOC as an internationally recognized brand; middle producers can hide behind the AOC label and capture monopolistic rents that favor insiders at the expense of outsiders; and low-end producers can rely on subsidies to continue over-production and limited competitiveness.

In keeping with the transitional gains trap literature, rents appear to have been exhausted, yet most to all parties would be harmed if the monopoly were to be abolished (because of the accompanying subsidy regime): top producers would lose the privileges of AOC status, even if those rents have largely been exhausted; middle-range producers would lose the benefits of hiding behind undeserved AOC status in an industry in which only AOC wines ultimately capture a profit (Auby, 2007, pp.115–16); and low-end producers benefit from subsidies that allow over-production and under-innovation. The only suppliers that might benefit from a massive overhaul of the AOC system would be the dynamic entrepreneurs who are seeking to push the proverbial envelope. Then again, it is a fair guess that they would simply seek to lock in the benefits of their own entrepreneurial risk by entering the AOC regime, if only with new nomenclatures, thus keeping competitors out.

For my money, French wines are still the best, and tradition plays a useful role; the AOC system certainly has benefits in labeling (an epistemic function) and fraud prevention—but these benefits come at high cost. France could likely obtain the benefits of protecting consumers and tradition without the costs, through denationalization of the AOC. Hayek (1948b, p.97, quoted in Klein, 2002), assures us of the feasibility of market-based assurance mechanisms:

> In actual life the fact that our inadequate knowledge of the available commodities or services is made up for by our experience with the persons or firms supplying them—that competition is in a large measure competition for reputation or good will—is one of the most important facts which enables us to solve our daily problems. The function of competition is here precisely to teach us *who* will serve us well: which grocer or travel agency, which department store or hotel, which doctor or solicitor, we can expect to provide the most satisfactory solution for whatever particular personal problem we may have to face.

Klein (2002) likewise admonishes us that

> intellectuals, commentators, and regulators working on quality and safety regulation should seriously consider how resourceful middlemen, expert knowers, trustworthy promisers, and wary trusters find ways to overcome virtually any of the supposed failures of the free enterprise system. The demand for assurance brings forth a supply of assurance.

As things stand, almost all suppliers benefit from a continuation of a system that ultimately hurts all and a regulatory regime that can be sustained only through subsidies. The real question, perhaps, is whether France (if I may briefly make use of aggregrates) is ultimately committed to preserving its leadership in the wine world—or simply redistributing wealth to its agricultural sector and insider, vested interests. How long can France rest on its laurels (sorry...grapevines)?

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