CULTURAL COMMODITY,

GLOBAL ECONOMY

What does globalization mean for the French wine business?

MALD Thesis
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INTRODUCTION

Jean-Marie Messier, CEO of France's largest media company, Vivendi, mortified French audiences when he announced during a December, 2001 press conference that the "exception culturelle francaise" is dead. Although the pronouncement referred to the *exception culturelle* as it pertained to subsidies needed to support the French film industry, his remark re-ignited a long-simmering debate over the survival of national and regional culture in the face of a seemingly omnipotent global economy. The French have long been vocal opponents to what they see as a combination of bastardization and crowding out of their language, culture, food and lifestyle by large, well-financed, efficient, and powerful multinational firms.

One feature of the French patrimony that may be coming under threat from global market is the wine industry. Wine making in France has a long history, dating at least as far back as the Romans, and the French today are the largest per-capita consumers of wine in the world. The extensive history of wine in France coupled with the seemingly ubiquitous glass of wine at mealtimes conspire to give wine a cultural component that differentiates it from other agricultural products.

The cultural content can be divided into at least two parts. The first is the institution of the French small holder working a plot of land and reaping the fruits of his labor and the richness of the soil. While these small holders tend to be heavily subsidized, some French argue that the subsidies help protect a way of life and a national tradition that afford such positive side effects as maintaining the idyllic landscapes of the French countryside. Many French are willing to sacrifice efficiency in order to guard the continuation of small-scale farming for these aesthetic and cultural reasons. Second, wine making techniques themselves have a cultural content. Almost all French wine making revolves around the notion of *terroir*, or the concept that a single plot of land is endowed with an exclusive combination of characteristics that produce wine of a unique quality and character. The wine making practices that have evolved over centuries and are believed to best elevate the regional character of wine are embodied in the laws and regulations of the system of *appellations d'origine contrôlées* (AOC), or certifications of regional origin, character, and standard of quality. In these ways, the cultural content of wine making in France is intimately linked to the processes and institutions that have evolved over hundreds of years.

The perennial challenge to this system emanates from the New World, which includes growers in the United States, Chile, Uruguay, Argentina, South Africa, Australia, and New Zealand. In the last 30 to 40 years, these countries have been ramping up production and snatching market share in countries where French wines have historically dominated. Unlike in France, these countries often do not have traditions of wine making that extend deep into their histories and they do not attach the same level of cultural significance to wine making. Bearing lighter historical and regulatory burdens, these countries have spawned a generation of large and extremely well capitalized wine making firms that some say are antithetical to French viticultural mores. Together, these facts suggest that wine making is a globalized industry where success accrues to those firms that can marshal economies of scale, management talent, and marketing savvy. Traditionalists fret that the continued success of these New World companies threatens to degrade wine making in France in the same way that other mass-produced branded names such as McDonald's, Coca-Cola, or Starbucks stand accused of stimulating the degradation of French gastronomy.

This paper seeks to address the question, is "globalization" of the wine industry incompatible with the cultural features that many French ascribe to their wine making? The analysis will define globalization as the exchange of information and capital, the opening of new markets, and the shifting of demand patterns as a consequence of tastes and incomes. The analysis will initially focus on the Bordeaux and Languedoc regions of France, since they have had very different historical trajectories that have put them in similarly different present market orientations, creating important implications for understanding the extent to which globalization has differential effects on producers at varying price and prestige levels. The choice of these two regions is also based upon the wide range in levels of quality, reputation, and price that they span, thus providing a basic proxy for the rest of the French market. The second section analyzes the present state and trends of Bordeaux and Languedoc wines in global markets, and examines the competitive advantages of Bordeaux and Languedoc in meeting the exigencies of these trends, with an eye toward understanding the ability of the aggregate of French winemakers to compete internationally. The third section identifies points of competitive disadvantage that plague many French producers and that must be rectified in order to compete globally. The fourth section brings the analysis back to the cultural content of French wine production and evaluates whether globalization and the cultural content of wine making in France are mutually exclusive.

The analysis will reveal that Bordeaux, Languedoc, and indeed French wines as a whole have suffered minor losses in export markets, which is problematic given the alarming rate of contraction in the size of the French market and a worldwide surplus of wine, to which France is a substantial contributor. The losses in export markets are attributable to New World producers who are more competitive for a range of reasons, however, France's culturally-based approach to wine making has inherent advantages in globalized markets because it offers variety and differentiation. The solution to France's problems lies in harnessing the power of globalization as a force for dynamizing the industry, though these forces will indisputably carry negative impacts for some components of winemaking as a French cultural institution. In the final analysis, globalization cannot be ignored, but this need not mean the erosion or demise of the cultural aspects of wine making.

HISTORICAL AND GEOGRAPHICAL LEGACIES AS THE PRIME CAUSES OF PRESENT MARKET ORIENTATIONS.

Bordeaux and Languedoc could hardly be more different in terms of their present market orientations. Bordeaux is the *Grande Dame* of the world's great wine-producing regions, and its producers enjoy a world wide reputation which they can use to extract a price-premium for their wines. The hardscrabble Languedoc, by contrast, occupies the much less illustrious position as France's premier producer of plonk, or cheap, indistinct, mass-produced wine destined for every-day consumption. The irony of this is that the Languedoc's geographical characteristics can – and sometimes do – produce quality on par with that of many well-recognized Bordeaux. The cause of this gap is puzzling, but its tremendous advantage may be explainable by Bordeaux's position along the Atlantic seacoast, where it was able to tap into the unparalleled financial and intellectual wealth generated by the imperialist powers of the modern era. The Languedoc, by contrast, was much more isolated until the latter part of the twentieth century. In other words, Bordeaux has been "globalized" for hundreds of years, whereas Languedoc has only recently been exposed to international markets and outside ideas. While the evidence to prove these points conclusively was unavailable for the purposes of this paper, the evidence that is accessible, coupled with prominent theories of economics and industrialization, suggest that global forces could have played an extremely prominent role in shaping the present market orientations of these regions.

Sea power is market power: Bordeaux's 800 years of "globalization"

Trade drove early specialization

The most basic principles of economics suggest that Bordeaux embarked on a path toward specialization in wine production that drove quality improvements early on which placed it firmly as the predominate supplier of wine to foreign countries. The 19th century economist David Ricardo described in his landmark book, *On the Principles of Political Economy and Taxation*, how international trade encourages specialization in the production of goods according to the comparative advantages of the trading partners. The example Ricardo used to illustrate his concept centers upon his observation that Portugal's ability to produce wine far exceeded that of England's, while England's capacity to make cloth efficiently far exceeded Portugal's. Ricardo asserted that if Portugal specialized in wine making, England specialized in the production of cloth, and that if the two traded, both markets would enjoy higher quality goods produced more efficiently.[1]

Ricardo illustrated his thesis with the example of Portuguese wine, but he might have done so equally effectively with Bordeaux wine. The commercial links between Bordeaux and England extend at least as far back as 1152 when Eleanor, the Duchess of Aquitaine (the name of the present-day *département* of which Bordeaux is the capital) married Henry Plantaganet, who later became the King of England. The royal union gave rise to regular exchanges of food, textiles, and metals from England and wine from Bordeaux, precisely the type of specialization that Ricardo deemed efficiency

[1] David Ricardo. *On the Principles of Political Economy and Taxation*. (Washington: J.B. Bell: 1830). Chapter 7, paragraph 35.

maximizing. These exchanges lasted until 1453, when the French crown retook Aquitaine and put trade with England to a temporary halt.[2]

The next major wave of global trading arrived with the rise of the modern era of seafaring empires of northern Europe, led by the Bretons, Hanseats, and Dutch in the 17th century. These traders sought not only the traditional "claret" red wines for which Bordeaux is famous, but they stirred the development of brandies in the Cognac region and semi-sweet wines in Sauternes, both of which have since risen to international prominence and command high prices.[3]

In the 18th century, as the Dutch lost power to the increasingly powerful British empire, Bordeaux nevertheless found its market expanding once again. As the British developed prospering colonies, new markets for Bordeaux wine opened up in the New World. Concurrently, a large, wealthy, elite class that could afford imported luxury goods developed in the United Kingdom. Bordeaux's Atlantic position helped it become one of the first ports of call on the leg of the Atlantic triangle extending from London to Africa, allowing it to tap directly into these currents. At this time, England consumed only 10% of Bordeaux's exports, but the region's wines had, along with beaver pelts from America, tea from India and silk from Damascus, become a hallmark of high society in London and a significant reason for the quadrupling of Bordeaux's external commerce from 1724 to 1789.[4]

Bordeaux harvests dynamic gains from trade

Trade with the outside world helped drive specialization among Bordeaux producers, but trade also brought benefits in the form of offering incentives for firms to

[2] Conseil Interprofessionnel des Vins de Bordeaux, Press Document. 3.24
[3] Ibid.

compete against each other for a share of the lucrative overseas markets, as well as the exchange of scientific advancements from the emerging agro-industries of the north.

The importance of access to wealthy markets for setting Bordeaux along a quality orientation was that the wealth developed in the colonies and in Britain allowed Bordeaux growers to scale back yields and focus more intensely on quality. The great number of producers in Bordeaux would have been in competition with one another for market share in the wealthy markets to the north, which would have incentivized more efficient production and better quality as demand in markets near and far exploded.

Bordeaux's trade with Britain may also have helped it adopt the more scientific – and thus industrial – approach to agriculture that Britain pioneered in Western Europe, an approach due in large part to Britain's movement toward enclosed spaces. In typical Lockean fashion, this gave the property owner an incentive to maximize the productive capacity of the land and to impart a powerful dynamizing feature to British agriculture.

> Unlike most other countries, then, British agriculture was not conservatism's power base…it became something of a passion, not only for farmers but for wealthy, aristocratic landowners who were not above getting their boots muddy and mingling with anyone and everyone at cattle shows and sales. Inevitably, in this money- and market-conscious society, agricultural societies made their appearance, where 'improving' framers could meet and learn from one another, and agronomic literature proliferated, the better to propagate best practice.[5]

In a competitive marketplace, then as now, knowledge would have been an indispensable commodity for securing competitive advantage. The British scientific approach helped winemakers "demystify and give non-magical explanations for natural phenomena,"[6] such as the fermentation process, which in turn helped winemakers understand the wine making process as opposed to "simply relying on empirical observations."[7] This

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[4] Ibid.
[5]David Landes, *The Wealth and Poverty of Nations* (New York: N.W. Norton, 1998), p. 214.
[6] Landes, 202

[7] Hugh Johnson and James Halliday, *The Vintner's Art.* New York: Simon and Schuster, 1992, p. 75.

knowledge, when applied to the pool of French wine making experience, would have left producers well positioned to generate outstanding quality and derive substantial financial returns which could be reinvested in quality improvements. When set against the context of the sea power and wealth of the British Empire, the wealth creation associated with the extraction of colonial wealth, and the applications of scientific principles to wine making, it is not much of a surprise that the golden age of Bordeaux wine arrived between 1850 and 1878.

Languedoc: Confined to the Mediterranean Basin

The Languedoc, by contrast, shared very little of this impetus for specialization for a variety of geographic and historical factors that merged to isolate it from international trade.

During the centuries when Bordeaux was linking with emerging centers of wealth, the Languedoc's position in the world economy was strangled by its Mediterranean orientation and it did not specialize in wine making until the latter half of the 19th century. While it had access to Mediterranean ports such as Sète and Marseille, which did considerable trade with the eastern Mediterranean, the orientation of these ports was entirely wrong for the development of wine exports. North Africa, the Middle East, and Anatolia, all of which were destinations for French goods shipped out of Mediterranean ports, were all controlled by Islam, which proscribes consumption of alcohol. The Balkans were distant markets that also had significant Islamic populations, in addition to a long-standing history of viticulture handed down, as in the Languedoc, by the Romans. The wealthy powers that developed in Spain and Italy produced massive amounts of their own wine and had no real interest in the Languedoc's offerings. The only sea route out of the Mediterranean involved sailing the entire length of the Spanish coast, which was hostile territory for much of the modern era to both the French and English.

Languedoc's hapless geographic position was further exacerbated by barriers to transport existing within France up until the middle of the 19th century. On the surface, developments in the French transportation network would appear to have greatly benefited the Languedoc. In the same period between 1724 and 1789, when Bordeaux's exports skyrocketed, the French road system underwent a major overhaul, leaving the country with one of the best road systems in Europe.[8] Likewise, the Languedoc featured one of Europe's great engineering achievements of the late 17th century, when the Canal du Midi connected the Languedoc to the Gironde estuary, providing the region with an Atlantic port. All these were positive developments, but their value as stimulants of trade ran up against the problem that France's growth by incremental accretion of territory left the country with scores of internal barriers to commerce. Anchored by the vested interests of local officials who profited from tolls, customs duties, "seigneurial dues, octrois, and hindrances of all description on domestic trade," system proved extraordinarily difficult to reform. In addition, the hub-and-spoke lay out of the network (with Paris as the primary hub) facilitated travel between major points, but traveling perpendicular to the spokes proved very difficult.[9] Since most roads traveled north and south, the east-west commerce that the Languedoc required to access the ports at Bordeaux was made difficult. All these barriers to trade helped preserve the Roman-inspired polycultural regime under which farmers produced a variety of crops including

[8]Cobban, Alfred. *A History of Modern France.* Volume One. Penguin Books, Baltimore Maryland, 1963. p. 40

[9] Cobban, 40

hay, olives, and vines, largely for domestic consumption. While Bordeaux specialized in low-yield, high-quality wine for international markets, the Languedoc produced high-yield, low-quality wine to be consumed by the local farmer.[10]

The forces of technical advancement, increasingly efficient transport networks, and specialization according to comparative advantage changed the Languedoc in profound ways when it was connected to the north of France by rail in the 1860's. The region's sunny climate allowed large yields that made it an ideal low-cost producer, and wine from the Languedoc supplanted the vineyards surrounding Paris as the *vin d'alimentation,* or wine consumed with everyday meals, for much of the French population.[11] Since wine was among the few nutritious beverages that stored well, it often replaced water as the beverage of choice at meals.[12] The region boomed and property owners built themselves large estates with the profits reaped from their sales to the north. The Languedoc came to be known for "low quality wine, which then developed into an ascribed personality trait."[13] The dubious reputation that the Languedoc's sun-drenched soils could only produce bloated, watery wine received reinforcement from Bordeaux producers keen on stifling competition.[14]

The politics of religious intolerance that resulted in the expulsion of the region's Protestant population, the Huguenots, in the late 17th century may have also influenced the failure of the Languedoc to develop a more sophisticated wine making industry. Max Weber posited that the rise of innovative economies in Northern Europe at the time of the

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[10] William Crowley, Professor of Geography, Sonoma State University. Personal Interview, 26 February, 2002.

[11] Crowley, 2002

[12] Pretorius, Isak S. "Tailoring wine yeast for the third millennium" *Science in Africa* issue 2. wysiwyg//:27:http://www.scinecinafrica.co.za/winefull.htm

[13] William Crowley, "Is AOC Really the Best?" *Focus* Summer 2001. Viewed on Briannica.com/magazine/article?content_id=285860&query=languedoc.

industrial revolution was the product of those countries' Protestant populations. Weber contended that Protestantism's emphasis on labor as the path to salvation encouraged the accumulation of capital, thus sowing the seeds of capitalism. Weber also asserted that skilled labor tended to come more from the ranks of Protestant journeymen than from s Catholics and that Protestants also tended "to fill the upper ranks of skilled labor and administrative positions."

Weber's assertions about the value of Protestants as laborers, artisans, and administrators might have held true for the Languedoc, as it is known that King Louis XV's persecution of the Huguenots resulted in the expulsion of "a whole population of brave, well-educated bourgeois, prosperous merchants, and skilled artisans.[15]" While the effects on the wine industry are not documented, other artisan industries virtually disappeared. The silk industry in Tours, for example, "virtually collapsed." It does not seem a great stretch to assume that those best positioned to enhance the competitive posture of the region's viticulture took their talents to other parts of Europe. Bordeaux, though it did not have a truly significant Protestant population, never experienced such a significant expulsion of a skilled labor class.

[14] Ibid.
[15] Guerard, Albert. *France* Ann Arbor: The University of Michigan Press, 1959, p. 189

BORDEAUX AND THE LANGUEDOC IN COMPETITIVE INTERNATIONAL MARKETS

World wine markets have been exhibiting trends that will present serious challenges to many French producers. These trends, however, do not affect all producers equally; the impact of many developments, in fact, will affect producers at the lower-end more intensely than those at the higher end. The most salient feature of the world wine economy is a massive oversupply of wine which is gradually but inexorably creeping up-market, thereby increasing competition at all price levels as producers strive to move up-market ahead of it. Set against the wine glut, the French are facing radical declines in wine drinking in their domestic market, which is also their most important market, thereby increasing the need to export. This is especially problematic given that French export performance has been weakening recently due to the New World wine-makers' appeal to new consumers. Such flaccid performance should not, however, mask the fact that the French *terroir*-based wine making is a natural asset in a globalized market where product differentiation becomes of increasing necessity.

The causes of the world wine glut

The dominant supply-side feature of the world wine trade is that it is characterized by a severe imbalance between supply and demand. The magnitude of the world wine glut is difficult to pinpoint, but the most authoritative figures put the surplus at anywhere between 46.1 million and 64.5 million hectoliters (mhl) for 1999/2000,[16] which is roughly equivalent to the entire production of the Americas (47,668 hl).[17]

[16] Neil Beckett, "Global Surplus" Part I *Harper's* Viewed online at http://harpers-wine.com/featuresitem.cfm?featureID=14, 2.9.02

[17] ONIVIN, "Production de Vin dans le Monde" ONIVIN stats, 2001.

The European Union has helped make substantial contributions to the glut. Markets there have experienced gluts since at least 1907, when protests in the Languedoc turned violent.[18] The modern glut is the result of shrinking demand (especially by volume) in the EU and agricultural subsidies that encourage economically irrational production. The origins of the glut lie in the EU's Common Agricultural Policy (CAP), articles 38-47 of which seek to increase agricultural productivity, provide farmers with a "fair standard of living," and keep consumer prices "reasonable."[19] The signal failure of the CAP is that in trying to achieve its mandate, it incentivizes over-production by guaranteeing to purchase excess stocks in the event that market prices are lower (generally due to over supply) than a pre-set target price.[20] In the case of wine, the EU guarantee to purchase at a minimum price and then distill excess production helped create the proverbial "lakes of wine" that became one hallmark of the CAP's inefficiency in the 1970's and 1980's.[21]

The intimate relationship between farming and cultural identity, held especially tightly in France, has made rationalization of the CAP a political thorn bush since small farmers from France and elsewhere have no compunction about vehemently raising their objections to policy initiatives that run contrary to their interests. The farmers' interests were finally overridden when the EU budget could not support such lavish farm assistance, which, coupled with intensified scrutiny of agricultural subsidies during the 1993 Uruguay Round of GATT negotiations, culminated in a raft of reforms.[22] The two fundamental elements of the "New" CAP approved by the EU's Agriculture Council in

[18] Crowley, 2002.
[19] John McCormick, *The European Union* Boulder: Westview Press, 1999. p 232.
[20] Beckett, Part I
[21] McCormick, 234.

1993 included phasing out price guarantees, reducing subsidies, and paying farmers to abandon their plots. These policies helped to cut the area under vine by 25% between 1976 and 1996, and production dropped by 20% from 200 to 160 mhl by the early 1990's.[23]

This would be good news for the global wine glut, except for three other problems. First is that definitional issues may cloud the true scale of the problem. The reason is that the EU's stocks of "potable alcohol", or alcohol distilled from generally unmarketable wine, is not included in its estimates. In 1998, the EU claimed 7.5 mhl surplus, but 10 mhl in potable alcohol. In 1999/2000, the EU reported over 20 mhl of "potable alcohol." This, in conjunction with alleged dumping of subsidized wine on Eastern European and Russian markets, makes the size of the wine lake roughly two to two-and-a-half times greater than reported.[24] Accounting for these omissions, the true level of overproduction rises to 20 to 25 mhl[25] – roughly equivalent to annual consumption in Germany.

Second, the EU overhauled its policy toward the wine industry in 1999, but it is not clear that the new policy will correct the imbalance on a significant scale in the foreseeable future. The most important feature of the new policy was to provide funds to assist producers in "the restructuring and reconversion of vineyards." Also included were increased flexibility in allocation of planting rights, distillation only as an "emergency" measure, and limitation of grubbing measures to "regions with serious and long-term

[22] Ibid, 235
[23] Beckett, Part I.
[24] Ibid, 3.
[25] Ibid.

surpluses."[26] The reforms have provided little immediate relief, however. The first 'crisis' distillations occurred a mere four months after the policy was implemented, and the EU's failures to force removal of illegal plantings made prior to the inception of the new policies will leave these new plantings coming on stream early in the new millennium. In addition, the "flexibility" feature of the new policy allows for 68,000 hectares (ha) of additional plantings provided a market exists for the wine they produce. Finally, the EU is encouraging more efficient vineyard management practices that could conceivably boost yields and further aggravate the surplus.

The third major contributor to the global wine glut is the alacrity with which the New World (consisting of the US, Chile, Argentina, South Africa, New Zealand and Australia) has planted vines. Two of the most aggressive regions – California and Australia – have increased plantings by as much as 65% and 100%, respectively, since 1988. Chile has increased its area under vine by 60% in the last 6 years.[27] The intensity of this planting reflects the absence of regulations limiting production yields in the New World. In areas of France controlled by the Appellation d'Origine Controllé (AOC) system, a producer might be limited to producing 40-60 hectoliters of wine per hectare. By contrast, a New-World wine maker can, with advanced vineyard management technology, irrigation, a sunny climate, and rich soil, reach twice that yield. As a result, a hectare planted in California may produce two times as much as its counterpart in Bordeaux.

Simply stated, the world markets are in a situation of massive oversupply. While the problem has been with the wine industry for some time, policy makers in the EU

[26] European Commission, Directorate-General for Agriculture. "CAP Reform: the Wine Sector." 1999. http://europa.eu.int/comm/dg06/index.htm.

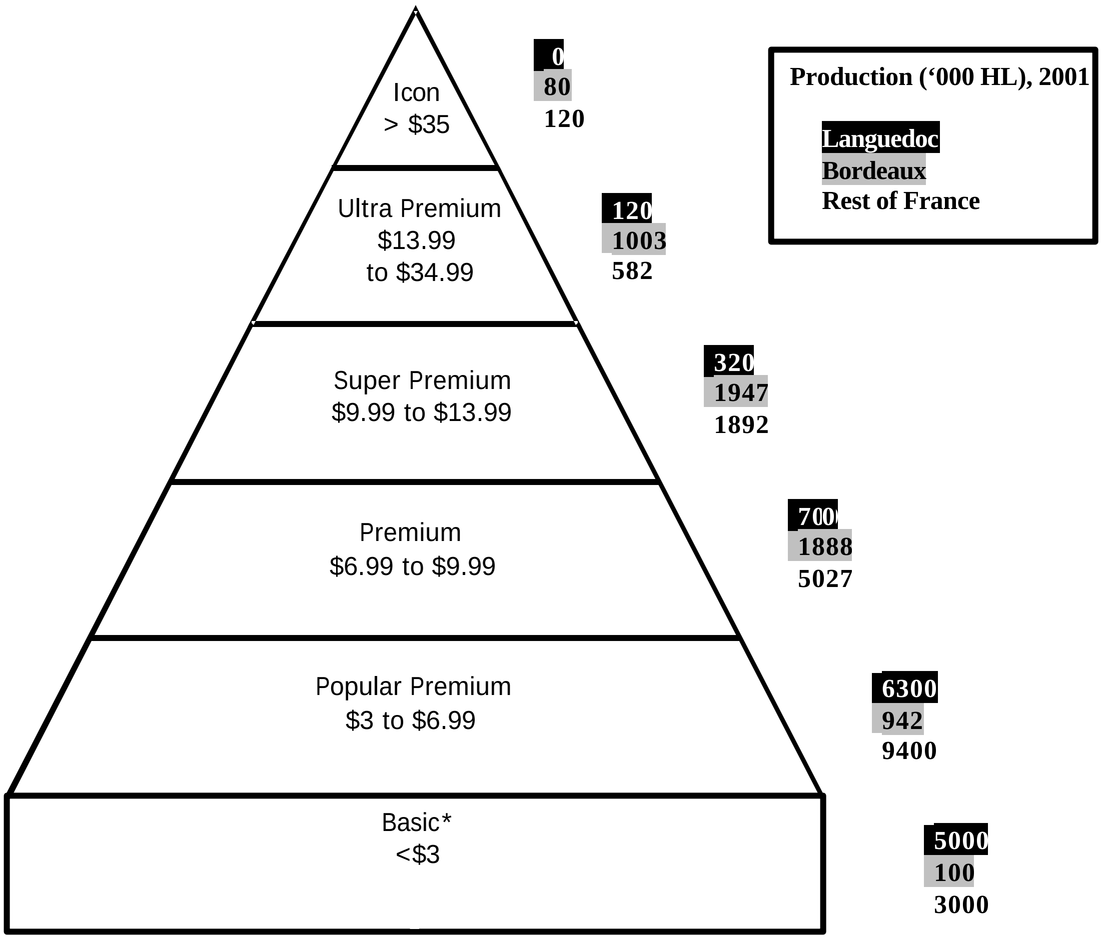
continue to lack the capacity to correct the imbalance. At the same time, the New World's aggressive planting threatens to further deepen the lake.

The global surplus "gentrifies"

The global surplus is of significant concern because it appears to be moving up-market. This is both a result and a driver of the differing impacts of the size of the wine lake on producers' various positions in the market. For purposes of analyzing these impacts, the supply pyramid is a useful model for disaggregating (exhibit 1) the wine market into price strata that can then be used to determine how effectively each region is meeting consumer buying patterns. While high-quality data, particularly for the 'basic' level of the pyramid, is difficult to procure, the polar relationship between the Languedoc and Bordeaux is plainly obvious. The Languedoc has virtually no presence at the high-value end of the pyramid, but constitutes an overwhelming majority of the low-value 'popular premium' and 'basic' levels. Bordeaux, by contrast, has a near monopoly in production of the highest-end 'icon' wines, and produces the vast majority of its output in the 'ultra-premium' and 'super-premium' categories, marketing very little in the basic end.

[27] Foreign Agricultural Service, "Chile Wine Update Report" 7.3.2001, US Foreign Agriculture Service.

Exhibit 1: Price-Quantity Pyramid



Source: Berthomeau, citing a survey conducted by Ernst & Young, 2001, except (*), which are author's estimates based on data from ONIVINS

These positions are extremely important, as the problems of globalization are confined to – and caused by – the producers populating the 'basic' stratum of the supply pyramid. In the EU, for example, 13.9 mhl of basic wine accounted for more than 70% of the wine taken off the market as "potable alcohol" in 1999/2000.[28] In the future, the glut, however, is expected to move up-market as changes in consumer preferences continue to drive producers to reduce quantities in favor of increased quality at a higher price.

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[28] Neil Beckett, "Global Surplus-Part II" *Harper's* Viewed online at http://harpers-wine.com/featuresitem.cfm?featureID=14, 2.9.02

One indirect aspect of globalization is that rising incomes in rich nations have altered fundamental demand patterns such that consumers are demanding increasingly higher-quality wine. In the US, wine sales costing over $7 per bottle have been growing at 11% to 15% annually, while those costing less than $3 have been in decline. Australians have been increasing their purchases of wines priced US$9.50 and above three times faster than those priced over US$6.75.[29] In France, the largest wine-consuming country in the world on a per-capita basis, the trend of diminishing consumption is countered by an increasing preference for generally higher-quality AOC wines (see exhibit 2). The *"vin d'alimentation"* upon which the Languedoc built its wine industry appears to have given way to a preference for more specialized, refined, and expensive wines in France and elsewhere.

Exhibit 2: Evolution of consumption in France

Years	Consumption (mHL)	% Consumption AOC
1960-1961	45	10%
1980-1981	43	20%
1999-2000	32.5	50%

Source: ONIVINS

The result is a race to capture the upper strata of the market. The French increased the area under vine destined to produce to the European Union's standard for "quality wine produced in a specified region" (QWPSR), which includes AOC wines, by 33% between 1979 and 1998. In terms of volume, AOC production was a record 25.9 mhl in 1999, which represented an average growth rate of 8.5% since 1994. By contrast, over the 1994-1998 period, the area producing lower-grade vins de table (VDT) decreased by 53%.[30]

The rest of the world is acting similarly. The world's largest vineyard by area, Spain's La Mancha, now has over half of its wines qualifying for the designation "viñas

[29] The Economist, "The Globe in a Glass" 18th December, 1999, p. 101.

de la tierra," and "there is the potential for prices take them in to the premium and ultra-premium sectors."[31] The US exports now only 10% of its production in bulk, and the producers of the Southern Cone in South America have predominately shifted from bulk to bottle sales as well. Argentina, in fact, has bypassed the basic sector altogether and has entered many markets in the premium and super-premium sectors directly, in contrast to Chile's evolution from basic to premium and on up.[32]

The effects of this on the premium and super-premium strata have been important in France and elsewhere. Although the French have produced more QWPSR than ever before, they also had to distill for industrial use nearly 1 mhl of excess wine in 1999/2000. Spain and Italy together distilled another 600,000 hl. In Italy, the relatively minor level of distillation was punctuated by the fact that 120,000 hl, almost half its distilled total, was Moscato d'Asti, one of its highest-quality products.[33] Thus, moving up the ladder is a necessary, but not sufficient, strategy for surviving the global wine glut. The question of how France can avoid sinking further into the wine glut requires understanding the evolution of Bordeaux and the Languedoc's competitive posture in key markets, what the regions' key competitive assets are, and why the New World has, in many respects, outperformed them.

Market verdicts on Bordeaux and Languedoc's performance in a global context

The discussion hitherto suggests that wine markets are moving toward perfect competition: as competition intensifies and profits are driven to zero, successful wines are those that can offer good value for the price. However, globalization is far from an

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[30] Beckett , Part II, quoting ONIVINS data.
[31] Ibid.
[32] Ibid.
[33] Ibid.

omnipotent force that has completely supplanted wine drinkers' sense of affiliation with place. Rather, the parochial tendencies of drinkers in the largest wine-producing countries have proven extraordinarily resilient to the onslaught of inexpensive and increasingly high-quality offerings from the New World (see exhibit 3). The world's top three wine-consuming countries, France, Italy, and Spain, import very little of their consumption. Moreover, this may be misleading insofar as all three countries attract significant numbers of tourists and business travelers, opening the possibility that a significant portion of the imports may be consumed by foreigners. Germany appears to be the anomaly, but since it produces mostly sweet white wine it must import both dry white wine and almost all its red wine. As a result, the increasing competition associated with globalization is most intensely felt in those countries which have little domestic wine production, while the markets of the more prolific producers are essentially fortresses against the against the advance of the global tide.

Exhibit 3: Where wine runs thicker than blood

	% imports in national consumption	Nat'l Production, 1999 ('000 HL)	Nat'l Production Rank (1999)
France	5%	6,046	1
Italy	10%	5,829	2
Spain	10%	3,279	3
USA	12%	2,029	4
Australia	10%	854	7
Belgium	n.a.	0.20	62
UK	96%	1.30	60
Switzerland	n.a.	131.86	24
Germany	24%	1234	6

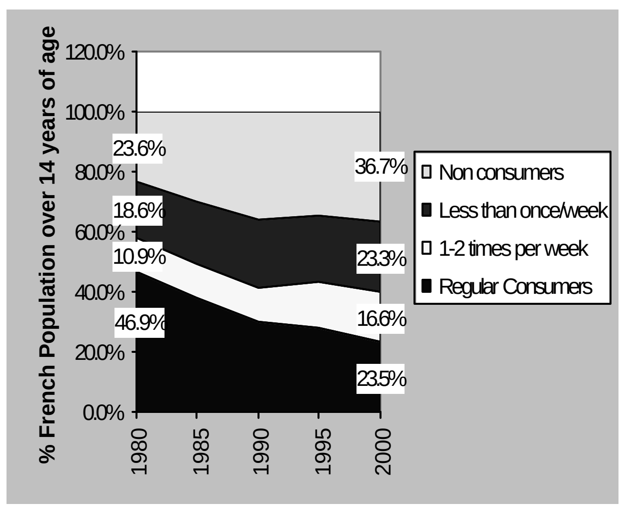
Source: "The Globe in a Glass", p 92; "Key Facts: World Wine Production," The Wine Institute; US Foreign Agriculture Service attaché reports.

National preferences for locally-produced wine offer a key insight into understanding what globalization means for the French wine business because French firms do not have to compete with international players to the same degree that other agricultural products do. Indeed, French producers largely sell within France. This is especially true for the Languedoc, which exports only about 7% of its annual production.[34] Bordeaux, predictably, exports more, but only 15% of its total production. For both these regions, and indeed for all of France, the fact that "French people absolutely refuse to drink foreign wines"[35] provides a harbor for French wines against the tempest of globalization.

The Half Life of the French Market

The impenetrability of the French market is positive for French producers, but the French are radically changing their consumption habits, leaving the market much smaller than at any other time in recorded history. In 1980, nearly 50% of the French population consumed wine on a daily basis. By 2000 daily consumption had dwindled to merely a quarter of the population (see exhibit 4). While the occasional consumers – those that drink less than twice a week – grew slightly, but the most disconcerting trend is the growth in non-consumers. The level of occasional consumers can make up for the decline in regular consumers by trading up to more expensive wines, but the

Exhibit 4: Wither the French wine drinker?



Source: ONIVINS: Enquêtes ONIVINS/ INRA sur la consommation du vin en France

[34] Some non-AOC wines are in fact of high quality and thus exportable, but they are not captured in official statistics.

proliferation of non-consumers simply blasts an irreparable hole in producers' revenue streams.

Demographic changes coupled with changing patterns of consumer choice are also undermining the size of the French market. The most significant drinkers are getting older, while the younger generations are not picking up their parents' consumption patterns. The older consumers are akin to a rabbit passing through the belly of a boa constrictor: in 1980, consumers outnumbered occasional consumers and non-consumers beginning with the 30 year-and-up age bracket. By 1990, the same ratio was attained only by those aged 45 years and up, while in 2000 the ratio was not reached until 65 years. At the same time, 20- to 24-year-olds are rejecting wine altogether: between 1980 and 1990, the number of non-consuming 20 to 24-year-olds leapt from 30% to 56%, and in 2000 there "were hardly any regular new consumers."[36]

For this reason, export markets are becoming a greater necessity for producers. In contrast to the deflating French market, northern Europe, Britain, the United States, Asia, and a smattering of emerging economies account for most of the growth in the world's wine-drinking markets (see exhibit 5). The English speaking world is particularly strong in terms of the development of new market opportunities. The largest growth market is the United States, which is also the seventh-largest consumer globally with 2,101,932 hl and a paltry per-capita rate of consumption equivalent to about 10 bottles per American per year but a per-capita consumption growth rate of almost 12%. The United Kingdom follows it in terms of volume, but trumps American consumption by a factor of two. Ireland, dubbed the 'Emerald Tiger' for its phenomenal economic growth in the 1990's,

[35] "The Globe in a Glass", 92, quoting Francoise Brugiere, head of research at ONIVINS.

[36] ONIVINS, *Faits et Chiffres* Paris, 2001. p. 24.

appears to have toasted its economic success by increasing per-capita consumption in grand fashion, turning in a growth rate in excess of 250% - albeit off a small base. Canada also has grown its consumption by almost 30%, although seven Canadians would be required to consume the equivalent of a single Frenchman – despite the decline of the French market.

Exhibit 5: Consumption growth markets, 1999

	Aggregate Consumption (L)	Per-capita consumption (L)	% Change consumption, 91-95 average to 99	French Export Gains (Losses)
United States	2101.9	7.638	10.47%	3.7%
United Kingdom	879.1	14.78	28.73%	(12.9%)
China	555.7	0.456	73.14%	N.A.
South Africa	392.9	9.044	11.34%	N.A.
Australia	374.0	19.53	10.90%	(5.6%)
Japan	311.2	311.2	129.0%	(3.7%)
Chile	286.4	286.4	13.45%	(28.8%)
Canada	255.7	255.7	29.86%	8.8%
Netherlands	252.8	252.8	13.93%	(5.4%)
Belgium	235.8	23.0	1.28%	(11.6%)
Denmark	156.8	29.4	26.51%	(19.9%)
Sweden	120.7	13.6	12.95%	N.A.
Poland	67.8	1.75	162.6%	N.A.
Ireland	37.4	9.88	251.1%	N.A.
Lithuania	33.3	9.20	171.8%	N.A.

Source: The Wine Institute, US Foreign Agricultural Service

Asia and emerging markets offer other beacons of hope. The magnitude of the potential locked up in China is truly remarkable. Consumption there is a paltry two liters per person per year, but this must be taken within the context of its 73% growth over the past ten years, the fact that it is already the 9th-largest consuming nation, and that it is earnestly tearing down trade barriers in conjunction with its recent accession to the WTO. Japan is also unique because while its prolonged period of ill economic health offers little in terms of growth for almost any other industry, wine consumption in Japan has increased by 127%. It, like China, does not boast of a wine-consuming culture, which means that per-capita growth is still low, but its population is sizeable enough to put it behind Australia in terms of absolute consumption. Chile is also an important growth market, with high per-capita consumption, strong growth, and a significant overall market size.

Northern Europeans comprise the third segment of the growth mosaic. The most significant of these are Belgium and the Netherlands. Belgium, though its growth has been only fractional over the course of the 1990's, has the highest overall consumption of the European growth markets. Denmark has stronger per-capita consumption, but its smaller population translates to a smaller overall market size. Sweden, Poland, and Lithuania round out the Northern European growth leagues.

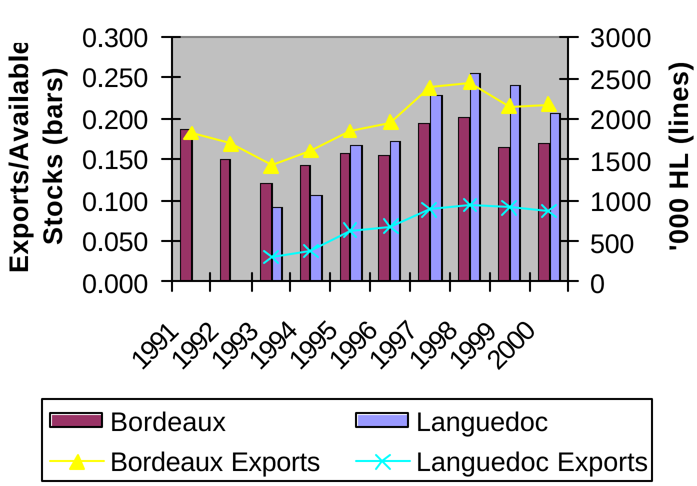
Performance in Export Markets

France is losing market share in almost all of these key export markets and the Languedoc and Bordeaux appear to be following this trend. Over the course of the 1990's, French exports increased in both volume and value, but the 2000 vintage saw a decline on both counts – despite the fact that plantings expanded. Export value declined by 5%, while volume exported slipped by 7%, following a decline of 3% from 1998 to 1999.[37] The sole countries in which French wines increased volume exports were the United States and Canada; in virtually all others, declines were precipitous. While the overall effect of the decline in value terms is probably less acute since French producers are generally making higher quality (and thus higher value) wine, the trend is indicative of the fact that in many regions, French producers are witnessing the erosion of their positions by New World entrants.

[37] Ibid, 27.

The story is similar in Bordeaux and the Languedoc. Exhibit 6 shows that both regions reached their zenith in export volumes in 1998 and have declined since then. This phenomenon is mitigated somewhat when the amount exported is compared to the amount actually available for sale,[38] but the trend is still negative.

Exhibit 6: Both Regions demonstrate declining export power



The exception to this is a small uptick in Bordeaux exports in 2000, induced by small boosts in consumption of Bordeaux wines in the United States, UK, Germany and Canada. These gains, however, should be placed within the overall context of Bordeaux performance in growth markets over time. Germany, despite narrowly reducing its consumption of all wines, now imports nearly 70% more Bordeaux than it did in 1991 and almost 300% more than in 1981.[39] However, the encouraging numbers end there. Demand in the United Kingdom, Bordeaux's oldest and 2nd largest market after Germany, has fallen every year since 1996 and has grown merely 15% since 1991.[40] This is particularly problematic given that consumption there has risen by nearly a quarter, and that overall growth in market size has surged in the years that Bordeaux's exports have been weakest. Belgium, Bordeaux's third-largest customer, is now buying less Bordeaux

[38] Whose purpose is to control for changes in yields due to weather.
[39] CIVB, 2.8
[40] Ibid, 2.12

than it has in seven years, despite increases in overall consumption,[41] and the US (the fourth largest Bordeaux buyer) is buying 5% less than it did in 1991 and 40% less than its 1985 peak.[42] Japan has been the most disastrous, however, importing only half as much as it did in 1997, despite the fact that its market has grown substantially.[43] Bordeaux is not only failing to participate in the expansion of growth markets,[44] but it is also exporting less in absolute terms.

The Languedoc's predicament is different to the extent that it is, in terms of current global consumption, an immature production market. For much of the 1990's, Languedoc export growth rates looked more like a creation of the period's technology boom than an agricultural product: in 2000, it exported almost triple that of 1991. It is like Bordeaux, however, in that its export growth has sagged since 1998, exhibiting drops of about 4% per year. As with Bordeaux, the decline in growth rates is driven by falling imports in key growth markets, as well as in traditionally important export markets. Canada and the US are the only major growth markets that have continued to increase their consumption of Languedoc wines. It is an encouraging sign that the Languedoc is making inroads into these markets. However, the fact that the Languedoc commands only 2.5% market share in the US, despite being the fourth largest producer in the world, signals that tremendous work remains yet to be done. In all other growth markets, declines ranged from a maximum of 45% in Japan to fractional in Denmark.

More importantly, the Languedoc's three most significant markets – Germany, the UK, and Belgium – have all dropped consumption of Languedoc's wines significantly.

[41] Ibid, 2.11
[42] Ibid, 2.14. This decline is also partly a function of an overall contraction in the US market during the 1980's.
[43] Ibid, 2.16

The most notable of these is the UK, which now buys over 17% less than in 1998, despite being simultaneously a growth market and the Languedoc's second-largest importer. Germany, the Languedoc's biggest customer, has dropped its consumption of Languedoc wines by 15%, despite unchanged overall levels of consumption over the same period. The message in the Languedoc is unequivocally worrisome: the region is overproducing while simultaneously failing to take advantage of growth opportunities, losing market share in its most significant markets, and seeing its home market crumble away.

The brave New World: why it is eroding French dominance in global markets

Whereas the producers of Bordeaux and the Languedoc have been finding their products more difficult to peddle in global markets, the New World producers have been exporting and snapping up market share with alacrity. In the UK market alone, for example, the Old World's market share (whose core powers are France, Italy, and Spain) has plummeted from nearly 70% down to less than half in 2000.[45] The broad outline of this trend has been mimicked in other markets across the globe, with the added problem that the New World wines often populate the premium (growth) layers of the supply pyramid. Thus, in contrast to their French-speaking counterparts, New World producers are having little difficulty increasing their exports. Declines in exports among New-World producers are virtually unheard of, while export growth of 20% per year is not especially unusual.

These high rates of growth in exports are partially attributable to the fact that of the high quality of New World wines has gained international recognition relatively recently. The watershed year may be ascribed to 1976, when a Paris-based British wine

[44] Growth in Bordeaux is in fact difficult to achieve because of capacity limitations associated with the AOC system.

merchant organized a tasting of the best wines from California and France. The tasting panel, which included 15 of the most powerful French wine critics, was astounded (along with the French) to learn that the jury had awarded the highest points to the California wines. This signaled the formal emergence of the international legitimacy of California wines – and helped catalyze a blossoming of the wine-drinking public's world view[46] that gave a great boost to California exports. At the time of the tasting, Chile, Argentina, and South Africa were not present in international markets for political reasons and the Australian and New Zealand wines were about five years from having a meaningful international presence. With only twenty years of export experience, and coming off a small base, it should perhaps come as little surprise that the New World's presence is growing quickly.

In fact, the New World producers are proving competitive for far more deep and meaningful reasons, which include climactic advantages, marketing savvy, and looser regulation. In a market where going "global" more accurately means attacking markets that produce little or no wine of their own, these factors help the New World enter markets where a "wine culture" is not deeply ingrained. This is important, again, because many of the traditional wine-consuming countries have experienced declines in consumption similar to that of the French. Specifically, the New World's advantages include a capacity to produce better consistency, more innovation in business practices, and a greater willingness to experiment.

Emphasis on consistency

> *"Back in the old world, wine buffs like to joke that it costs £300 to enjoy a great bottle of Burgundy - £20 for the good one, and £180 for the nine others that were not so good."*[47]

[45] "The Globe in a Glass", 92.
[46] Ibid, 92
[47] Ibid, 93

Bordeaux and the Languedoc have between them approximately 40,000 producers; 28,000 in the Languedoc[48] and 12,000 in Bordeaux,[49] one consequence of which is that there exists a tremendous diversity of quality in any given year. This can be multiplied by fluctuations in year-to-year growing conditions that leave skilled oenologists struggling to avoid the predicament where they produce stunning wines one year and then scramble to avoid catastrophe the next. While anticipating the promise of a new vintage gives wine buffs great pleasure, in a globalized world where new outlets are available in those countries where wine is not a part of everyday life, such complexity leaves open the door to producers able to provide a higher degree of reliability.

New World producers have been able to achieve precisely that reliability due to much lighter production regulations that allow them to source grapes for a given wine from different regions. Thus, a producer in the Languedoc or Bordeaux cannot do so if he seeks the AOC designation, since the goal of the AOC is to protect the regional identity of a given wine. By contrast, a producer in the prestigious St. Emilion region of Bordeaux cannot integrate grapes from the less-regarded Médoc into a wine if he or she would like to receive the prestigious St Emilion appellation. This has an important role to play in the competitiveness of the two regions' wines (especially in Bordeaux, where appellation and classification are key marketing assets), but it also increases risk of fluctuations in quality, since any producer's entire production is contingent upon the reliability of the weather in that particular region.

Another means by which the appellation system complicates producers' efforts to maintain consistency is that it imposes certain constraints on production which prevent

[48] CIVL, "Mini Atlas Economique" Narbonne: 2001. p, 3

producers from employing consistency-enhancing practices. Perhaps the most prominent and controversial is the use of irrigation, which is outlawed in all wine making regions of France but used in many areas of the New World. The reason the French have outlawed this practice is because the imprecise irrigation systems of the 1930's allowed excess water to go to the vines, resulting in watery, bloated wines.[50] The French aversion to irrigation is also fuelled in part by the fact that vineyards irrigated to enhance yield also require more management, since the growth of the vines depletes minerals in the soil (notably, nitrogen). The vintner must compensate for these imbalances by re-adding the depleted nutrients in order to maintain soil equilibrium, according him "an almost god-like control" over the outcome of the year's crop. Such intervention undermines *terroir* because the quality and character of the wine is no longer driven by the nature of the climate, soil, and aspect of the vineyard.[51]

Despite the well-founded claims concerning the preservation of the quality, and to a lesser extent, conceptions concerning the relationship of the vintner to the *terroir*, irrigation has evolved substantially since the 1930's. Modern drip irrigation allows precise amounts of water to be released into the soil at specified intervals, helping reduce the problems associated with bloated grapes and soil imbalances.[52] This amounts to a new tool which can allow skillful vintners to control grape ripening[53] and thus protect against growth stoppage in dry years. The regions in Australia, Argentina, and Chile where growth of vines would not be possible given their parched summers, can thus systematically control quality and character through manipulation of water levels. The

[49] CIVB, 2.26
[50] "The Globe in a Glass" p. 94
[51] Johnson and Halliday, p 64
[52] "The Globe in a Glass" p. 94

vines grown in France do not need irrigation to survive in the same way that they do in these dry regions, but the potential still exists for irrigation to moderate the impact of a dry year on the overall quality and character of the grapes.

The New World's consistency advantage is particularly potent given that it is one means of reaching out to new drinkers. Jean-Noel Kapferer, a professor of marketing at HEC, one of France's leading business schools, believes that one barrier to the greater pace of adoption of wine drinking in countries that do not have a wine culture is that consumers in these countries are easily put off by the complexity of wine. The new drinker (stages one and two of the wine drinker's learning cycle, exhibit 7) will naturally cling to a "safe choice," usually a label that the consumer recognizes and to which he or she can ascribe a certain character or taste. To the extent that the character and quality of French wines are more directly affiliated with changes in weather, the capacity for a French producer to create the same level of quality assurance as a New World producer is mitigated.[54] One disaffected consumer put it bluntly: "France is the land of paradox. You buy a half-decent bottle of wine, go back for a second time later, and it's nowhere near as good."[55] By contrast, among New World wines, "one rarely comes across a bad one."[56] Whether real or imagined in the mind of the new consumer, the perceived quality of a wine, and its ability to match the consumer's expectations, is "a pivotal reason-to-buy, influencing which brands are included and excluded from consideration, and the brand that is to be selected."[57]

[53] Johnson and Halliday, p. 65

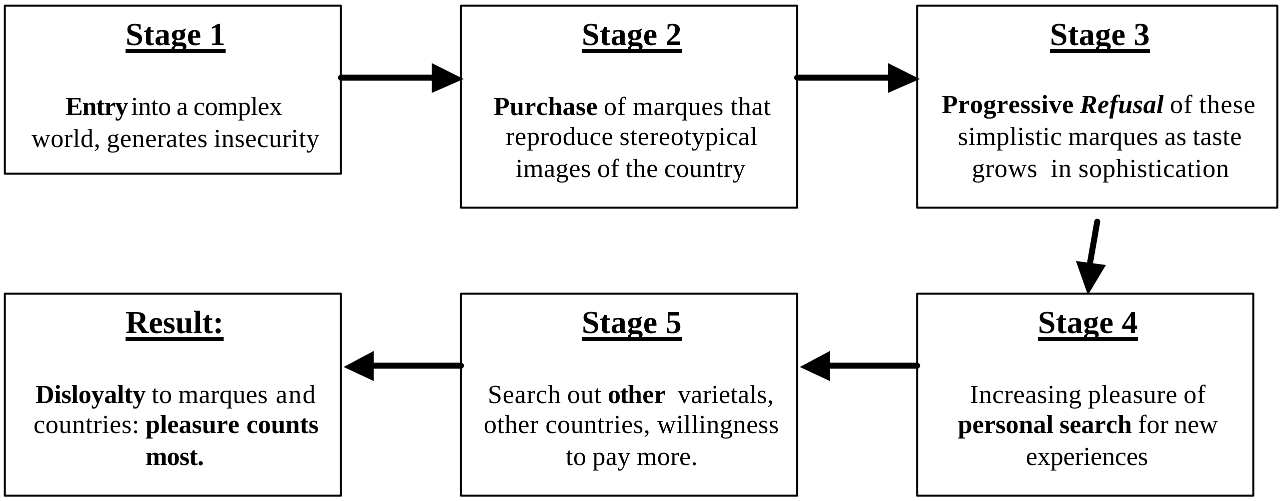
[54] Jean-Noel Kapferer, "Les Marques sur les chemins de la reconquête." Delivered to General Assembly of the FEVS, date unknown.

[55] Howard Huxter. "Savoring the fine points of the wine business" *Businessweek* 24 Sept. 2001, editorial. Viewed on Lexis-nexis.

[56] Kapferer, slide 23

[57] David A. Aaker *Managing Brand Equity* New York: The Free Press, 1991. p. 87

Exhibit 7: Wine-drinkers' learning cycle



Source: Jean-Noel Kapferer

Greater Innovation in Business Practices

The New World wine makers are also challenging the cherished French notion of *terroir* beyond issues of irrigation and sourcing grapes from different regions to balance out quality. Increased competition from the New World means that innovation matters in ways that wine-makers of the pre-1976 Paris tasting had not imagined. Some "innovations" deeply offend purists, but the bottom line is that willingness to experiment on the part of the New World has proven a key competitive advantage in winning palates. Such innovations focus on the contents of the bottle, the bottle itself, and the structure of the company that puts the bottle out to market.

California and Australia helped bring about one of the first significant changes in wine marketing in the 1970's and 1980's when producers in these countries introduced varietal labeling as a replacement to labeling by property or chateau. This led to the fascination with "varietal character" that "was seen as the be-all and end-all" of that era. The practice has persisted and, as a result, consumers now are more familiar with cabernet than they are with Bordeaux,[58] even though cabernet is an important constituent in Bordeaux. The reason for this discrepancy appears to lie in the fact that there are fewer really prominent varietals than there are appellation regions. Bordeaux and the Languedoc alone have 37 appellations, but there are about a dozen or so prominent varietals produced in all corners of the world. The value in varietal labeling is that it helps distill the hundreds of difficult-to-pronounce and sometimes obscure appellations (in France and elsewhere) down to a handful of tastes that help the consumer understand what will be in the bottle.[59] A new consumer is thus unlikely to know how a Faugères from the Languedoc or a Cadillac from Bordeaux will taste (and indeed might question why you want to serve a Cadillac with dinner) but will more likely know that a merlot is round and fruity. As a result, many consumers go to the shelf looking for a varietal on the label.[60]

The simple change to varietal labeling that tends to be used more in the New World – especially Australia and America – than in France is indicative of a more complex application of branding among New World firms. Rather, it is a strategy encompassing consumer perceptions of the quality of the product, the images, colors, designs and symbols associated with it, and the product itself.[61] A large New World producer such as Australia's South Corp or California's Mondavi can leverage the quality assurances guaranteed by advanced vineyard management equipment and multi-sourced grapes to create a consistent and competitively priced product which is attractive to new drinkers. As the tastes of the new drinkers grow more sophisticated, the large companies

[58] Kapferer, 11
[59] Globe in a glass, 97
[60] Ibid.
[61] Kapferer, 5.

try to get drinkers to trade up to more expensive wines. The name thus provides a quality assurance and the potential for a higher degree of product loyalty, particularly in markets where consumers tend to lack a “wine culture” and consumers seek “a subjective and objective guarantee” of character.[62] While more seasoned drinkers might sneer at such simplistic buying habits, the fact is that most of the wine market’s potential lies with drinkers who often view wine selection as a complicated and snobbish affair, a fact which New World producers are exploiting to their advantage.

Exhibit 8: The Making of a Brand

Adapted from Kapferer

France’s attachment to the *terroir* and the restrictions that the AOC system places on wines may hinder more thoughtful attention as to how producers can reach out to new drinkers. Also, the fact that vast quantities of French wine have traditionally been sold in France means that most French producers have not had to contemplate how to reach out to non-drinkers. The legacy of this, however, is worrisome, since quality can fluctuate substantially from year-to-year underneath the same label. Kapferer laments that “too many of our *signes* (names, appellations, labels, etc.) are tied to an objective definition of wine” determined from the viewpoint of the producer, not the buyer.[63] In addition to this, many French wines bear labels that are “unknown, unreadable, or incomprehensible for the new buyer.[64] ”Lastly, the facts that the most recognized French labels are AOC labels,

[62] Ibid, 27
[63] Ibid.
[64] Ibid.

and that quality varies so substantially within an AOC, together mean that the AOC loses some of its value as a quality guarantee.[65]

The lack of *terroir* in the New World also has important implications for how businesses can grow themselves and thereby attract investors. From a financial standpoint, one key differentiating factor is that the New World wineries tend to be much bigger – in both the United States and Australia, upwards of 60% of the trade is controlled by four or five companies.[66] In contrast, the French wine establishment is very fragmented, despite consolidation in both the Languedoc and Bordeaux over the past decade. This may be linked, in part, to the fact that under the AOC system a producer is effectively limited in how much land can produce for a given label, thereby limiting the extent to which he can grow his business. New World wine makers are unencumbered by lines drawn upon the soil and so can expand production as much as their financial resources allow, paving the way for the types of growth-oriented companies that tend to attract investors. Mondavi, for instance, sources about 90% of its grapes from independent growers.[67] The ability to grow their companies allows New World wine makers the capacity to tap into financial markets, harvest economies of scale, and pursue organic growth strategies. It is for this reason that the most daunting names in many growth markets are the brain children of large, publicly listed companies that enjoy the easiest access to financing for expenditures on enhancements to competitive advantage, such as quality control equipment and advertising. In the Languedoc and Bordeaux, *terroir* may be partly responsible for the relative dearth of publicly listed wineries

[65] Though varietal labels also demonstrate considerable fluctuations in quality.
[66] "The globe in a glass," 92-93.
[67] Peter Sinton, "Tough year ahead for vintners" *San Francisco Chronicle*. 11 August, 2001, B1. Viewed on Lexis-Nexis.

because it helps discourage vintners from thinking beyond the boundaries of their own vineyards.

The New World wine making establishment is also moving to greater specialization along the production chain. Instead of the traditional vertically integrated vineyard model where grapes are grown on-site, vinified, and then marketed, the California industry is showing evidence of a more fragmented structure which allows companies at different steps of the production chain to specialize in a particular production function. The Tejon Ranch Co, for example, grows grapes on 1500 acres south of Bakersfield, CA for sale to wineries. This is broadly similar in function to the producers that sell to *négociants* and cooperatives in the Old World, but the aim is altogether different.[68] The key is that most cooperators are small, family-owned affairs uninterested or unable to market their small productions. Operators such as the Tejon Ranch, by contrast, exploit economies of scale (Tejon Ranch has more acreage than many appellations in the Languedoc and Bordeaux) and specialized knowledge in agriculture to develop higher quality grapes more cheaply, which it then sells to companies like Mondavi who vinify and sell them. The point is that the California model has tended to favor greater specialization at different stages of production, generating efficiency, consistency, and cost advantages.

Yet another source of competitive advantage is that the New World's adoption of a more business-like approach to making and marketing wine drives large firms to populate management ranks with carefully selected high potential individuals. In both the New World and in France, vineyards have traditionally been family owned businesses

[68] Sinton, B1.

and handed down from generation to generation. In many cases, the younger generation is eminently capable of making excellent wine and marketing it effectively; however, a simple passing of the baton from generation to generation precludes family owned businesses from tapping outside talent pools. Mondavi recently faced the dilemma between family ownership and a need to incorporate management talent into its increasingly complex operations and elected to remain nominally a family-run corporation, but supported by a professional cadre of individuals boasting an array of cross-industry experience, MBA's, and Ivy-League educations, as well as accountability to a board of directors. By contrast, the focus of the average French producer has centered on recruiting staff with degrees in oenology and experience in wine making but often lacking formal business training or experience in other competitive industries.

The current trend in the New World is toward a more merit-oriented approach that focuses on all aspects of wine as a *business* as opposed to simply an artisan's product. The application of modern management, marketing, finance, and other aspect of business administration that is *de riguer* in most industries has only recently been adopted on a larger scale in the wine industry, and the charge is being led by Australia and California.

<u>Innovation Thwarted: Arrogance, Inertia, or Tradition?</u>

Most observers tend to agree that the New World is the leading innovative force in the wine industry. The question thus arises, why has France failed to prime its own engines of innovation, given that external pressures are growing increasingly exigent? Setting aside for a moment the commercial limitations of *terroir,* the absence of a more innovative culture of France's viticultural establishment, depending on one's perspective, owes to some combination of inertia, arrogance, and tradition.

With respect to inertia, the fragmented nature of the French viticultural establishment means that change requires a shift in the viewpoint and practice of tens of thousands of small holders. While markets can send powerful signals to each of these small holders, "countries with a plethora of small producers and antiquated regulations find it harder to embrace new ideas and invest in technology, to control quality and to spread best practice."[69] Further muffling the din of market signals, and thereby the capacity of the establishment to change, is the remarkable power of the French farmer to win protection from the French government and the EU. Policy choices such as subsidies that support inefficient production have created and then reinforced a powerful constituency of small farmers whose interest in maintaining the status quo intensifies as markets grow more competitive.

Secondly, viticultural practice in much of France reaches back centuries and, with the exception of Bordeaux, was oriented primarily toward satisfying markets within a short distance of the vineyard. By contrast, the New World wine making strategies are the off-spring of the New World's earnest entry into international markets; the New World grew up in a far more competitive environment than did the French producers. As a consequence, the evolution of practice in the New World is dominated by the need to create and enter new markets, whereas for French producers, markets (and market shares) were for decades and even centuries much more of a given. This partly explains why a recent report commissioned by the French government lamented that so few French producers make very little attempt to market their wines.[70]

[69] "The Globe in a Glass," 93.
[70] Jacques Berthomeau, "Comment Mieux Postionner les AOC Sur les Marchés d'exportation." Report submitted to agriculture minister Jean Glavanay, 7.31.01, p. 4.

Third, AOC regulations, to the extent that they are supposed to codify centuries' worth of wine making experience, freeze innovations that may not have been conceivable at the time that certain practices entered into general acceptance. These practices have become enshrined in AOC legislation and are generally immutable. For example, one Bordeaux Grand Cru producer wanted to reduce the amount of water reaching his vines in order to try and get better concentration of flavor in the grapes. To this end, he placed plastic sheets in between his vines. When the authorities from the National Appellations Institute (INAO) passed by the vineyard to determine AOC compliance, they refused to grant it. Disgusted, the producer labeled the offending wine "*Interdit de Valandreau*" (translation: "Valandreau Prohibited").[71] This particular anecdote ended well for the producer, as he was able to command a premium for his unique product, however, doing so meant foregoing his AOC status, a decision that no grower takes lightly for reasons that will be discussed shortly. One by-product of the AOC system, thus, is that it systematically discourages deviation from traditional practice.

Another factor keeping France from evolving with the speed of the New World is that tradition matters much more in France than elsewhere. *Terroir,* which forms the basis of the French conception of how wine should be made, has its roots in the Middle Ages, if not earlier. The origins of the notion of *terroir* are attributed to Cistercian monks who are purported to have gone so far as tasting the soil to understand the relationships between it and the quality of the wines they made as far back as the 11th century. The concept has endured as the basis for wine-making in France and much of Europe for a thousand years.[72] According to Johnson and Halliday, the development of a "clearly

[71] Jean-Baptiste Brunot, Proprietor of Château Piganeu. Personal interview, 1.28.02
[72] Johnson and Halliday, 21

defined and equally clearly differentiated appellation system which not only enshrines the varying types of wine" has "established a social structure extending downward from royalty to nobility to bourgeoisie to peasantry."[73] The dramatic differences marking the *terroirs* of Bordeaux from the Languedoc are evidence of such a system, which was perpetuated by Bordeaux[74] and still permeates viticulture in the more "peasant"-like production schema of the Languedoc. As outsiders trying to establish production facilities in Languedoc have learned, the difficulty of changing the stigma associated with the Languedoc's relatively unprestigious appellations is extremely difficult to overcome.[75]

While immobility in the name of tradition may have its place, tradition may be supporting arrogance with respect to the rest of the world. One prominent producer in the Languedoc said that categorically, "the Californians produce wine like other people make yoghurt" and that in the process, they destroy the environment.[76] Another cooperative owner summarily dismisses the success of New World wines to marketing and that "in all of Australia there is not one wine that is unique." The French government's report on the competitiveness of its AOC wines in the global marketplace acknowledges such arrogance and, in an appeal for a change in mindset among French producers, concluded its report: "just until the last few years, we were wine, everything that concerned it revolved around us. We were the center, the undisputable reference. Today the barbarians are at our gates!"[77] The solution, it says, is to "be more attentive to the needs of the new

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[73] Ibid, 77
[74] Crowley, 26 February.
[75] Guido Jansegers, Proprietor, Château Mansenoble, personal interview given 1.27.02, Moux, France; Nigel Sneyd; Marie-Isabelle Devault, Manager of Public Relations and Domestic Sales, Domain de la Baume. Personal Interview given 1.29.02.
[76] Blom, Philipp. "Off Centre" *The Financial Times* 5 August, 2000. Viewed on Lexis-Nexis.
[77] Berthomeau, 81

markets, go before them with a little more humility, pragmatism, and readiness to listen."[78]

Kapferer notes that arrogance is partly to blame for French failure to adapt to market realities. One of his four recommendations for improving the positioning of French wines in international markets is to "depart from our elitist, immodest attitude."[79] He contends that the tenor in wine markets has radically changed away from one of snobbishness, pretension, and "learning to appreciate" to one which is more open, informal, and in which the consumer's desires matter regardless of what the weight of historical experience dictates.[80] His contention is that the habit permeating the French viticultural establishment to let markets come to it as opposed to reaching out to them is a key reason why French wines have been suffering losses in key markets.[81]

A final but very important reason for the relative stasis among the vast majority of French producers lies in the fact that the French have succeeded at creating the world standard for wine. Many, especially in Bordeaux, see little reason to change such a successful formula, which is based upon the accumulation of centuries of experience. Indeed, altering the rules such that French products violate consumer expectations would constitute a direct violation of the marketing dogma that names uphold consumer expectations of product characteristics from which the New World has so benefited.

In sum, the competitiveness of the New World wines resides in a more questioning approach to almost every aspect of the wine making process. This yields a more professional approach based more solidly on commercial realities. It in no way

[78] Ibid.
[79] Kapferer, 35
[80] Ibid, 36
[81] Ibid, 33

suggests that the wine on offer in the New World is more interesting, but the point is that the New World producers are better positioned to reach out to new or occasional consumers. With the French market disintegrating and the most important markets emerging in areas where wine appreciation is not already ingrained in the culture, this orientation matters.

Starbucks versus Stradivarius? France's Competitive Edge in a Globalized Market

Many New World vintners remain extremely dubious about the French notion of *terroir* and the analysis hitherto would indicate that *terroir* has indeed not served the French well in the global marketplace. The discussion until now has suggested that *terroir* promotes provincialism because it prevents any producer wishing to receive an AOC designation from looking beyond the boundaries of his own appellation. Furthermore, the sheer number of French producers is a disadvantage because they cannot respond as quickly to changes in technology and practices. This, however, ignores the fact that France has built its pre-eminent position and reputation upon the notion of *terroir*. While the concept may be laden with shortcomings, it also lends French producers a tremendous advantage in an increasingly commoditized market where differentiation becomes the essential survival strategy.

Cistercian Monks as Proto-marketers and Terroir *as a Competitive Asset.*

Cistercian monks introduced *terroir* in response to some of the same phenomena observable in the present, more globalized world: the necessity to distinguish one wine from a mass of others. These monks occupied themselves with the study of the relationship between wines and soils and, based on the characteristics of soils, the grapes and vinification methods that extracted the maximum quality and character from a given patch of soil. Efforts were made to maximize both quality and distinctiveness. When the global wine trade began to develop in the 17^{th} century, regions such as Bordeaux[82] came to realize the value of identifying the good and great sites as they ramped up production of premium quality wines.[83] Thus, the effort to codify practices in the appellation system is rooted in precisely the same principles as is the success of New World wines: guarantee consistency of quality and a relatively uniform character so that consumers associate them with place names.

The result of the Cistercian monks' thousand year old preoccupation with guaranteeing quality and maximizing diversity has led to the truest manifestations of a "global brand" that the wine market knows. In the same way that the monks sought to link a name with a certain set "common associations,"[84] marketers at the largest international winemakers and even global food chains such as Coca-Cola and Nestlé have pursued the creation of a brand of wine recognizable around the world, but none have succeeded. The truly remarkable feat of the AOC system is that it has been able to create very high visibility names that carry distinct and powerful associations. For example, Champagne and Bordeaux remain two of the most widely recognized names in wine and both are closely associated with affluence and special occasions. As evidence of this, the tiger economies of South East Asia voraciously snapped up Bordeaux wines during their years of massive economic expansion as newly minted tycoons eager to show off their wealth paid extravagant sums for Bordeaux's most famous labels.[85] The boom in Bordeaux exports to this region of the world was not fuelled by the quality of the wine (indeed, many in the wine industry were revolted by stories of Chateau Pétrus being

[82] The Douro region of Portugal, where port wines are made, also rose to international prominence during this era and developed its own appellation system.
[83] Johnson and Halliday, 19
[84] Aaker, 264

downed in a gulp with lemon seltzer water), but rather, it was driven by the prestige associated with the Bordeaux name.

In the UK, whose market dynamics Kapferer considers characteristic of trends visible in other growth markets, the power of names resonates loudly with consumers. Among British consumers, a 'reputable name' is among the most important criteria to take into account when choosing a wine.[86] Notwithstanding the lackluster performance of the last few years, the French have a tremendous advantage in terms of name recognition. Of the 15 most recognized names in the UK, the French occupy 8. The most prominent are regional AOC's, and studies indicate that through these names the British widely recognize nearly all the major wine-producing regions in France. More encouraging for the French is that their "brands" tend to be favored by the upper-crust, meaning that Bordeaux, Champagne, and Beaujolais enjoy a privileged position among those willing to pay more for the wine they drink.[87] Thus, the quality guarantees protected by the AOC system lend a degree of constancy of quality and character which consumers associate with regions. "Simply because the French have been more disciplined in their approach to making and marketing wine, they have long since outdistanced their most natural competitors, the Germans and the Italians… The rigidity of the system has its dangers and shortcomings, but it has some potent advantages, not the least being stability"[88] and recognition.

Exporting Terroir

[85] Terril Yue Jones. "Asians Develop a Taste for Bordeaux and Help Fuel Price Explosion." *The Wine Spectator* 30 Sept, 1997. http://www.winespectator.com/wine/archives/show_article/0,1275,1379,00.html.
[86] Kapferer, 11.
[87] Ibid, 15.
[88] Johnson and Halliday, 77.

The New World is aware of these benefits and has been seeking to emulate the French AOC system to varying extents. The value in doing so derives from the fact that areas capable of producing premium-quality wines have a strong interest in guarding the quality that a given space can generate. Thus, in the 1960's, 1970's and 1980's, when wine making in California began its ascent to international prominence, producers often rode the coattails of great French names by marketing their wines as 'Bordeaux-like' or 'Burgundian.'[89] As the quality levels continued to increase and California gained increasing legitimacy for its own wines, it emulated the French AOC system by creating its own appellations of origin based upon the unique geographical characteristics of a given region or district. Inclusion into the Stag's Leap district of the Napa Valley, which had acquired a reputation for outstanding cabernet sauvignon, became so highly prized by local vintners eager to extract the higher prices associated with the prestigious name that the drawing of boundaries became a highly contentious and political affair. The value of being included within the lines drawn around regions such as Carneros and Mendocino elicited similar acrimony.[90] The markets recognize the value of guarantees of geographical origin, a 21st century commercial validation of what the monks in Burgundy set out to guarantee hundreds of years ago.

Another French practice that may be growing more prevalent in the New World is the truth-in-labeling guarantees provided by the AOC system. One particularly contentious battle fought in the US concerned usage of the term "natural flavors" on labels, a practice favored by large producers such as Canandaigua and the Wine Group. "Natural flavors" is an umbrella term to describe a range of unspecified additives that

[89] Dick Fetter, Gru Distributing, Phone conversation on 4.10.02
[90] Fetter, 2.10.02

may include alcohol, sugar, and water that help keep costs down but deliver a very mediocre beverage. Some industry observers lamented the practice as a "cancer spreading throughout the industry"[91] because the companies are not required to disclose what "natural flavors" include, thus misleading consumers. Canandaigua retorted that it was actually helping expand the wine market by producing wine that attracted new consumers.[92] In October 2000, the Bureau of Alcohol, Tobacco, and Firearms (BATF, the regulatory body which governs the American wine industry) found that the practice amounted to consumer deception and issued a ruling requiring producers to supply references indicating the introduction of sugar, water, specific 'flavors', and alcohols on their labels.[93] To the extent that this prevents wine 'products' composed of a smattering of additives foreign to traditional wine making practices, the ruling fortified the quality and character guarantees that Napa Valley vintners seek by forcing disclosure of additives that would dilute the integrity of the "Napa Valley" name.

This process of 'reverse globalization' is also at work in other parts of the New World. New Zealand's Waiheke Island is not an appellation but is making efforts to become one[94] in hopes of emulating the success of Cloudy Bay, the winery that brought prominence to that country's sauvignon blancs. Australians are making similar strides: the Coonawarra region has been embroiled in debate as to where to draw the boundaries around the finger-shaped district whose red soils produce Australia's greatest Cabernet Sauvignon.[95] Both Chile and Argentina have their respective AOC-like systems as well.

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[91] "Globe in a Glass," 93
[92] Ibid, 94
[93] Federal Register, "Labeling of Flavored Wine Products" Final Rule, Treasury Decision 98R-317P. 6 October, 2000.
[94] Fetter, 2.10.02
[95] Johnson and Halliday, 24.

Where terroir is not valuable, value still exists

The Languedoc is the polar opposite of Bordeaux, as its AOC's are not nearly as well known in international markets. One of the region's most acclaimed estates, Mas de Daumas Gassac, only began receiving serious recognition in the press around 1980.[96] Twenty years later, the wine press still runs headlines describing the Languedoc as "waking up" from its long "relegation to second-class status."[97] The essential advantage of the Languedoc's appellations is that even though they may have a reputation for high production rather than selectivity, they sit on land capable of producing outstanding quality. The expansiveness of the Languedoc, coupled with its deep under recognition, together make land there an order of magnitude less expensive than in Bordeaux.

The combination of excellent growing conditions and cheap land conspire to make the Languedoc an increasingly popular destination for outside investors (which includes foreigners and French coming from outside the region) who see untapped value in the region's soils. In addition, the low "brand equity" of the region's appellations make deviating from established practices less costly. As a result, many foreign companies have set up production in the region and they often make wine according to their own preferences, making the Languedoc a frontier for innovation in the low- and mid-priced portions of the supply pyramid.

Variety Matters

Large New World firms are taking a commanding lead in applying industrial logic to the types of wines they make in terms of decisions, including where and when to harvest, as well as harnessing economies of scale. However, demand for wine is not

[96] Philipp Blom

driven by cost alone, since variety counts as well. There is, in many corners (and spread across markets far beyond France) a disenchantment with elegant marketing schemes and products that vary little from one year to the next. Andrew Jefford, a British wine journalist, claims that the "increasingly industrial" nature of many large-scale production wines puts the industry at risk of "becoming increasingly monotonous" as these wines become "the equivalent of cans of lager; standardized, consistent, reliable, risk-free, challenge-free." Hugh Johnson sees the problem in more positive terms: "why is wine so fascinating? Because there are so many different kinds, and every single one is different."[98] For many wine drinkers, the 30,000 producers that litter the Languedoc and Bordeaux countryside provide the basis of an endless search for "the perfect bottle." For these drinkers, large-scale consistency-oriented production is not necessarily an attraction and the variegated landscape of these regions is an asset.

While wine journalists and others may lament the rise of "industrial wine," the increase in sales of large-scale production of branded products does not spell the demise of variety in the wine industry because at least two factors safeguard variety: the individual consumer's preference for variety and the variety of preferences embodied in the market as whole. Provided that people have differing willingness and abilities to pay for commodities, diversity will not be supplanted by economies of scale – though an equilibrium level of choice and economy of scale will develop. A consumer welfare model developed by Avinash Dixit and Joseph Stiglitz model suggests that while economies of scale matter to the extent that consumer utility is maximized in part by lower prices, consumers are best off when offered a greater number of products in small

[97] Kim Marcus. "Languedoc Wakes Up" *The Wine Spectator* 31 March, 2000. http://winespectator.com/wine/archives/show_article/0,1275,2580,00, 13 Feb. 2002.

quantities.[99] Thus, economies of scale are important and have a place in the market, but variety also matters to consumers. Additionally, individual consumers have different tastes. Together, these ensure that variety will not fall wholesale victim to mass-produced wine, and France is eminently well positioned to slake the market's thirst for variety.

Are the young really lost?

The indications from marketing surveys, such as that executed by the Wine Market Council[100] in the United States, is that the ageing of the baby boom generation presages a contraction in overall demand because the younger generations are both less numerous and drinking less wine on a per-capita basis than their graying counterparts. In the US market, for example, the baby boomers (defined as those aged 36 to 54 in 2000) out-numbered the "Generation X" population (24 to 35), which harbors most of the 'occasional' drinker population, by 33 million. The "millennial generation" (whose eldest turn 23 in 2000) is the greatest wild card, as it constitutes about 70 million people, most of whom do not consume wine at all.

The passing of the baby boomers in the US and elsewhere is certainly of great concern to the future of the wine industry. However, it does not necessarily foretell doom for consumer demand of French wines, as it does tend to reinforce the edge that New World wines have in capturing new consumers. The reason for the optimism is that the most obvious feature of the younger generations is that the potential for continued expansion of demand remains untapped. This would appear to bode better for the New World firms than for the French, owing to the greater branding skill developed in the

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[98] "The Globe in a Glass" 93.

[99] Disit, Avanash and Stiglitz, Joseph. "Monopolistic competition and optimum product diversity." *The American Economic Review*, Vol. 67, issue 3 (Jun, 1997), 297-308.

New World. This may indeed be the case, but it runs counter to historical experience indicating that wine consumption tends to increase with age.[101] The Kapferer learning cycle would also suggest that the French might benefit from the "minting" of new consumers through both the marketing efforts of competitors as well as the natural tendency for people to consume more wine as they age, assuming that these drinkers possess their forefathers' appreciation of variety.

France's power in overseas markets may thus be analogous to the US position in world politics since World War II. Like the US, France once commanded the cat bird seat of power and enjoyed unchallenged global supremacy. The development of centers of power around the globe, however, has eroded the once commanding margins of superiority. The smaller relative differences, however, do not signal its extinction, but merely that is surrounded by increasingly powerful peers.

[100]The Wine Market Council, Research Summary, http://winemarketcouncil.com/research_summary.asp. Viewed 1.16.02

[101] Ibid.

KEY ISSUES FOR UN-COMPETITIVE AREAS

Joseph Schumpeter, the famed economist of the first half of the 20th century, called capitalism "by nature a form or method of economic change" that "not only never is but never can be stationary."[102] Schumpeter observed that the development of new products, production paradigms, and market organizations would tear down old ones in an on-going process of "creative destruction." The "perennial gale" of creative destruction is "what every capitalist concern has got to live in,"[103] and French wine makers are no exception.

As the discussion until now has shown, the intensification of competition, which is the most readily visible (and most feared) manifestation of globalization, is suggestive of the increasingly capitalistic nature of the wine business. While the French have much to bring to competitive markets, they are also under-performing the New World in terms of capturing those markets precisely at the moment that they most need them as an outlet for their surpluses and to fill the gap left by the decline in domestic consumption. This underperformance makes clear that change is needed in certain aspects of how French wine-makers conduct their business in order to avoid being "creatively destroyed."

More specifically, the severity of the need to adapt to the global marketplace is a function primarily of how far up the price-quality pyramid a firm lies and the agility with which it can change its position in response to market signals. For those at the upper end who can command a premium for their wines, globalization poses little immediate threat, as demand for these wines is showing no signs of diminishing to such an extent that it

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[102] Joseph Schumpeter, *Capitalism, Socialism, and Democracy* New York: Harper & Brothers Publishers, 1947. p. 82

[103] Ibid, 83

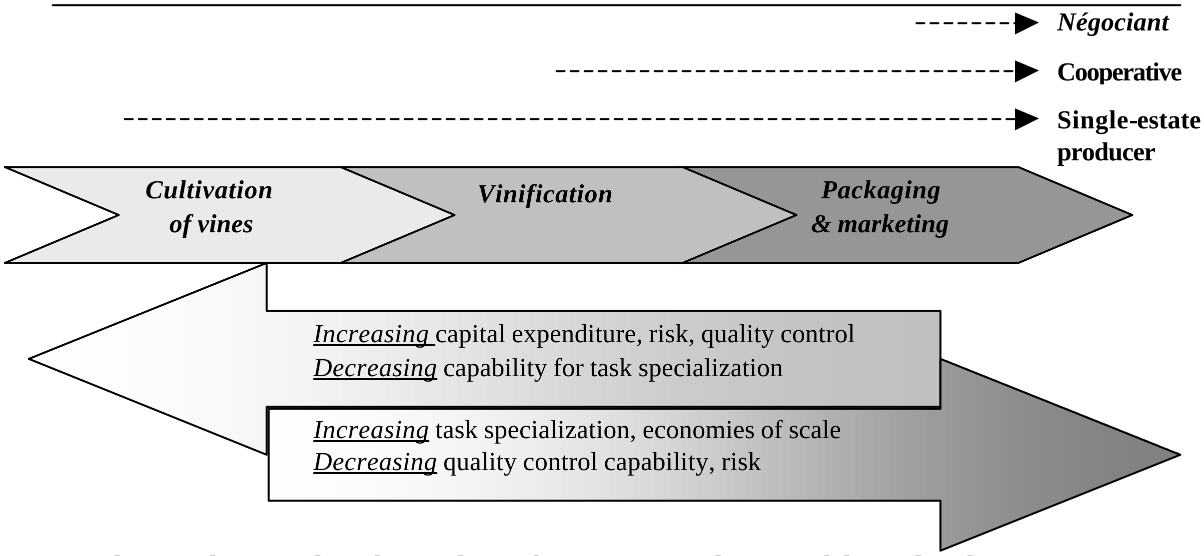
poses a challenge to the practices or existence of wine makers producing in this strata. However, the further down the pyramid a producer is located, the more severe the exigencies of globalization, and the greater the necessity for change in current paradigms. The basis for bolstering these producers' competitive posture rests on four pillars: choice of business model, capitalizing on advancements in technology and know-how, attracting foreign direct investment (FDI) as a means of catalyzing knowledge transfer, and more attention to reaching out to customers through branding.

Re-evaluate the business model

As the global surplus creeps up into the higher strata of the price-quality pyramid, the focus on providing greater quality at a lower price requires careful reflection as to which sections of the production chain they can focus on to compete most effectively given the quality of their human and geographic assets. For purposes of analyzing how each section of the production chain can generate wealth, exhibit 9 disaggregates the production process into three sections: cultivation of vines, vinification, and packaging and marketing. The crux of deciding upon a business model centers on the level of vertical integration the firm chooses.

Disaggregating the production chain allows companies to unlock value through the creation of economies of scale, specialization in certain tasks, and risk reduction. The cooperative model is especially strong in generating economies of scale, since it permits many grape producers to share the costs of vinification equipment and marketing. *Négociants* carve out a niche by exploiting their specialized abilities in buying and marketing finished wine in France and abroad. Both of these models have the obvious advantage of eliminating the costs of vineyard acquisition and upkeep, thereby reducing

Exhibit 9: Organization of Business Models



capital expenditure and, with it, risk. At the same time, these models are less hostage to the limitation on economies of scale imposed by the AOC system than are single estate producers. The critical problem that both suffer from is that in eliminating direct control over vineyard management, quality control becomes a problem for managers in both these systems. Of the two, cooperatives tend to have more difficulty maintaining quality than do *négociants*, since it is harder to determine the quality of a given batch of grapes than it is for a given batch of finished wine.

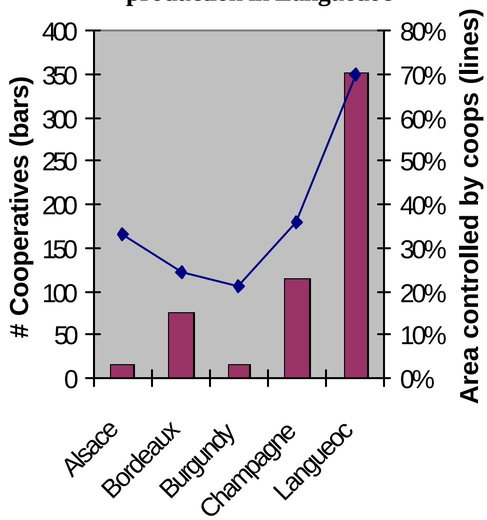
The most integrated model is the single-estate producer, which incorporates every step of the production chain from cultivation of vines to crushing of grapes and vinification of juice to final packaging and marketing. Single estates offer the advantage of greater control over every aspect of the production process, with the notable advantage that they may exercise the greatest level of control over vineyard management. This first stage is especially critical as much of the quality and character of wine is associated with the level of pruning of vines and care and scrupulousness applied to grape harvesting.

The disadvantage of this model is that it demands a high degree of specialization across a broader range of disciplines: producers (who, recall, are often trained only in oenology) must oversee vineyard management, vinification, marketing, and the logistics of getting their products to market. Also, since capital expenditures are higher, these firms have a greater risk profile than do others. While this model is widely employed in Bordeaux and among the better producers in Languedoc, the fragmentation of the California industry indicates that globalization may demand more careful reflection on the part of producers as to where their ability to generate value lies.

As globalization forces consideration not only of *what* is produced in terms of quality, varietal, or appellation, but also *how much* it costs, the choice of business model will grow in importance because it affect firms' ability to move up-market cost-effectively. Especially in Languedoc, where competition from many of the wine industry's "emerging markets" (countries such as Argentina, Chile, Uruguay, Bulgaria, and Macedonia) have cost advantages in both land and labor, leaving Languedoc's ability to compete at the bottom of the supply pyramid very murky. The fact that economies of scale will prove elusive in Languedoc's fragmented production regime only reinforces the necessity to exploit its natural geographic advantages and produce higher-quality wine. However, the region's heavy reliance on cooperatives will hamper its ability to do so.

Languedoc has a history of cooperatives dating back at least as far back as the advent of the railroads, and the region's deeply-embedded socialist politics help explain why the region has so many cooperatives as a total percentage of the area under vine (exhibit 10). These legacies are deeply detrimental to the region's ability to produce competitively, since cooperatives may find quality improvements the most problematic by virtue of the deeply-embedded incentives for an individual to overproduce, since they essentially act as grape-buying cartels. Like any cartel, cooperatives have difficulty restraining production. Since wine quality is often inversely related to quality, they are an institutional bulwark to creating higher-quality wine.

Exhibit 10: Cooperatives dominate production in Languedoc



Source: ONIVINS

Under a cooperative arrangement, farmers (often small-holders whose families have occupied the land for generations) who do not possess some combination of wine making equipment, minimum economic scale of production, or marketing capability or will, sell their grapes to the cooperative. Cooperatives may range in size from a dozen or so cooperators to several hundred; Languedoc's 352 coops average about 118 members each. The cooperative then crushes the grapes, vinifies the juice, and markets the wine under its own label and in compliance with the regulations that govern production in the region.

Exhibit 11: High production as a prisoner's dilemma

	Producer A		
Producer B	Payoffs: (Rest of coop, Producer A), 1000's of Euros	Low production	High production
	Low Production	(800,800)	(500,900)
	High production	(900,500)	(650,650)

The problem with this arrangement is that it yields a classic prisoner's dilemma: each cooperator's self-interest is to ramp up his own production at the expense of the rest of the group. Exhibit 11 presents the production decisions and consequent payoff structures of a hypothetical cooperative consisting of two producers. Assume that the cooperative purchases the entire harvest of both producers and then pays them based on the tonnage they produce. If both producers choose vineyard management techniques resulting in low production (such as aggressive pruning and selective harvesting), they both end up receiving 800,000 Euros each. While this is the most costly outcome for the cooperative, the higher quality of the grapes means it can fetch a higher wholesale price for the finished wines.

Note, however, that Producer A has an incentive to cheat. If he chooses high production (less aggressive pruning and less selective harvesting) when Producer B chooses low production, then A can earn 900,000 Euros instead of 800,000. Producer B receives less for his crop because now that yields have gone up quality has slipped, the cooperative cannot charge as high a price for finished wine. By the same token, if Producer A chooses Low Production, then Producer B can earn greater profits by ramping up his production yields. As a result, it is in both producers' interests to choose high production levels. The paradox is that this decision results in a lower level of profits for both firms, and the cooperative will have greater difficulty selling its wines.

The effect of cheating on yields becomes even more pronounced as the number of cooperators increases because an increase in quantity by any single producer will have a very mild effect on the overall yield. Thus, in the average Languedoc cooperative with 118 members, the impact on quality of an increase in yields taken by any single producer is for all practical purposes irrelevant for the aggregate level of quality. For the individual producer, however, increasing yields by 50% or 100% means nearly the same amount of increase in revenues. The decision of a rational producer is thus to foresake overall quality by a small amount while increasing revenues by a large amount.

The prisoner's dilemma described above is based on a single iteration of the game. As rational actors producing year after year, the producers should ostensibly realize that high production in a single given year may be in their short-term interests but not in their long-term interests. There are at least two situations in which this could be the case.

In the first situation, the cooperators could agree to opt for low production until one of them breaches, at which point all could return to the equilibrium strategy of high production in retaliation. The success of this strategy would depend upon how much the cooperators rely upon the promise of future increased revenues associated with cooperation. If producers discount the value of future revenues lightly enough, collusion is, in theory, sustainable.[104] The problem again, however, is that as the number of firms increases, the collusive agreement becomes increasingly difficult to sustain. With more participants, the likelihood that some firms elect to cheat, either because of financial distress, irrational greed, or any other incentive which might cause them to opt for short-term windfall gains, increases.

Another situation that could conceivably drive cooperation is one in which exogenous changes drive the payoffs from cheating so low that cooperation becomes the optimal strategy. A most recent example of this is the rise in OPEC cooperation after a

[104] Accounting for the time value of money,[104] the decision to cheat in the first period is in a producer's self-interest if the present value of all future earnings under cooperation is *greater* than the present value of gaining windfall profits this year and then settling for equilibrium profits every year afterward. This relationship is described by the equation $800/(1-d)>900+650/(1-d)$,Where d is the discount rate. Solving for d, $d>(900-800)/(900-650)$ and>0.40. Thus, in the hypothetical game, if producers have a discount rate of 40% or less, cooperation is in their self-interest because the value of all future revenues is significant enough to make it more profitable than undercutting others.

period in which oil prices sat at their lowest levels in decades. In terms of the Languedoc cooperative system, a similar break-down in prices is imaginable if the European Union were to break its subsidies to producers, leaving many rudely faced with the decision either to exit the market or increase quality. Similarly, with the global wine surplus slowly moving up the price ladder, producers failing to meet increasingly exigent price-quality relationships would be driven from the market, driving the payoffs to cheating down to zero, leaving cooperation as the only viable option.

Despite these situations, resolving the tendency to over-produce is extremely difficult because the fundamental problem of the cooperative's ability to discern quality among grapes once they come off the vine is extremely difficult. One option is to police critical points during the production cycle. This allows the coop to know which growers are complying and pay them accordingly. The difficulty with this is that the Languedoc's cooperatives buy from over 41,000 different producers.[105] Policing each of these vineyards would pose a massive logistical and personnel problem and cut into cooperatives' key competitive asset: economies of scale harvested by sharing wine making equipment. Similarly, a cooperative manager could impose yield limitations, but this does nothing to ensure that actual grape quality is preserved. The best solution might be vineyard management technologies that allow precise recording of procedures carried out in the vineyard. The difficulty is that many cooperators remain poorly capitalized and such technology is beyond their reach.

Some cooperatives are successful at maintaining quality, and the price advantages that equipment-sharing generates are a valuable asset that helps them remain competitive.

[105] This analysis is based upon coursework in Game Theory taught by George Norman in the Spring of 2002 at the Fletcher School.

At the same time, however, the greater quality control capacity of single-estate producers and some *négociants* will likely prove more adept at successfully marketing wine in an increasingly competitive market.

Capitalize on technological advancement and knowledge accretion

As the discussion on Bordeaux indicated, knowledge accretion and technological advancements developing in areas outside France can be of extraordinary value in helping wine makers refine their expression of *terroir*. In the 19th century, these advancements centered around supplying "non-mystical explanations for natural phenomena."[106] In the contemporary wine world, knowledge accretion and technological advancements help producers make better quality wine more consistently. Innovations are not limited exclusively to cultivating vines and fermenting juice: modern management techniques also help producers run their businesses more efficiently, target marketing campaigns more effectively, and finance their investments at lower cost. The dissemination of this agglomeration of knowledge, technology, and best practice is a constructive aspect of globalization that can dramatically assist those capable of embracing it.

Evidence of this is the fact that many producers indicate that they are producing better quality wines now than 10 years ago, and this is true equally for Languedoc and Bordeaux. This should come as little surprise, since the development of wine industries across the globe has provided fodder for the proliferation of programs in oenology at major research universities such as the University of California at Davis and the University of Adelaide. The conduits for the dispersion of the learning generated at these institutions are many: wine industry conferences, trade associations, and 'flying wine makers' that tour the world proffering their expertise as Ph.D.'s in oenology all spread knowledge. In the producer's race to the top of the supply pyramid, companies as diverse as John Deere and small niche-oriented machine shops offer mechanical pruning devices, irrigation systems, advanced GPS-driven vineyard management software, and other devices that allow producers to monitor, record, and then learn in a systematic manner from experience derived from every aspect of the winemaking process. The application of such technology can greatly leverage the skill and expertise of the oenologist.

The cross-pollination of ideas within the context of competitive international markets is also an important catalyst for questioning the utility of existing practices and adopting others that are more effective. For example, one Languedoc producer famed for making outstanding rosé comments that whereas for many years he filtered his wine before fermentation, learned through the industry's information channels that leaving in the sutirage, which includes the grape skins, leaves, and other material in conjunction with lighter filtering after fermentation, leaves his wines fuller and with greater ageing potential – both of which make his wines more competitive. A Bordeaux négociant notes that increases in competition mean that many buyers of raw grapes now require quality guarantees provided by special software that permits buyers to know precisely when a producer performed various tasks such as pruning, harvesting, and application of treatments to the vineyard. The units also help producers maintain quality across their vineyards. Both of these examples are responses to competition that is supported by the development of technologies and proliferation of best practices from around the globe in the direct support of quality improvements.

[106] Johson and Halliday, p. 75

In conjunction with technological advancements and process advancements, the competitive global landscape has given rise to a range of professional service firms specifically tailored to the wine industry. These include investment banks such as Hambrecht and Quist, a division of J.P. Morgan specializing in financial services for the wine industry. Similarly, the increasing value of the wine industry has fed development of consulting firms such as Gonberg, Frederickson & Associates and Hemispheres, which consult on topics relevant specifically to wine maker such as strategy and winery design. The industry has also supported the work of independent market analysts such as Pierre Spanhi, who tracks and analyzes important market developments such as the blooming of the global surplus. The specialized foci of these firms and the informed, professional, outside perspectives that they bring can help bolster the competitive posture of those producers who employ them.

Globalization is not simply a phenomenon whereby competition for market share increases. It is also an engine for innovation, and the fact that greater numbers of educated people are devoting greater resources to understanding and improving the making and marketing of wine exponentially increases the array of intellectual product-enhancing resources at producers' fingertips. The key is for wine makers to tap these knowledge markets.

Widen the focus from product to brand

> *A product is something that is made in a factory; a brand is something that is bought by customer. A product can be copied by a competitor; a brand is unique. A product can be quickly outdated; a successful brand is timeless.*
>
> Stephen King
> WPP Group, London[107]

[107] Aaker, David A. *Managing Brand Equity* New York: The Free Press, 1991. p.1.

Despite the argument that the AOC system has created the most successful example of a “global brand” that the wine industry knows, branding is an alien and little-understood concept to most producers, especially in the Languedoc and among lower-tier Bordeaux. In a more globalized environment, however, an emphasis on marketing is vital because the global wine glut threatens to turn non-branded products into mere commodities differentiated by price alone. Places such as Bordeaux and Languedoc which have outstanding potential but face competition with leaner cost structures (due to cheaper land and labor), must build brands in order to cultivate loyalty and to differentiate themselves from the mass of wine flooding the market, as well as dilute the intensity of price on consumer decisions.

A brand consists three interconnected elements (exhibit 8). One is the product itself and the characteristics and quality levels associated with it. These are almost entirely subjective, but include features such as the power, fruitiness, acidity, sweetness, structure, body, levels of oak, ageing potential, and even color of a wine, in tandem with the skill of the producer at developing and balancing these characteristics. A second element is the quality and character guarantees that consumers associate with the product. As mentioned previously, these associations tend to be strongest at the regional level where Bordeaux is associated with high-quality, round, full-bodied, and mostly red wines. As already suggested, Languedoc tends to have far less powerful name and quality associations, meaning that individual producers must do more to construct associations. Third is the names, colors, designs, and forms associated with the product. The development of such imagery is a function of the product’s characteristics, those of the product's competitors, and the target market.[108] The latter is perhaps the most important of the three[109] and is perhaps the greatest weakness of French brands on a firm-level.

The vast majority of French wine makers have focused their efforts on the product level. Many firms employ oenologists trained at top universities such as Bordeaux and Montpellier and the better have a sophisticated grasp of modern vineyard management techniques, fermentation processes, and ageing of wine. Especially in Bordeaux, producers have invested significantly in modern wine making plant and equipment that help oenologists improve final quality. Although the New World wine makers often have more advantageous climates to the extent that annual fluctuations in temperature and precipitation are less severe and their regulatory regimes permit them to source grapes from many different areas, the human and productive capital necessary to produce globally-competitive wine exists in France. Thus, of the three elements that together comprise the brand, the French are generally strongest on the product level.

In terms of the quality and character guarantees offered by French labels, the results are more mixed. Many of the top Bordeaux wines offer fabulous quality guarantees, but the further down the supply pyramid a consumer goes, the more uncertain becomes the likelihood that a label will provide consistency over time. It is here that the New World has the natural edge, as the looser production requirements in the New World provide producers there with greater capacity to keep the consistency aspect of production constant. In Languedoc, the desirability of a producer to create consistency of quality and character is especially great, since the region's name has long been linked with low quality and high volume.

[108] Ibid, pp. 58-64.
[109] Although a solid understanding one's own product versus others' is certainly not to be over-stated

It is on the third count, which is the labels, colors, names, and other images that consumers associate with individual producers that the French are the weakest. The vast majority of French labels are remarkably similar and are not generally designed to reach out to the consumer. Again, AOC stipulations concerning disclosure of information such as varietal selection, region of origin, and the use of words such as “chateau” and “domaine” discourage creative approaches to labeling that reach out to consumers. Many French labels tend to prioritize communicating what is inside the bottle as opposed to providing the consumer with easily-recognizable and meaningful names. The tension between the truth-in-labeling aspiration of the AOC system and fostering creativity is strong, and it is conceivable that marketers in regimes less-heavily regulated by AOC-like systems will always have a natural advantage. That aside, regions with low “brand-equity” such as Languedoc have every incentive to think creatively about which images can develop the strength of associations that will enable their survival.

To this end, producers must consider which markets they seek to penetrate and focus on imagery that is meaningful to these markets. Some foreign producers aiming to produce in Languedoc for the US and UK markets have applied the word ‘Mediterranean’ to their wines to play off the positive associations held by many in America between Mediterranean cooking, wine, and health. It is an easy name for English-speakers remember and one with which most drinkers can associate. This anecdote also illustrates the fact that where French producers/marketers fail to understand the preferences and motivations of consumers outside their own culture, they hamper their own ability to understand how to capture consumers in the markets that matter most to buy their wines.

Capture the potential for foreign direct investment

One means of catalyzing the transfer of knowledge, technology, marketing experience, and capital developed in other parts of the world is to encourage foreign concerns to take direct and long-term stakes in wine making in France. In the same way that the American-inspired phylloxera outbreak was contained by grafting American rootstocks onto French vines, external involvement in the French wine industry can serve as an agent for grafting the technical, managerial, and marketing skills of the New World on to the *terroir*-based production paradigms.

The first and foremost advantage of attracting foreign investors is that they bring knowledge of efficient wine production and market savvy accrued in other international production markets to lands that are not currently producing efficiently. In so doing, they pursue precisely the same policies envisaged by the EU's new subsidies scheme: enhance the competitive posture of inefficient properties. One of the first actions of an incoming investor is to cut back on yields, reducing an over-producing region's contribution to the wine lake. Second, the wine that does get produced is likely to be marketed more effectively and enjoy access to distribution channels, retail outlets, and other ex-cellar advantages that help ensure that it finds economically-viable outlets. In this way, foreign involvement plays the role of both an absorbent sponge that alleviates wine surplus and an effective conduit for the exchange of information and know-how developed in other parts of the world that can bolster local firms' competitive advantages.

For investors, establishing local production facilities in France is attractive not only because land in areas such as Languedoc is relatively cheap but also because a local subsidiary may be the only viable means of entering the French market. Although consumption in France has been in contraction for most of the past 50 years, it nevertheless remains the largest and most significant wine-drinking market in the world. Since French consumers' staunchly patriotic consumption habits constitute a daunting barrier to entry for any foreign export strategy, a wholly-owned local subsidiary bearing "made in France" labels is probably the only viable means of tapping into this market.[110] Such a strategy was recently unfurled by the Australian giant BRL Hardy, whose Languedoc subsidiary began selling its "La Baume" labels in France this year.

In Bordeaux, foreign direct investment might be more accurately termed *external* direct investment, since foreigners and French from outside Bordeaux are leaving an indelible imprint in line with the dynamic effects of FDI just described. Paradoxically, however, external involvement in Bordeaux is in many cases driven by a desire to facilitate knowledge transfers or reduce surplus. Instead, the catalyst for investment is helped by the exorbitant inheritance taxes that must be paid as ownership changes from generation to generation.[111] The tax burden alone is a significant reason why Bordeaux's grandest estates are increasingly coming to rest in the hands of large corporations, not all of which are foreign.

One of the most prominent owners in Bordeaux, for example, is AXA, the French insurance giant whose subsidiary, AXA Millesimes, has 9 estates in the region, many of which are classified growth properties. The subsidiary was launched as an experiment with one vineyard in 1984 but was continued, because the company's founder, Claude

[110] D. Neven, G Norman, and J.-F. Thisse, "Attitudes towards foreign products and international price competition. *Canadian Journal of Economics* Feb. 1991.
[111] Crowley, 2.26.2002

Bébéar, found the experience indicated that “wine is a good investment, similar to quality real estate, provided it is with quality, and aimed at the top end of the market.” Indeed AXA Millesimes have received excellent recognition for their wines, taking top awards from influential critics such as the *Wine Spectator*.

The project suggests one profile of synergistic foreign (or in this case, external) investment: a well-capitalized company able to invest in talented employees, utilizing well-trained management (The founder, Claude Bébéar, is a graduate of France’s prestigious *École Polytechnique*) and seeking investment-grade returns. The result is efficiency, quality, and greater dynamism.

FDI has had a small but notable effect on the Languedoc’s landscape, but the spotty track record of foreign involvement in Languedoc suggests that external involvement there is a thornier issue there than in Bordeaux. On the positive side, local producers note that 10 years ago there were only 15 or 20 producers with a quality orientation, but that number has now grown to over a hundred. Many of these new “tiger” wineries have been purchased by foreigners. One is example is Guido de Witte, a Belgian who left the insurance business and bought Château Mansenoble near Moux in 1995. Mansenoble’s previous owners had produced for a local cooperative, but within a couple years of its change in ownership, it began receiving critical acclaim as a producer of some of the region’s best wines. De Witte’s strength lies in a firm understanding and appreciation of the practices employed in other areas of the world that he merges with his own attention to detail and knowledge of the elements of wine making. To the extent that this is an example of a foreigner bringing outside perspectives to a property that for a great number of years produced *en masse* for cooperatives, and turned it in to a model of the heights the Languedoc's *terroirs* can reach, it represents another profile of ideal FDI.

Notwithstanding the fact that FDI benefits Languedoc and investors alike, the experience with FDI in the region indicates that two major problems confront foreign direct investors in Languedoc. First is the issue of how to manage the cooperative system, which is very different from the professional suppliers from which many of these companies are accustomed to sourcing their grapes. Robert Mondavi's Vichon Mediterranean label failed at least in part because it could not develop the quality required for the price point it had hoped to meet, forcing it later to sell the label and abandon wine making in France altogether. Southcorp, an Australian giant, initially contracted with French growers but later abandoned them and instead sought out Australian suppliers. BRL Hardy's venture mixes estate-grown grapes with those from other suppliers in a cooperative-like system. The venture has now produced a few vintages, but its management has indicated that maintaining quality is a challenge. The coop system thus presents very important challenges to the viability of foreign investments in Languedoc.

With many of these plans producing lackluster returns, the obvious answer is to buy an estate where the company can control all aspects of the production process. The problem is that the market for foreign control of the land is not perfect. BRL Hardy successfully negotiated the purchase of La Baume in 1990, but Robert Mondavi's plans to produce extremely high-quality Syrah on land where it could control the production process from planting to marketing vaporized in a hot debate that it eventually lost. The basic reason for its failure, and a valuable window into the region's deeply divided public sentiments concerning foreign control of wine making estates, is that Mondavi needed approval to plant its vineyards on communal land from the town council and mayor of Aniane, the nearby village of 2000 inhabitants.

Initially the town council approved the project, but the timing of the city council's approval less than a year before the town's mayoral elections essentially put the investment to a public referendum during the mayoral race. Rancorous debate over whether Mondavi's presence in the town should be welcomed as an unparalleled opportunity or reviled as the death of the town's identity and social community ripped through the village. The incumbent mayor and many locals contended that Mondavi would have done much to elevate the stature of the region and that the local cooperative would benefit from assistance in marketing its own brands, guaranteed by Mondavi as part of the proposed agreement. At the time, the area's producers had already taken to the streets once that year to protest foreign imports and low grape prices, and 40% of the coop's harvest from the previous year had remained unsold.[112] Opponents to the project opined that "invading Anglo-Saxons would destroy the village's social cohesion and deform traditional winemaking methods, imposing an alien, money-grubbing industrial model."[113] In the end, the communist candidate supported by the opposition won the election and the Mondavi plan was declared dead.

In sum, to the extent that Mondavi would have helped the local cooperative raise its profile along with that of the rest of the region, its failure to reach an agreement in Aniane is a loss to both sides. At the same time, however, the California company represents much of what communities like Aniane fear about foreign threats to the

[112] "French Grapes of Wrath" The Economist. 19 August, 2000. viewed on Lexis-nexis.
[113] Ibid.

security of their cherished practices, identities, and livelihoods. The outcome of the experience indicates that vocal and resilient local populations are resolutely opposed to what they see as incursions into their cultural landscapes, and that the value of globalization is often less than the perceived cultural destruction it will wreak. FDI as a means of helping Languedoc move up in the world obviously faces many daunting obstacles.

PLUS ÇA CHANGE: *CAN THE FRENCH VITICULTURAL IDENTITY SURVIVE IN A GLOBAL MARKETPLACE?*

For purposes here, the cultural content of wine in France has two constituents. First are the wine making processes themselves, whose spiritual and practical heart is the notion of *terroir*. The second component is the institution of the small French farmer tending vines and making wine on a small plot of land. As the dramatically different orientations of Languedoc and Bordeaux in present markets owes much to the degree to which each was connected to the global economy shows, globalization can bring fresh ideas to traditional practices through competitive stimulation and transfers of knowledge, capital, and technology. However, the profane connotation of the word is unlikely to diminish in the foreseeable future, since globalization will certainly have pernicious consequences for some producers and certain aspects of traditional production practices. In the end, however, the question is whether the industry as a whole cannot afford to ignore it.

Globalization as a re-enforcer of French wine making culture

The New World's incursions into markets hitherto dominated by the French appears to suggest that the New World's more industrial (and, some say, culturally hollow) approach to winemaking portends an ominous future for French wines. Increased competition is certainly a fact of life in every price level, but France's more culturally-based approach to wine making is not summarily incongruous with the exigencies of the global market. While the economies of scale and financial resources that the largest of the New World companies can muster represent daunting competition, wine consumption is not driven by economies of scale alone. Drinkers also relish variety, character, and the aura surrounding the wines they drink, and the French provide a remarkable array of distinctive characters at every price point. Thus, to the extent that the French winemaking landscape is exceedingly variegated, it has much to offer a globalized marketplace, especially in countries where a “wine culture” is already in place or growing in sophistication. The variety of small-holders thus is an asset in that slakes the market’s thirst for diversity, thereby securing a spot for small-holders in the global economy.

The benefits of the *terroir* are numerous as well. The globalization of wine means increasing competition, and increasing competition in turn requires producers to differentiate themselves from the masses. The AOC system, which codifies *terroir,* provided this differentiation hundreds of years before the New World existed on any European map, and the strength of the “brand equity” of such names as Bordeaux remains as strong as any name in wine. While some in the New World remain skeptical about the relationship between character, quality, and a particular patch ground, the fact that the New World is moving closer to its own breed of AOC systems attests to the value of AOC at least as a marketing tool, if not for the biological relationships between the vines and the lands.

In fact, to the extent that globalization has generated a profusion of universities, consultancies, and trade forums where wine makers can share experience gives lend them an ever greater array of tools they can deploy in the vineyard and the head office to help them be better producers and marketers of wine. These institutions have helped drive product and process enhancements such as temperature-controlled fermentation tanks, filtering procdures that ensure ageing potential, and vineyard management devices that help vintners maintain quality.

Still, these may appear to be precisely the type of developments that French 'traditionalists' fearing the industrialization of wine revile as antithetical to traditional practices, but as Johnson and Halliday note, if such technologies are viewed as tools in the vintner's toolkit, then winemakers can selectively choose from them and make wine according to their own tastes, thus providing both traditional or 'modern'[114] interpretations of the *terroir*. It is quite possible that, like the great Stradivarius violins whose sound cannot be reproduced through even the most exacting replications, great wines will always be made by hand. However, that vintners today have a far greater palette of technologies and practices to apply to winemaking should make the range of possibilities they can render far richer, leaving them better positioned to interpret *terroir*. It should also benefit those producer in lower strata where significant value is waiting to be unlocked by producing good quality, consistent wine.

While some French producers deride the New World's path to prominence as little other than *"le marketing"*, it is also true that marketing is hardly a superficial concept. The important link that the New World tends to make far more effectively than the old is the connection between what is *in* the bottle and what is *on* the bottle. Greater thought on how to market wine need start with the product itself and then build outward; much of what Bordeaux and Languedoc can produce is marketable, but the evolution of demand patterns dictates greater thought be given as to how to reach out to those markets. These are New-World concepts which French consumers should adopt, but they are certainly not beyond the grasp of small holders nor are they incompatible with the *terroir*.

[114] Johnson and Halliday, 79.

A final consideration is the raw question, what exactly constitutes ‘tradition’? Bluntly stated, the Languedoc has a centuries-old history of producing plonk. ‘Traditional’ practice there was for a small holder to grow as many grapes as possible with very little consideration for the final product they would yield, sell the grapes to a cooperative, who would in turn flood the market will low-quality wine destined for consumers who drank because it was more wholesome than water. Nostalgia aside, production of this nature provides little obvious sources of pride. Globalization could be enormously beneficial to Languedoc because it could conceivably raise the Languedoc’s *terroirs* to reach their true potential.

Bordeaux might also question what its tradition means. As discussed, it is difficult to imagine the region developing to its present stature had history and geography not doted upon its vineyards access to the conduits of global commerce for hundreds of years. To the extent that the interchange of financial capital and intellectual advancements boosted the capacity of the region to seek the heights of what the land could provide, Bordeaux’s history might well be considered one of flux. With the advancement of technology and understanding of best practice, the limitations Bordeaux’s AOC’s place on its producers might be considered a violation of its tradition of innovation. Increases in competition and New World demonstrations of what is attainable with new technologies and unorthodox practices should drive careful reflection as to whether the region’s perceived strengths cannot be improved upon.

The comparative histories of Bordeaux and Languedoc reveal what present practices confirm: globalization drives competition, which in turn stimulates process improvements, thereby yielding a more refined final product. These advances are fuelled by the development of knowledge and technologies at home and abroad, which when disseminated, help raise the standard for what wine-makers can achieve. It is a dynamizing force that has much to bring to the French wine industry.

Globalization as a culturally destructive force

If globalization provided nothing but opportunities and enhancements to the cultural elements of French winemaking practices, then why the anxieties among French farmers when the EU threatens to reduce or eliminate subsidies or when new studies decry the passing of the apogee of French dominance in global markets? Simply put, globalization threatens the destruction of livelihoods and the integrity of *terroir*, and the average Frenchman's parochial tendencies will serve as the guarantor of a way of life, and to a lesser extent, traditional method of making wine that globalization indeed threatens.

The first aspect of globalization that is positive for society at large but very harmful for many producers in the Languedoc is the fact that France and its major export customers, such as Belgium and Switzerland, are drinking more for pleasure and less for sustenance. The driver of this trend is that for centuries, wine was a natural compliment to meals because it was the only readily-storable, nourishing beverage at a time when the quality of drinking water varied substantially. Now, as incomes have increased, diets have improved, and municipalities deliver safe drinking water, the need to consume wine for purposes of nutrition or hydration has all but diminished. In its place has arisen wine consumption for pleasure, and people now have more money to pay for better quality wine. The producers in Languedoc (and increasingly the lower-tier producers of Bordeaux) who have not or cannot respond to the call for quality find themselves supported only by the EU subsidy safety net, and they will gradually leave the land as their children migrate to urban centers, exercise the option offered by the EU to 'grub up' their vines in return for thousands of euros, or sell out to a foreign investor. Where the land is good enough that it can produce premium-quality wine that can be marketed successfully by foreigners and large corporations, the cold industrial logic governing planting, quality, and character decisions will supplant the idyllic image of small-holders lovingly working the land of their fore-fathers. An economist might see the exit of these producers as part of a process of creative destruction leading to greater economic efficiency, but for those whose livelihoods are at stake, it is not hard to understand why they see it merely as destruction.

Second, *terroir* has significant advantages, but they are not unqualified. The AOC system's efforts at guarding *terroir* have not encouraged French viticulturists' efforts to look beyond the boundaries of the their own vineyards. They cannot even out quality by sourcing grapes from different regions, they have not been quick to consider how changing market opportunities ought to drive the character and nature of their wines, they cannot grow their businesses in manners that attract investors which can help them develop brands, and they are hamstrung by labeling restrictions that discourage creative attempts to reach out to new consumers. To the extent that the New World is unencumbered by these regulations, it has far greater innovative energy and has developed a crucial capacity to integrate new consumers, thus threatening to rot the French wine industry by stealing its market share.

Finally, globalization maybe undermining the notion of *terroir* itself, especially in regions such as Languedoc where appellations are little known. Languedoc is considered by many as the great laboratory for innovation in France, but this innovation occurs precisely because there is so little to lose from foregoing the appellation. Thus, many producers in Languedoc market varietals, not appellations. The armies of foreigners that come to Languedoc do so because they seek to produce “Bordeaux-style” wines (in the case of the Rothschilds recent purchase of a Languedoc estate) or because the climate is so similar to that of Australia (in the case of BRL Hardy’s marque, La Baume). Because Languedoc’s climate is so favorable to cultivation of a vast variety of grapes and its appellations are relatively meaningless, *terroir* carries far less weight and risks being blown away by Schumpeter’s “perennial gale” of creative destruction.

Thus, globalization is far from a panacea and, in fact, represents a very real threat to the cultural aspects of wine making in France. Without globalization, small holders would be more secure in their positions and *terroir* would not be threatened with extinction in some parts.

Conclusion: globalization is not a new phenomenon but ignored at great peril.

Globalization and wine might be likened to the oceans and the projection of state power: those who manage to use it well can dramatically leverage their power, whereas those who cannot or refuse to harness its dynamizing currents risk falling by the wayside. The power of globalization resides partly in its value as a driver of innovation (better products produced more efficiently) and partly as the process by which information and technology is disseminated. In the same way that the spread of gunpowder across the Eurasian steppe nearly a thousand years ago would be ignored only by those foolish enough not to see its utility in warfare, to reject the sharing of ideas and technologies – and the sharpened competition that goes with it – is a certain path to stagnancy.

In this light, the question is not so much whether globalization is good or bad for winemaking in France, but whether the French want to preserve wine making as a comercially-viable operation. The decisions of growers in other countries, the development of practices they find antithetical to their own, and the liberalization of markets all represent forces against which the French culture warriors cannot control. Globalization is a fact and the consequences of ignoring it are over production, destruction of vines, loss of prestige, loss of a way of life, and stagnation. On the other hand, globalization can reward producers who can learn from the benefits of knowledge and practice developed in other parts of the world, and then take what is unique about French climate, soil, pride in the land, and create unique products that people will buy. Much of their traditional practice will serve them well, but those foolish to think that the rest of the world does not have lessons for them to learn from may be sealing their own fates.

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