Trade and Terroir.
The political economy of the world’s first geographical indications
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The world’s first geographical indications (GIs) were in the wine sector and focused on the delineation of the location of production, the ‘terroir’. In this paper we analyze the causes for the introduction of these GIs (terroirs) and for changes in their delineation (expansion) later on. Our analysis focuses on four key GIs. The oldest terroir delineation is that of Burgundy wines in the fifteenth century, and its delineation seems to have been the most persistent. Port wines and Chianti wines were among the first to receive a formal GI status (together with Tokay wines from Hungary) in the eighteenth century. Both Port and Chianti GIs were later extended to a (much) larger region. In the early twentieth century, the first introduction of “Appellations of Origin” (Appellations d’Origine–AO)—the basis of the more elaborate specification of GIs as we know them today—is the delineation of Champagne. The initial delineation of Champagne in 1908 was soon extended to a larger region, but has since remained unaltered.

Our analysis shows that trade played a very important role in the creation of the ‘terroirs’, i.e. the initial delineations, but not always through the same mechanisms for the different cases. Exports and imports of wine triggered conflicts between historical producers of specific wines and new producers. These conflicts included elements of quantity (increased supply causing falling prices) and quality (historical producers claiming that wine from new producers were lower quality and were therefore affecting the consumer perceptions of all wines—a typical asymmetric information-driven Akerlof-lemon-market problem). This is fully consistent with theoretical arguments and empirical studies which identify the combination of both as important elements in the welfare effects and in the political economy of standards and regulations such as GIs (Beghin et al., 2015; Swinnen et al., 2015; Swinnen, 2016). While the quantity (supply) problem seems obvious from the historical documents, it is more difficult to establish whether the quality and consumer perception problems were real or mostly political arguments. However, in the debate and lobbying to influence the governments they were used very prominently.

Trade played a very similar role in the establishment of the Chianti and Port GIs. They are both triggered by the growth in British demand for wine imports following the British-French war in 1688 and following British import tariffs on French wine. With rising profits from exports to Britain (and neighboring regions such as Flanders for Chianti) the production of Chianti and Port wines expands beyond the original vineyards. In both cases, the original vineyards and wine merchants start lobbying their governments because they see their profits threatened by increased supply (quantity) and the uncertain or lower quality of wine from the new vineyards. They argue that this is threatening the collective reputation of all (Port and Chianti) wines. The original producers and merchants pressure the government to intervene and restrict the region from where the “real Port” or “real Chianti” can be produced. In both cases the original producers are successful as the government/ruler introduces a delineation of the GI which excludes “new” producers: in 1716 for Chianti and in 1756 for Port wines.

In Burgundy it is domestic trade, in particular sales to the growing Paris wine market, which triggers the GI. Also here there is a conflict between two groups of Burgundy wine producers and merchants: those around Auxerre and those in the “Côte d’Or”. Initially the Paris market
is supplied only by Auxerre producers because they have easier access to the rivers that can transport wine to Paris. “Côte d’Or” producers, although considering themselves of “higher quality”—“the wine of kings and popes”—sell mostly to the rich northern towns (in Flanders etc.) and, using other rivers, south to Avignon, where the Pope and his establishment is residing, creating a profitable market for “Côte d’Or” wines. However, when Paris grows—and with it the local demand for wine, also high quality wine with Kings and nobility located there—“Côte d’Or” producers start sending their wines to the Paris market as well. However, they find that there is already “Burgundy wine” on the market there. The “Côte d’Or” producers claim that the Auxerre region wine is of lower quality and is undermining the reputation of (their) “real Burgundy”. They want the Auxerre producers to stop referring to their wine as “Burgundy”. The fight is ultimately decided by the King of France and, in 1415, he decides that both regions can call their wine “Burgundy wine”.

The impact of trade on the Champagne GI (or Appellation of Origin, AO) is again different since it’s imports, not exports, of wine that are contributing to the establishment of the Champagne GI. Over the centuries, as the profitability of Champagne production grows and merchants become wealthier, merchants and wine growers of different “sub-regions” organize themselves separately to establish quality brands and reputation. Especially the merchants and wine growers of the Marne region (east of Paris and home of many of today’s globally known “Maisons de Champagne”) try to establish themselves as the “real Champagne”—but is still a ‘private’ label by then.

The French wine market is dramatically shaken by the arrival of Phylloxera in the second half of the nineteenth century, destroying many vineyards and triggering massive wine imports, and later by falling wine prices with the recovery of French wine production and cheap imports. The crisis hits the Champagne region especially hard after 1900, when Phylloxera arrives in the north and when poor harvests (lower supply) are not compensated by higher prices because of imported (Spanish, Italian and Algerian) wines (Meloni and Swinnen, 2016a). The crisis triggers strong lobbying by the Champagne merchants and wine growers in the Marne region to block “false Champagne” and to prevent “lower quality” sparkling wines from neighboring regions to use the name “Champagne”. The lobbying is successful as the government responds by deciding in 1908 to install a Champagne “Appellation of Origin” (or GI) which only includes producers and merchants from the Marne region.

However, the 1908 delineation does not survive long. Almost immediately it is challenged in court by producers from neighboring departments. The legal battles are temporarily halted by World War I, but as soon as the war is over (in 1918) the legal case is resumed and 3 years later (in 1921) the court rules that there is no objective reason to claim that producers from the Aube department have lower quality wines and should be excluded from the Champagne GI. The government follows the court and since 1927 the Champagne GI includes both the Marne and Aisne (so-called “Champagne zone 1”) vineyards and the Aube, Haute-Marne and Seine-et-Marne (“Champagne zone 2”) vineyards and merchants. A factor which may have contributed to this outcome is that in the 1920s the average price of Champagne is considerably above the price in the crisis years of 1900–1910 (Haeck et al., 2018), which may have weakened the opposition of the “Champagne zone 1” producers against the expansion of the GI.

In summary, trade has contributed to the creation of ‘terroir’, but in different ways. However, the question remains why the “historical producers” (or “insiders” as referred to in Deconinck and Swinnen’s (2014) model) were successful in lobbying the government to restrict the GI for them only in Port and Chianti, but not in Burgundy and only briefly in Champagne. The answer appears to be the link between the historical producers and the political regime (or in other words, the political power structure). In both Port and Chianti, the leaders of the government
(Prime Minister Pombal in Portugal and Grand Duke Cosimo III in Italy) owned vineyards in the “historical region”. So they had private benefits in restricting the GI—and obviously very close connections with the historical vineyard owners, all of whom benefited from the strict GI decision.

In contrast, in the Burgundy case, the decision was made by the King of France who resided in Paris and had no vineyards in Burgundy. His and his entourage’s interests were as consumers of wine. Consumers benefit from a higher burgundy supply (thus lower prices), as long as the potential asymmetric information problems regarding the quality differences of the wine were not substantive. Apparently they were not—at least not in his view. Also in the Champagne GI decisions, it does not appear that the key people in the government had vested interests in either zone 1 or zone 2 vineyards. The Marne (“Champagne zone 1”) merchants were well organized and wealthy and may as such have out-lobbied the “Champagne zone 2” vineyard owners and merchants, the fact that the decision was overturned relatively fast (a few years later—much shorter than in Chianti or Porto) is consistent with the argument that the political power/influence was rather balanced between both groups.

These political connections are also crucial to understand the (lack of) expansion of the initial GIs. In Chianti and Port where there the rulers had (economic and political) vested interests in keeping the GI restricted to the historical production areas, the GI is expanded later after the rulers lose political powers. In both Burgundy and Champagne where that was not the case, later political changes do not trigger changes in the GI.

The expansion of the Port and Chianti GI takes a long time: 216 years for Chianti (in 1932) and for Port there are two expansions: after 32 years (first in 1788) and after 151 years (second in 1907). In both cases the expansions are driven by a combination of factors: (a) a change in the political power structure; (b) a change in the dominant political economic philosophy; (c) infrastructure investments which change the comparative advantage of “new” producers; and (d) shifts in demand. In both cases, the groups with vested interests in the restricted GI lose power in the years after the introduction of the GI. In Portugal, Queen Maria comes to power in 1777 and immediately dismisses Prime Minister Pombal—removing the key political power after the GI restrictions. A few years later, as demand for Port wines increases with British troops fighting in the US war of independence (and Port wines uniquely fit for traveling long distances), she decides to expand the Port GI significantly in 1788.

The second expansion comes only a century later. This expansion is preceded by major changes in (a) political philosophy (free markets and liberalization of trade and regulations become the dominant philosophy in Europe in the nineteenth century and trigger economic liberalizations in Portugal); (b) in transport infrastructure (the eastern expansion of navigation on the Douro river and new railways significantly reduce transport costs for vineyards along the eastern part of the Douro); and (c) the outbreak of Phylloxera in Portugal reduced supply from the historical vineyards. The combination of these factors made that demand from new Port vineyards increased, their costs fell and objections to strict regulations became stronger, and thus induced another large (eastward) expansion of the Port GI in 1907.

A very similar combination of factors stimulated the expansion of the Chianti in the beginning of the twentieth century. The political backers of the strict GI were removed from power with the fall of the Medici family in 1737. Later, the political power structure was further overhauled when Napoleon Bonaparte conquered northern Italy and went further south in Tuscany. Napoleon not only transformed the power structure but also the political economic philosophy by introducing the principles of the French Revolution. As Meloni and Swinnen (2016b) explain, the French Revolution had a major impact on French wine regulations as it liberalized the vineyard planting regulations and restrictions in France—something no other
political change has managed to do before or since. And although Napoleon’s regime did not liberalize the GI, it liquidated the old power infrastructures and with it much of the enforcement of the GI. In addition, as in Portugal, major infrastructure investments dramatically changed the relative costs of wine production regions. The establishment of a railway between the city of Siena and the port of Livorno completely changed the comparative advantage of the wine regions in Tuscany, making it much cheaper for the vineyards around Siena to export their wines. The combination of these political, philosophical, and economic factors caused the expansion of the Chianti GI in 1932.

In summary, for trade was a crucial factor in the creation of ‘terroir’ in all cases, but there the mechanism was not always the same: exports to Britain for Port and Chianti; domestic trade to Paris for the Burgundy; and imports of wine (pushing down prices) for the Champagne. In addition, political factors (in particular the vested interests of the ruling politicians) are crucial factors in the precise delineations of the GI. Changes in political power structures, in combination with changes in the dominant philosophy and in (transport) infrastructure had a major impact on how GIs were expanded (or not) in the following years and centuries. When changes in political power removed the government that is close to the GI producers from power; when a new philosophy of belief in liberal and free markets spread across Europe and supported the removal of restrictions; and when infrastructure investments open up markets and make exports cheaper from “new” producers; this combination let do significant expansions of the GIs.

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