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Globalization in the Wine World

December 5th, 2008 was the 75th anniversary of the end of Prohibition in the United States of America, thanks to the repeal of the XVIIIth amendment of the Constitution. The XXIst amendment of December 5th, 1933, put a final stop to a period that lasted from 1919 to 1933. Seventy-five years later, the United States had become the 4th world wine producer and the 3rd world consumer, almost on a par with Italy (OIV, 2008), and current estimations tend to suggest that they may well now be the first world consumer. But above all, they are becoming the country that instils new dynamics into the wine world (COLMAN, 2008), in terms of architecture, tourism and probably wine consumption too. Is it not the critic Robert Parker's aim to break the codes of wine? make it more accessible to more people? shatter our well-established hierarchies, and more particularly those of the “terroirs¹” or of the wine territories?

Robert Parker is a wine critic with a worldwide influence who belongs to a train of thought that regards “terroirs” as unfair and excessive income sources, as a hindrance to the liberalization of world trade, and maybe even as an intellectual swindle. They are regarded as unfair income sources because they are ruled by a kind of neo-corporatism (BAHANS, MENJUCQ, 2003, p. 29), which is perceived across the Atlantic as an archaism that prevents American wine-growers from producing Californian “chablis”. They also are regarded as a hindrance to the liberalization of world trade because they are seen as a kind of doomed archaism. In her book *How Institutions Think* (1986), Mary Douglas explains that trend of thought by comparing wine production to cloth production, which freed itself from Old Regime² institutions as it got more and more industrialized: thus fabrics gradually lost their local trade names to an industrial classification that insisted on production processes. Wine is believed to follow the same trend, with its local names giving way to grape names (DOUGLAS, 1986, p. 150). Finally, they are considered as an intellectual swindle. That is what the Australian journalist Huon Hooke thinks : to him, the system is « *bullshit* » (*Les Voix du Terroir*, 2006)...

What Mike Veseth calls a “wine war” contributes to smashing the former order of things to pieces (VESETH, 2011).

I. “Industrialization” of the wine sector

Unlike in our European tradition, referring to a “terroir” or even to an origin is secondary in the New World. Their wine-selling strategy derives from the need to standardize productions in

¹ The INAO defines “terroirs” as follows: “A “terroir” is a delimited geographical space within which a human community builds up, in the course of its history, a common production know-how that is based on interactions between a biological and physical environment and a set of human factors. The resulting socio-technical trajectories reveal a specific originality, confer a specificity and lead to a reputation for an item originating from that geographical space.”

² “Cloth production has freed itself from Old Regime institutions. It responds no more to the dressing tastes of a stratified society, or to the rules and privileges of a corps of weavers and city merchants, or to the habits of peasants who live deep in the country, or to the processing methods imposed by the Versailles government”, p.150.

order to industrialize them and favor the emergence of powerful firms, in a word to modernize the wine sector.

1) *A first necessity : wine standardization.*

Standardization is necessary in order to produce simple wines that are as homogeneous and as uniform as possible whatever the bottle and whatever the year.

Using wines produced from a single grape variety is a doubly interesting strategy, as it simplifies things for the producer who no longer has to prepare hard and perilous blends and enables the consumer to easily recognize particular aromas that are put forward in wine promotion and selling strategies. That is why New World countries focus on a limited number of grape varieties, for red wines as well as for white wines, as exemplified by Chile (fig.1). Grape varieties are mostly of French origin (merlot and cabernets from the Bordeaux region, pinot noir and chardonnay from Burgundy, syrah from the Rhône valley), sometimes Italian or Croatian, Californian (zinfandel), and more and more are of Spanish origin (carignan is getting trendy).

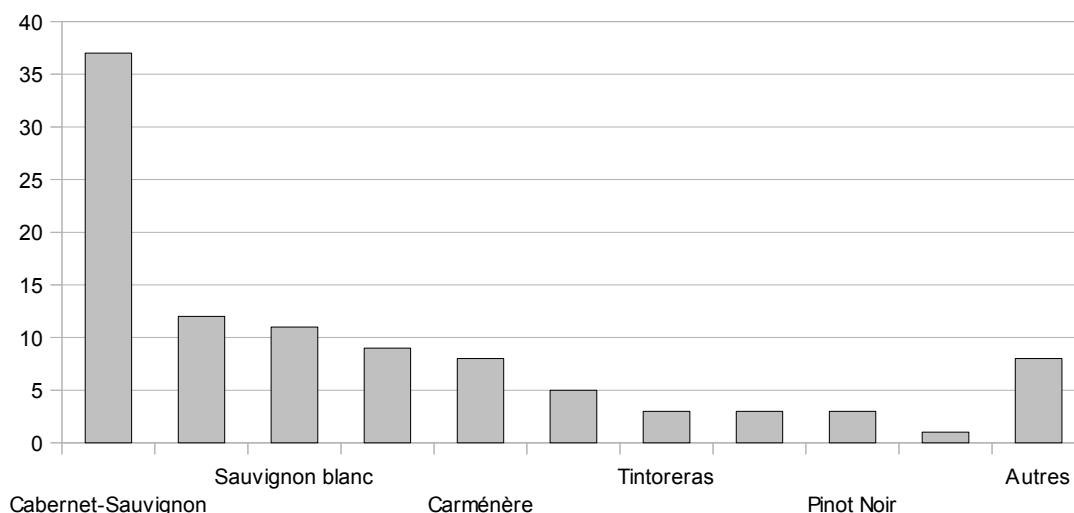


Fig. n° 1: Grapes varieties in Chile. Data : SAG, 2009.

Grape variety is the first message conveyed by the label on the bottle. The choice is made all the easier for consumers as they can buy a bottle without knowing much about wine, apart from the names of the few basic grape varieties... That is why wines are classified by grape varieties instead of by origin in certain supermarkets in the New World. The trend is gaining Europe: the English supermarkets Tesco have just announced a first-rate modification: as *“buyers are focusing on product types rather than countries of origin”*, they are going to reorganize their wine-selling strategy³. From now on their wines will be displayed according to commercial, easily identifiable

³ Boggis, C., 04 April, 2011, *“Tesco restructures wine team”*, *Off Licence News*,

trademarks whose names are more and more widely known in Anglo-Saxon countries. They can be found in almost any supermarket around the world, even though their tastes differ across continents to adjust to various populations and their cultures.

These trademarks are in fact only the tip of the iceberg of globalization. They belong to worldwide firms. The largest ones are respectively Gallo (USA), Pernod-Ricard (France), and Constellation Brands (USA). Pernod-Ricard is better known for its spirits, but it makes into wine half of New Zealand's production through Montana Wines since it bought the English distributor Allied Domecq. Montana Wines also owns Jacob's Creek, probably one of the best-selling trademarks worldwide... The Old-versus-New World dichotomy is obviously far from being as straightforward as expected.

2) *A second necessity : industrializing the wine sector.*

Industrialize. Such huge firms need to produce wine in considerable volumes. That is why they rely on an array of high technology equipments to produce as much and as well as possible: they use numerous thermo-pneumatic presses, and non-standard wine-making equipment and storing facilities, which enables them to deal with formidable volumes.

Constellation Brands alone makes the equivalent of one-third of the Bordeaux production into wine (150,000 ha). Being quick, which ensures good quality as grape berry oxidation must needs be limited, demands modern techniques. Presses are often of French origin, i.e. Valin-Bucher (Thouarcé, Anjou), or of Italian origin, although high quality equipment is now produced by American and Australian firms. Besides, the Americans are at the origin of the mastering of cold temperatures in the wine-making process in the 1940's thanks to the cleverness of a Russian emigrant, André Tchelistcheff (PINNEY, 2005, p. 149). The New World is getting better and better at the techniques of the wine sector.

As considerable volumes are produced, bottling has to be carried out without generating a bottleneck effect along the industrial process. The Australian firm Casella Wines, which produces the dazzling Yellow Tail wine, with 144 million bottles a year, has just bought a bottling chain that is believed to be so far the fastest on earth. It can bottle the equivalent of the production of a seven-hectare, average-sized French wine-farm... in seven minutes only. Only seventy-two months would be needed for it to bottle the equivalent of the whole production of Australia. Finally, wine transport is standardized thanks to the use of containers. The main ports of the New World, such as Valparaiso in Chile, benefit from the wine revival. The only snag comes from oil prices, which play a key-role in the trade of these wines; a sharp rise in oil prices is expected to penalize regions such as Oceania, situated a long distance from the main consumer's markets. This helps us understand how crucial it is for Australia and New Zealand to penetrate the soaring Asian markets.

3) *A third and last necessity: its modernization.*

The sector is being modernized in all directions, from production to wine marketing. It is supervised by powerful firms that hold an oligopolistic position in their respective countries (fig.2). The top-thirty American firms alone hold 90% of the American market. The first four hold nearly

http://offlicencenews.co.uk/news/fullstory.php/aid/12136/Tesco_restructures_wine_team.html

two-thirds of it. They have therefore considerable resources. Among them Constellation Brands, which owns more than two hundred trademarks ranging from beer to spirit, has more than 8,000 employees and over three billion euros in global sales, forty percent of which in wine.

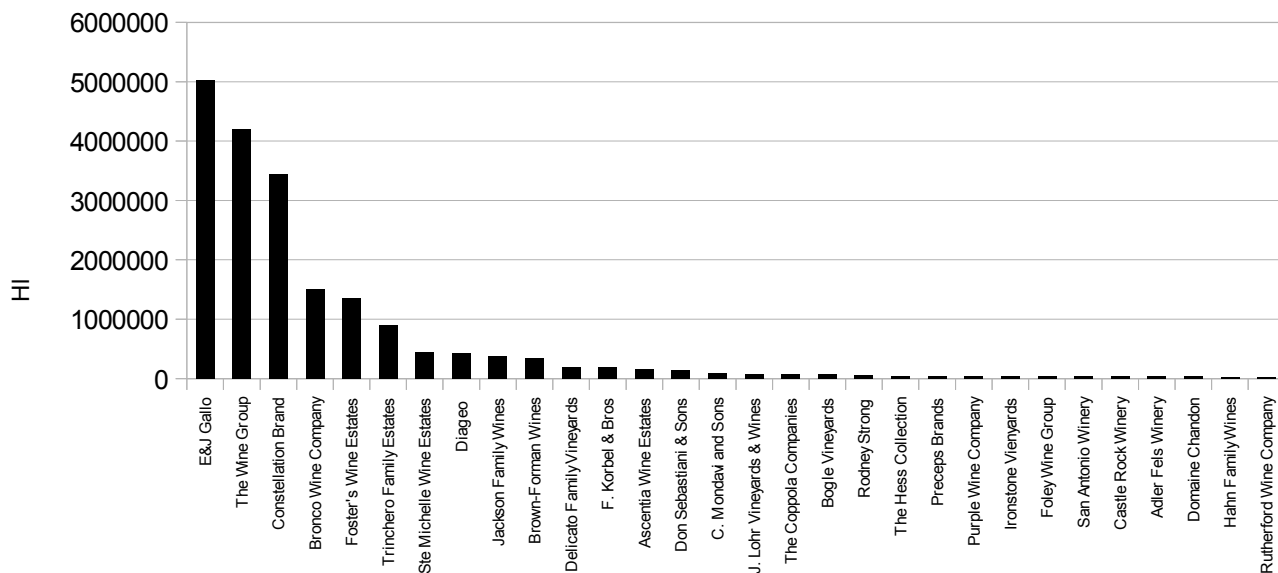


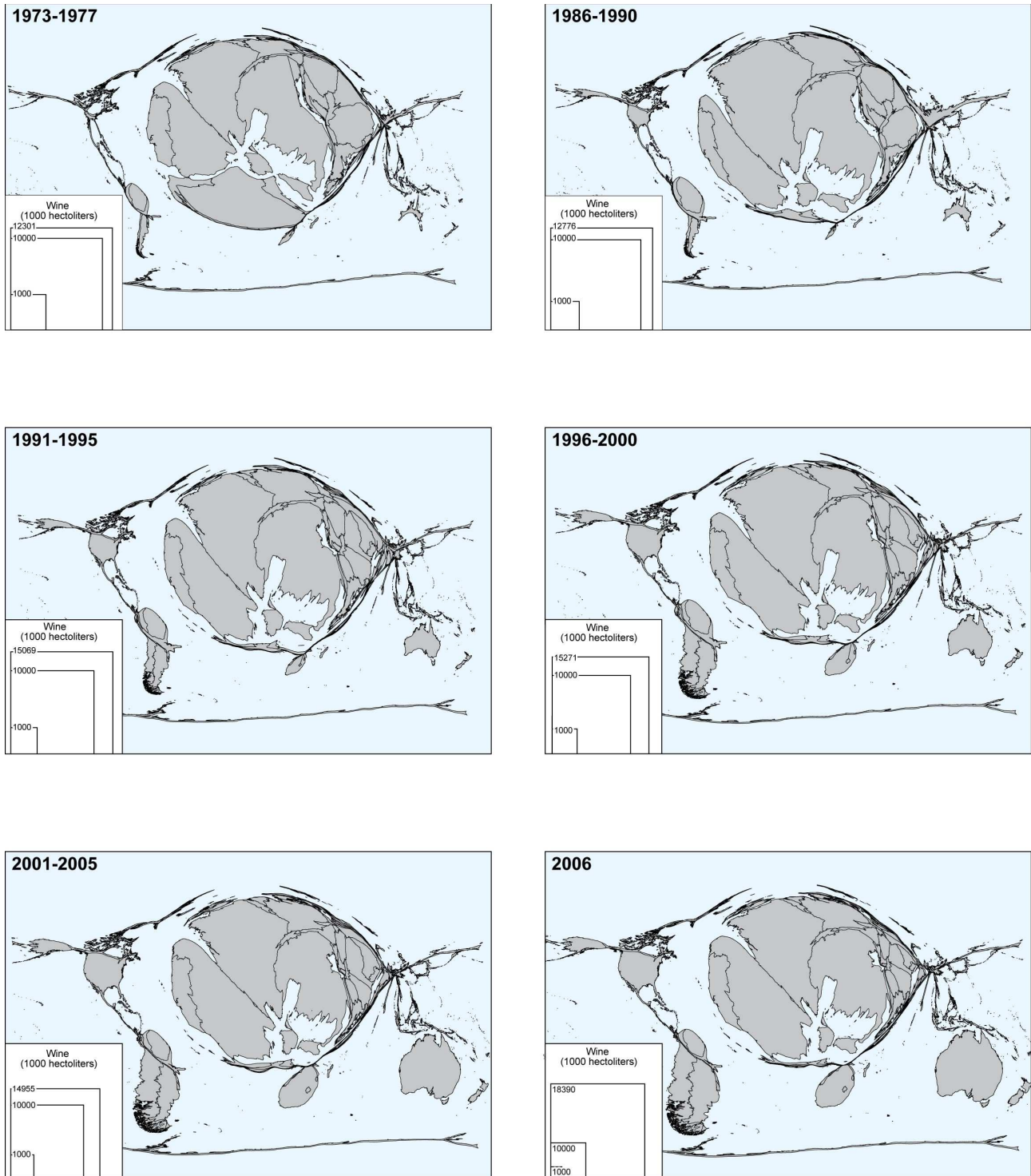
Fig. n° 2: Top 30 US Wine Companies. Data : Wine Businesses (<http://www.winebusiness.com/wbm/?go=getArticle&dataId=85188>) ; 2010.

One of the most obvious aspects of the evolution of the wine sector is its financialization. These big firms are quoted on stock exchanges (on the American Nasdaq or on the Sydney Stock Exchange), or use finance to buy other firms. Pernod-Ricard made headlines lately when they launched a *leverage buy out (lbo)* to buy Allied-Domecq. The financialization of the wine sector is currently making progress at a quick pace (JULIA et al., 2006).

These firms integrate the whole production, from upstream to downstream. As the role played by stock exchanges is getting prominent, they have to make quick, substantial returns on investments. Therefore they are bound to produce high volumes and sell their wines quickly. This is basically at odds with high-quality wine-making, which relies on “terroirs” and long-term production. Although these firms keep top-quality wines in their catalog, top-quality wines are not directly profitable for them and are rather used as campaigning and advertisement tools, to give them a good-quality aura on international markets. Constellation Brands recently bought Mondavi Winery, which is better-known for its good-quality wines, thanks to a hostile takeover bid. But their strategies appear to be firmly anchored in the short term: while Constellation Brands bought the Australian firm BRL Hardy in 2003, they just sold it this year while losing huge sums of money. Becoming the “Coca-Cola” of winemaking is at such a cost⁴.

⁴ Liz Hughes, 21 January 2003, “Constellation Brands-Hardy will be 'the Coca-Cola of winemaking' – Millar”, *Decanter*, <http://www.decanter.com/news/wine-news/489367/ConstellationBrands-hardy-will-be-the-coca-cola-of-winemaking-millar>

That is why these worldwide firms have no other choice than to turn wine into a widespread consumer good thanks to heavy marketing campaigns. This way they contribute to modeling the new wine world order. As can be seen for instance on the anamorphoses of wine exports, the New World is experiencing a spectacular growth (fig.3).



Sources : O.I.V. (1973-2008)

R. Schirmer, J. Pierson, O. Pissot (ADES, CNRS-Univ. Bx), 2011.

Fig. n° 3: Anamorphoses of Wine Export.

Conversely, other regions such as North Africa or former Eastern Europe are experiencing a decline. As a result, if we look at the curve of the values of exported wines, we can see a new area emerging around the Pacific (SCHIRMER, 2010). The wine world is no longer uniform, it is much more divided into regions than it used to be. This major mutation can be perceived at wine shows by observing exhibitors (fig.4). While Vinexpo has mostly traditional exhibitors, the London Wine Fair has become the shop-window of the New World.

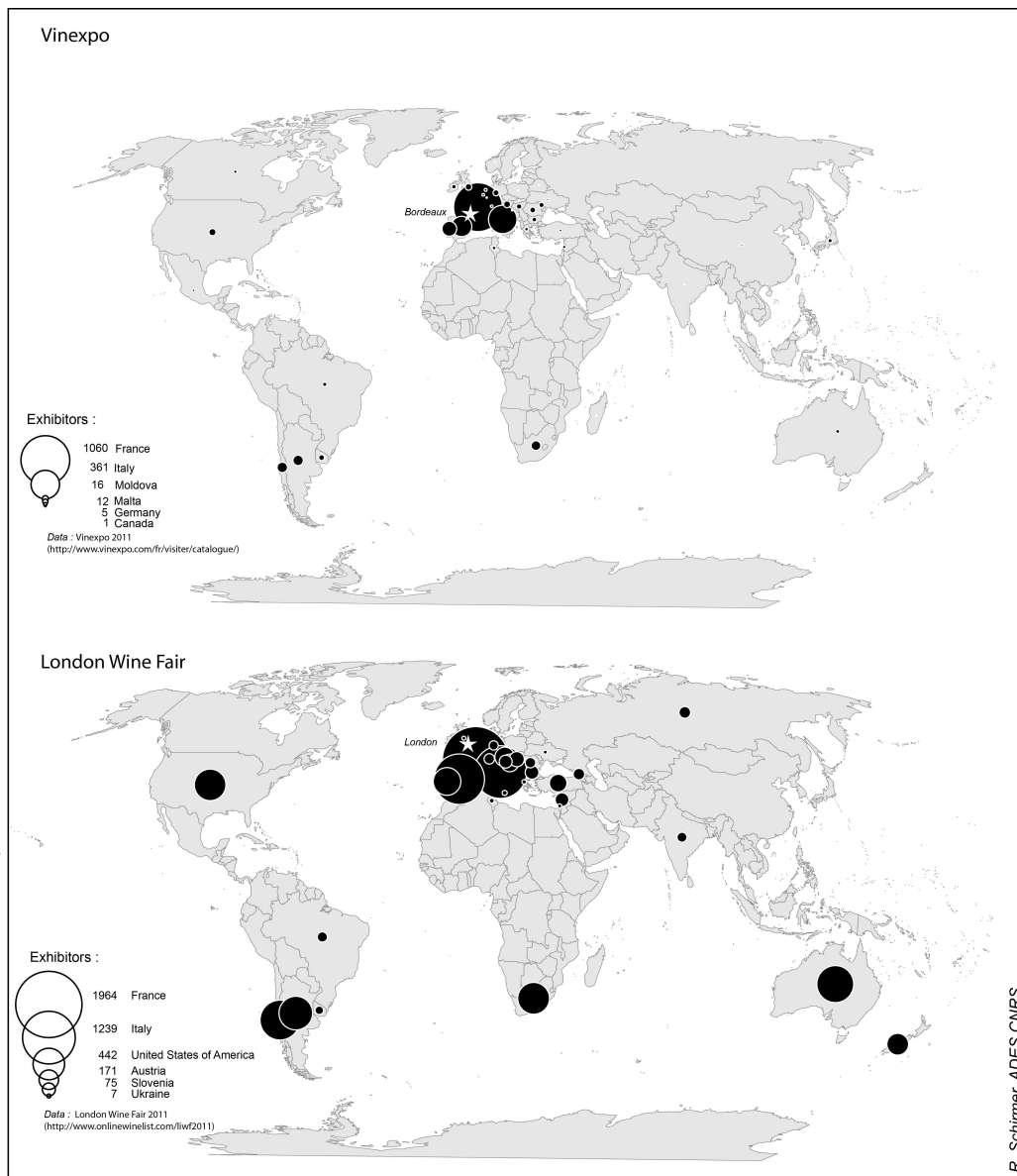


Fig. n° 4: Exhibitions: Vinexpo and the London Wine Fair 2011.

II. The end of a world?

Wine reviewing keeps evolving all the time. First there was a battle that opposed “old”

European critics to the American ones who wanted more “objective” tastings, for example by marking wines out of 100, as advocated by Robert Parker and later by the American magazine *Wine Spectator*⁵. Now a new dissent wave is rising, which aims at shunting official critics and elites.

1) *New approaches ... of territories.*

We have seen that powerful dynamics had been set up to impose variety wines. But more importantly, wine sales are now based on a new wine rating that is no longer established according to wine “terroir” names, which was no longer quite the case already, but according to the market (fig.5).

	Wine prices (American dollar)	Percentage of market volumes
<i>Icon</i>	> 50	1
<i>Ultra Premium</i>	14 à 49.99	5
<i>Super Premium</i>	8 à 13.99	10
<i>Premium</i>	5 à 7.99	34
<i>Basic</i>	< à 5	50

Fig.n° 5: A classification of wines according to their prices. Source : RaboBank.

Such a system proceeds from a much more liberal vision than before, in which the invisible hand of the market separates the wheat from the chaff, and consequently fixes wine prices, whatever their origin or their fame... For traders, this system enables them to fix price ranges more easily and to campaign depending on the wine. Communication strategies are different when trying to sell prestigious vintage wine or everyday table wine.

In this context, as commercial trademarks are taking over wine origins, winemakers can get their supplies more easily, as exemplified by Casella Wines' Yellow Tail. The company is located in Griffith (New South Wales), but its wines can come from the whole south-eastern region of Australia⁶, which is just about the same as the whole of wine-making Australia, leaving aside the region around Perth at the western end of the country: from Sydney to Adelaïde through Melbourne! A true industrial product... That is exactly what Europe tried to forbid under the lobbying of its member-states. For non-member nations to be allowed to trade on its territory, it imposed good-quality guarantees and regional names, the *Geographical Indications (G.I.)* for Australia for example. The hitch is that some member states would like to benefit from the same kind of freedom: the *Vinos de España*, launched in July 2006, and the local wines “vignoble de France”, whose project was presented in November 2005, were examined very cautiously. Europe used to forbid the use of the name of a whole country to trade wines, but it finally yielded.

⁵ An excellent synthesis can be found at the following address : http://www.delongwine.com/how_we_rate_wines.pdf

⁶ A map of the Australian wine-growing regions can be found at the following address : http://www.wineaustralia.com/australia/Portals/2/library/GIMaps/Aust_Zone.gif.

The “ South Eastern Australia” line corresponds to the northernmost limit of the regions were Casella Wines are produced.

Finally, we cannot omit to see to what extent these processes are part of a widespread trend in terms of wine consumption. New generation wines contain more alcohol, more sugar (PITTE, 2007), more fruit, with a degree of maturity that crushes wine types. They can even be “herbal teas” made out of wood chips to achieve more sweetness and vanilla aromas. In short, “made-up”, “body-built” wines that collide head-on with the legal definition of wine. That definition had so far been consensual and was based on a definition of wine as a product solely made out of grapes or musts from grapes. Such a definition comes from a French bill dating back to August 14th, 1889, called “loi Griffé”, which is cited in the following bills that gave birth to the “Appellations d'Origine Contrôlées” between 1905 and 1935. It was voted by the International Organization of Vine and Wine when it was founded in 1924, and then it spread to the wine world. Right now it is being questioned by Europe itself : the use of chips is now wanted by part of the professionals, and has been allowed since the reform of the Common Market Organization for Wine in 2008.

All these facts tend to destabilize the former order. Symbolically speaking, Spain allowed irrigation practices, so far forbidden in Mediterranean regions, in 1996. Forbidding irrigation was a rule inherited from the political domination of the wine-growing regions of northern France which had imposed it to restrict yields in the southernmost regions. It had spread to the whole of Europe and put the driest regions at a disadvantage as compared to the northern regions that were allowed to chaptalize their wines. Now that water control is allowed, Spain is no longer hindered by that rule and its yields have increased notably. And such is probably going to be the case in France, where irrigation experiments are being carried out in the south.

The former supremacy of extra-mediterranean regions is being shaken, concomitantly with a change in the geopolitical balance on a worldwide scale.

2) *From multilateralism to bilateralism.*

The multiple transformations experienced by the wine world are inducing a probable shift in the location of power-holders. Although the tendency has not yet fully become a fact, it has already caused a globalization-induced legitimacy crisis for traditional wine actors. The recognition of the OIV within international authorities has raised a delicate issue, all the more delicate as the OIV is being threatened on its flanks by the rise of opposing forces.

First, up to now it was considered as a reference in the wine world, but now it is weakened: right now it is not recognized by the World Trade Organization (WTO). Negotiations are indeed in progress, but... Presently the WTO only refers to two United Nations institutions, the *Food and Agriculture Organization* (FAO) and the *World Health Organization* (WHO). Therefore it is the *Codex Alimentarius*, for which wine is a drug, that prevails on a worldwide scale. Second, the OIV was further weakened when the United States went round it and left it in the year 2000, to found a far less structured organization, the *World Wine Trade Group* (WWTG). This parallel organization first worked for a mutual recognition of wine-making practices that were forbidden in Europe, but now it is marching further. For instance the number of free-trade agreements on either side of the Pacific is increasing. Australia and New Zealand are having talks with the member states of the Association of Southeast Asian Nations (ASEAN) to lower customs duties. The United States are negotiating with New Zealand, Singapore and Chile to reach a free-trade agreement. Is it not precisely around the Pacific that a new area for vine and wine is emerging? And yet the question arises as to who is going to rule wine production and trade in that part of the world which has become, let us remember, the most dynamic one. Cooperations are being established, such as the technical and scientific partnership signed between Chile and the United States in June 2008⁷, which illustrates the reversal of tropisms: Chile used to look to France and Spain for help, but it is now turning more and more to the United States. A meeting of the APEC (Asia-Pacific Economic

Cooperation) was just held in San Francisco on September 18th and 19th, 2011, about questions linked to wine trade⁸.

Undoubtedly, the stand taken by China, where only the city of Yantai is observing the situation at present, is most likely to have a dramatic impact on the fate of the OIV. It will tip the scales one way or another. But knowing the way China behaves as far as international rules and respect of intellectual property are concerned, we can doubt that it will register with the OIV. That is why the global trend seems to be that of a shift from a commercial, legal system still recently characterized by multilateralism, to a rise of bilateralism (fig.6). Consequently, the definition of wine that was written consensually and normalized in international law, is under the threat of being split up into multiple approaches and definitions (AIGRAIN, et al., 2000), with as many exemptions and special agreements between countries. Or worse, of being reduced to an *a minima* definition of wine, like an ordinary agricultural product. Europe appears to be in a weak position, about this issue as well as about many others. In terms of protecting denominations for instance, negotiations about The Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS) shows that the rights of American trademarks prevails upon the rights of European trademarks. (BOY, 2002). The *Wine Agreement* signed between the USA and Europe on March 10th, 2006, gives credit to the “Grandfather's clause” and thereby to the principle of retroactivity (ROSE, 2007). The principle validates the existence of Californian “chablis” as there is no deceit about the origin of the product, which indeed comes from California, and is considered as a generic wine-type produced in good faith since the Founding Fathers settled in the United States (LABORIE, 2008, p.114). International negotiations about TRIPS have been at a stall since 2004, the year when negotiations about the Doha cycle were supposed to come to an end.

Anyway, all these facts highlight how dramatic the modifications that currently affect the wine world are, legally as well as economically.

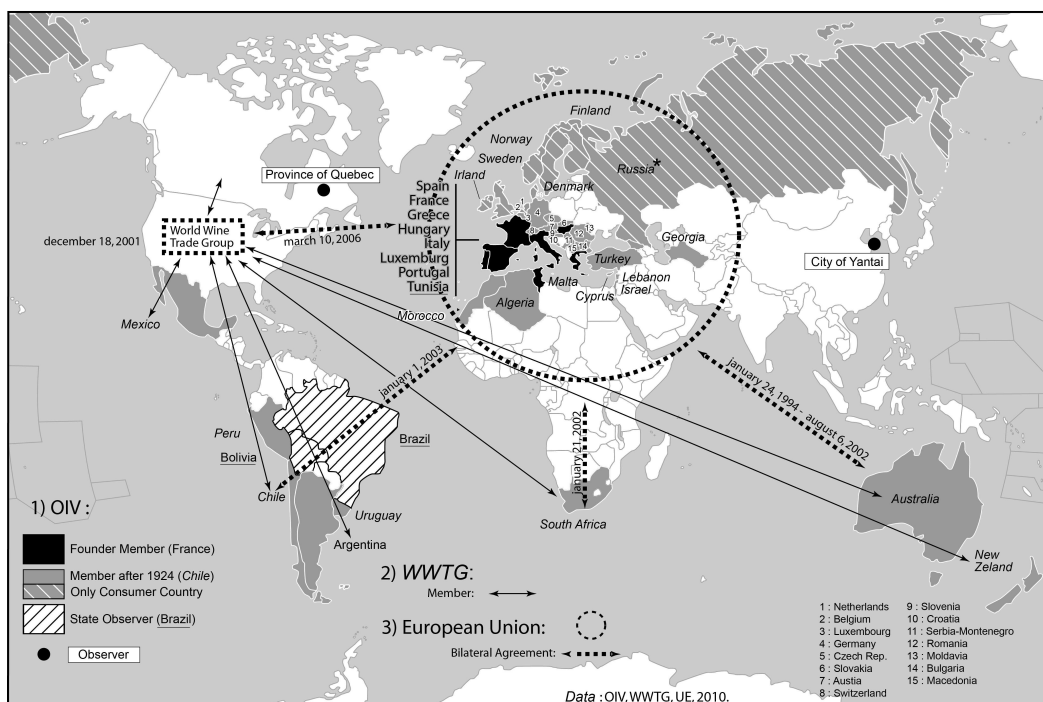


Fig. n° 6: From multilateralism to bilateralism

3) An exacerbated territorial competition.

Globalization causes reciprocal competition between all wine areas. Several consequences derive from this situation.

First, the “terroir” constraint appears as too tight a straightjacket in the new rising worldwide wine battle. That is why shunting the old meritocratic system, with its pyramid of “appellations” that gives a qualitative gradation, seems for some professionals to be the *sine qua non* condition to penetrate international markets. The trend started in Italy with the Sassicaia (SCHIRMER, 2007) in the 1960's, and in France with the mas Daumas Gassac in the 1970's. Today, although its causes are different, it seems to gain momentum in certain regions, especially in the south of France (fig.7). Table wines, whether in Italy, in France or in Spain, appear as freedom spaces. The huge cheating that took place in Toscana about the Brunello di Montalcino in 2008 can be seen as a will to better adapt to markets, by using the popular merlot vine although the law only allowed sangiovese, at the expense of a tradition perceived as a straightjacket. Norms and codes are being split up.

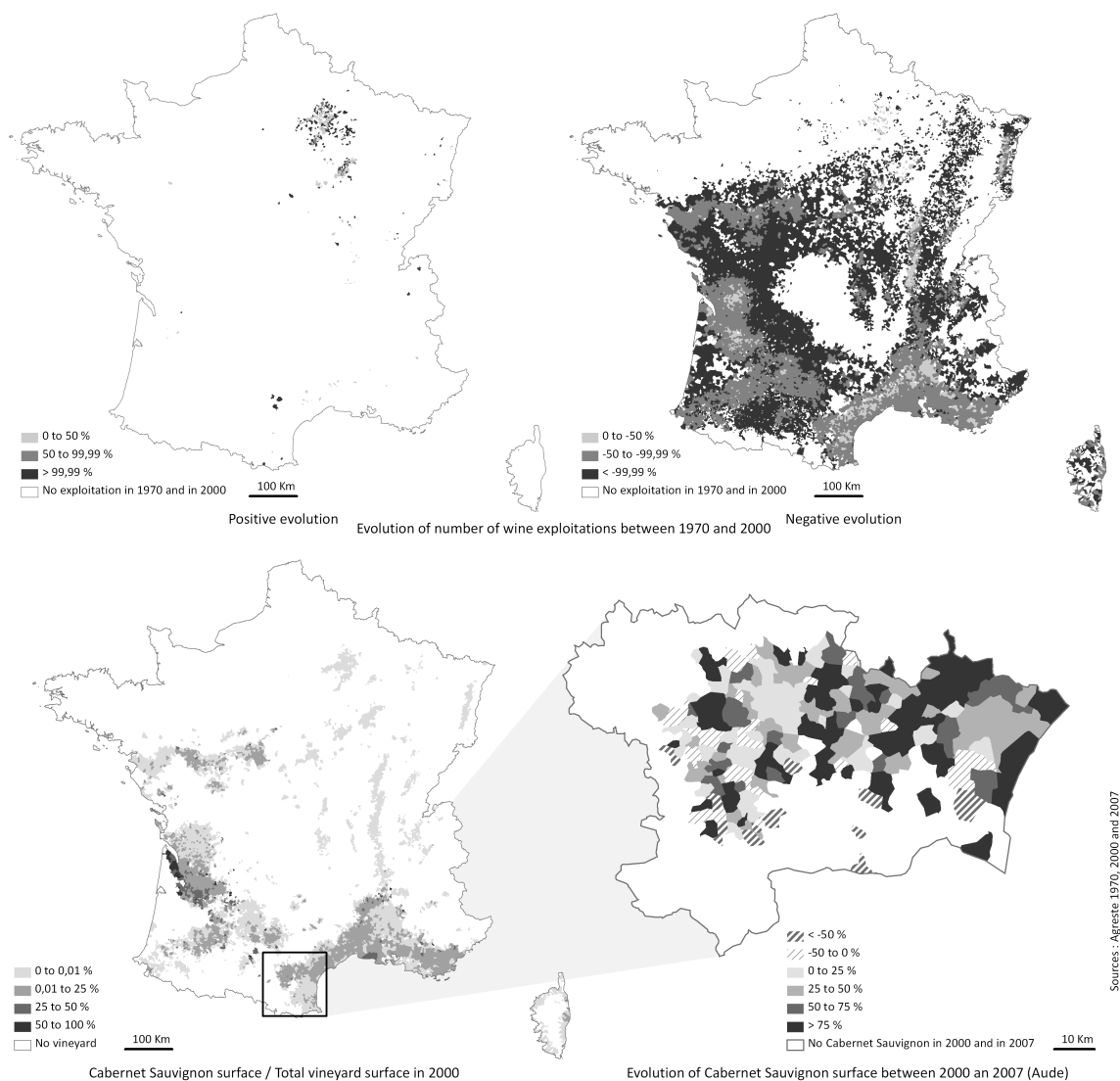


Fig. n° 7: South of France, a freedom space ?

We can sense that wine territories are being shaken at all spatial scales. Moreover, new dynamics are interfering with the processes exposed above, which makes the situation even more complex.

Conclusion :

A geographer's viewpoint about the governance of “terroirs” and territories within a globalized framework cannot be fully achieved without laying the emphasis on scale, as territorial competition is getting sharper and sharper. Scales are intertwined, and the word *glocal* (i.e. *global* + *local*) seems to be fit to qualify the phenomenon. That is why a clash of legislations is taking place. As far as environment is concerned for instance, the issue of the taxes levied by some countries with a resulting border effect is meaningful. For example certain pesticides are taxed more heavily or forbidden on this side of the Pyrenees, but allowed on the Spanish side..., which leads certain French wine-growers to buy them discreetly in Catalonia. This issue should be dealt with on a worldwide scale, as many New World countries allow practices that are forbidden in Europe, which enables them to produce wines at lower costs. Besides, does European “bio” correspond to “*organic*” in the new Anglo-Saxon producing countries? What lies behind that word? Are GMOs going to be allowed by Australian or American legislators under the pretense that “*they pollute less*”, as plants fight by themselves against their aggressors (*dixit*)? Are GMOs not “*cleaner*” to some people's eyes?

Obviously, the issues at stake in the early years of the XXIst century are no longer about wine fluxes, as nearly all trade barriers have been suppressed, except maybe in India (but the United States are bringing the case to the WTO), but rather about immaterial fluxes, research and patents.

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