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## A Strange Story: When Crisis Leads to Wealth—The Institution of Champagne Wine as a Luxury Good

Christian Barrère

The very profitable Champagne industry now belongs to the luxury field; indeed, Champagne wine was the first example of a new mass luxury. However, the history of Champagne is special, because initially Champagne was not a good wine but only a standard one. It was one of the numerous white sparkling wines, and under the Champagne name, both the best and the worst could be found. By means of a unique historical process of creativity, the industry succeeded in transforming Champagne wine into a luxury good and in segmenting the old market into two strongly separated compartments, one for Champagne and one for all other sparkling wines. Moreover, this evolution resulted from a major crisis in the Champagne vineyards. On April 11, 1911, the red flag was flying over the vineyards and people were singing the “Internationale”; the vineyards were occupied by 40,000 soldiers. The crisis compelled the sector to evolve or perish. A small group of actors took the lead in the evolution process, creating a strategy based on high quality. This essay tells this success story and considers its conditions.

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The Champagne industry now belongs to the luxury field; indeed, Champagne wine was the first case of a new mass luxury. In the 1950s, 50 million bottles were sold, but today the number surpasses 322 million, of which 141 million bottles are exported. In addition, Champagne wine has a special position among white sparkling wines: the market for Champagne is a closed market, strongly separated from those for all the other sparkling wines. Moreover, Champagne is a very profitable industry: the

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price of a vineyard hectare is 11,000€ in the Languedoc area, 33,000 in the Rhône Valley, 66,000 in the Bordeaux area, 110,000 in Bourgogne, 131,000 in Alsace—but 829,000€ in the Champagne area.

However, the history of Champagne is quite special. Initially, Champagne wine was not a good wine but only a standard one. Long ago, it was one of the numerous white sparkling wines (“mousseux,” “crémants,” from Anjou, Burgundy, and Alsace in France, Spumanti in Italy, and various German and Hungarian wines), and not always the best one. Under the Champagne name, both the best and the worst could be found. In the nineteenth century wine manufactured outside Champagne could be called Champagne and sold under that name. Therefore, the quality was extremely varied, like that of the other effervescent wines, and Champagne was only one wine among others.

By means of a remarkable historical process of creativity, the Champagne industry succeeded in transforming Champagne wine into a luxury good and in segmenting the old market into two separate sections.<sup>1</sup> The gap between Champagne and other wines was organized through an institutional separation that reproduced, strengthened, and perpetuated Champagne particularism. Champagne wine is the only example of setting such strong segmentation and protection against the competition of other wines. Its stature is singular and different from those of Crémants, Asti, and Prosecco. Champagne can integrate a reputation premium into its price, and making the industry very attractive with the highest earning ratios.

This evolution has been a creative process, with no precedent and no natural model available to be invoked. Though it was not necessarily planned that Champagne would become a luxury product, which it had not been before, the wine nevertheless evolved into a luxury good. Moreover, this evolution resulted from a major crisis in the Champagne vineyards, which forced the sector to evolve or perish. A small group of actors took the lead in the evolution process, directing it to a high-quality strategy.

To tell this success story we will first consider the beginnings of the wine industry in Champagne. Then we will explain how a crisis was used to define a new strategy and impose it to the whole sector; the third section is dedicated to the results: reputation, glory, and wealth. In a fourth part we will examine the conditions of this success story: the process of institutional creativity. Some concluding remarks will follow.

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<sup>1</sup> The world market for sparkling white wines, representing today more than 3 billion bottles, is fragmented into two segments: Champagne on one side (representing about a tenth of this market), and all the other sparkling white wines on the other side. This segmentation is guaranteed and enforced by French law and more or less enforced abroad. In France, sellers cannot mix Champagne bottles and other sparkling wines on the same presentation racks. They must maintain a spatial segmentation for the two types of product.

## **From Remes Wine to the Champagne Crisis**

### *The decisive role of innovation*

During the fourteenth and fifteenth centuries, a period of relative peace between the Franco-British and religious wars, the vineyards in Champagne, probably grown by the Remes people even before the conquest of the “long-haired Gaul” by the Romans, were an important regional product. Wines, all quiet, white, ‘claret,’ or ruby, were locally sold; as there were few local or regional outlets, they were exported to Paris and also overland to the wealthy Flanders or Dutch cities and to England. These wines were of irregular and average or even poor quality. Moreover, during the fifteenth century the French aristocracy preferred burgundy wines supported by a booming Burgundian political power. Production remained low because the outlets were mainly limited to the needs of the local aristocracy and of the clergy. At that time the popular drink was barley beer, the bourgeoisie drinking wines only as they got richer.

During the seventeenth century, wine was the main agricultural product marketed in Champagne. As vineyards were grown on a very large territory, the wines were still poor. However, the vineyards were becoming increasingly diverse and specialized, with wines from the mountain areas (Reims Mountain) and from the river (Ay, Epernay, and the Marne Valley) distinct from the others because of their better quality. They began to acquire a reputation, particularly because they were served at the royal court.<sup>2</sup> Among them, production of slightly sparkling wines was appearing.

Then, at the end of the seventeenth century, a set of innovations (assembling and clarification techniques, stabilization of the second fermentation in the bottle, new methods of corking, storage in constant temperature cellars)—innovations linked afterward to the name of Dom Perignon—arose. They brought about the first decisive expansion of sparkling wines. Because the Champagne vineyard was the most northern one in France and subjected to a changing, even harsh, climate, neither soil nor climate provided a naturally regular quality, as in the Bordeaux region or in Burgundy. Quality was more dependent on expertise, and the innovations therefore played a considerable role, much more important than the innovations in the other vineyards. At the instigation first of abbeys and then of important wine merchants, the development of Champagne oenology helped to improve quality and keep it constant (assembling, selection of young vines). The use of double fermentation spread, allowing sparkling wines to be transported in better condition and therefore to be exported. This new type of wine benefited from a fashion effect and reached the royal courts, in France during the reign of Louis XIV and, especially, in England and among the British aristocracy. The price of Champagne was rising, and at the end of the seventeenth century the first wine merchants appeared; they sold both traditional quiet wines and the new sparkling wines. A new part of the bourgeoisie symbolized by

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<sup>2</sup> Maurice Crubellier, *Histoire de la Champagne* (Toulouse, 1975), 255.

the Moët, Ruinart, Heidsieck, and Clicquot families was emerging by the side of the textile bourgeoisie. Innovations in products, techniques, and trade allowed the capture of new markets.

### *Two different vinicultures*

During the eighteenth and nineteenth centuries, in spite of these innovations, Champagne wine production remained characterized by its deep heterogeneity. The main part of the production consisted of poor quality wine principally meant for the mass markets of the Paris area (90 percent of the production was red wine, and in 1875 the volume of Champagne strictly speaking represented less than 2 percent of the whole volume of the wines made in Champagne.<sup>3</sup> The more important wine merchants tried to develop wine exports and to innovate in wine marketing, often using the networks they had formed in the textile trade.<sup>4</sup> They mainly aimed at the German market and at the British market, which was likely to have a strong and fast growth: in 1802, Moët sold 6,826 bottles in Great Britain but, in spite of the Continental System, 54,980 bottles were sold in 1810. In these markets sparkling wines found buyers, and the growth of what had become 'Champagne' continued: while in 1785 only around 300,000 bottles were sold, in 1832, 600,000, in 1844, 7 million, in 1852, 8 million, and 17.5 million was reached in 1870, among which nearly 14 million were sold abroad (systematically exploited by the great wine merchants who found outlets in Russia and in the United States) ; in 1899, 28 million bottles were sold; the peak occurred in 1910 before the big crisis of the vineyard, when 38,593,000 bottles were sold, among which 23 million were sold abroad.<sup>5</sup>

The British market quickly became an important outlet, and the varieties produced in the Champagne area conformed to the British taste for sparkling wines. The word 'Champaign' denoting this kind of wine appeared in Great Britain before the term of 'Champagne' in France. The development of outlets in the European courts turned external markets into the driving force of production growth and led to a new identification of Champagne as a wine of celebration, giving it therefore a relative specificity.<sup>6</sup> Its unique position also derived from the fact that Champagne was an expensive wine, costly to produce, which made it a luxury good. The dependence on exportation, synonymous with high transportation costs, strengthened the incentive to choose a product of quality and with a

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<sup>3</sup> Georges Colin, "Vignoble et vin de Champagne," *Travaux de l'Institut de Géographie de Reims* (Reims, 1973), 10.

<sup>4</sup> The agents abroad at the end of the nineteenth century sold Ponsardin's textiles and Clicquot's Champagne, the traditional production together with the new one of the Clicquot-Ponsardin family.

<sup>5</sup> Georges Clause in Crubellier, *Histoire de la Champagne*, 335.

<sup>6</sup> Champagne producers defined four main tastes in terms of the mixture of sugar, going from the driest (British taste) to the sweetest (Russian taste), bracketing the American and French tastes.

high unitary value. In 1870, only 25 percent of the Champagne wines were consumed in France.

In the last quarter of the nineteenth century, the great depression, together with the phylloxera crisis and afterward around 1910 serious sub-par production crises, modified relations in the area. The poorest viticulture was incapable of resisting the crises and to compete with the growing production in the south of France. Many vineyards were deserted, and a selection of the best soils was made; from more than 56,000 hectares in 1862, 38,000 were remaining on the eve of the First World War. The Champagne area ceased being the supplier of ordinary wines for the Paris area.

The sector then reformed around wine merchants, who deliberately favored external outlets and consequently sparkling wine production. They benefited from the crisis, which enabled them to increase their domains and concentrate production and trade. Poor wine growers, poverty-stricken during the periods of crisis, worked in the vineyards for the wine merchants, whose numbers were quickly growing: between the two wars 90 percent of the region's production of 25 million bottles was supplied by the wine merchants. During the 1850s, to the two first generations of great families of the 1800s (Ruinart, Veuve Clicquot, Heidsieck, Moët) and to the 1830s generation (Mumm, Roederer, Lanson, Bollinger), a last one (Pommery, Mercier, Castellane, Goulet) was added. Nevertheless, great firms that more and more specialized in quality—at least theoretically—and other less careful wine merchants selling uncertain wines were coexisting within the trade. Two types of very different viticulture then confronted each other. For the viticulture of quality run by the great houses, the big 1910s crisis proved to be the opportunity to ensure their hegemony and impose their strategy through an innovation process, an institutional one this time, which would allow the constitution of an exceptionally profitable regional heritage.

*Going to court to protect the Champagne name and to exclude foreigners*  
The *maisons* sought at first to protect their trademarks and to forbid imitations and fakes by multiplying, from 1880, legal actions to exclude the “foreigners” (to the region) from the Champagne market. But the law of 1824 concerning trademarks was not very precise and allowed many producers of sparkling wines to play on the confusion with Champagne. In the nineteenth century, wine made with grapes from Aube, Saumurois, the south of France, Spain, and even from Algeria and manufactured outside Champagne had still been called Champagne and sold under that name. The natives of Champagne therefore tried to make a distinction between sparkling wines from Champagne and sparkling wines from other soils; they wanted to distinguish between method and soil. Are Champagne wines characterized by a method (the second fermentation in the bottle) and therefore any sparkling wine can be called wine based on the Champagne method; or are they characterized by the use of the grape from



a particular soil? Instead of a reference to technology, producers finally imposed the idea of product specificity based on the origin of the grape, thus circumscribing a strict monopoly.

In 1844 ten wine merchants sued the producers of the Touraine area for name usurpation; they proclaimed that Champagne does not result from a vinification method but from a precise soil. The Tours Court of Justice sentenced three local wine merchants “considering that they sold Vouvray sparkling wine for Champagne wine and therefore have misled the buyers about the nature of the good.”<sup>7</sup> In 1882 new actions of the wine merchants and of their union were taken for usurpation of the trademark or of the name Champagne. But on May 4, 1886, a decision of the Commercial Court of Saumur declared that the name Champagne had fallen into the public domain. On July 19, 1887, that decision was invalidated by the Appeals Court of Angers: only the sparkling wines grown and manufactured in Champagne could be designated under the name of this province on pain of infraction of the law of 1824 concerning trademarks. On November 23, 1888, a new decision declared that the word had fallen into the public domain, followed on November 4, 1889, by a new invalidation by the Appeals Court of Angers.<sup>8</sup> On July 26, 1889, the decision of the Supreme Court of Appeals confirmed the decision of the Appeals Court of Angers, deciding in favor of the natives of Champagne: “the word champagne indeed indicates at the same time the place of producing and of making some wines particularly known under this designation.” On February 3, 1891, a new decision of the Court of Justice of Saumur declared that the word Champagne had fallen into the public domain, but on December 15, 1891, a new invalidation was issued by the Appeals Court of Angers, and on September 4, 1894, a new decision by the Supreme Court of Appeals gave rights to the natives of Champagne: the Champagne appellation was reserved to wines gathered and grown in Champagne. Thereafter, many legal actions were brought before the Court of Reims and heavy fines were given.

At the same time, Champagne professionals put pressure on the authorities to obtain a stricter regulation. The law of January 8, 1905, on the regulation of commercial transactions and the protection of the consumer against any trickery about the origin, composition, and quality of products, was accompanied by a decree of 1907 specifying how the law should be enforced. In order to protect the regional appellation of sparkling wines, some delimitations were necessary, and the fight became one of geographical definitions. In 1906 the wine growers and the wine merchants made a proposal to the government: to define two categories of sparkling wines that are not Champagne, the sparkling wines (natural wines) and the mineral wines (artificial wines); to forbid the use of terms like “from the champagne region” “champagnised”; to clearly distinguish

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<sup>7</sup> André Garcia, *Les vins de Champagne* (Paris, 1997), 65.

<sup>8</sup> Garcia, *Les vins de Champagne*, 48.



on labels and display advertisements the place of origin and the place of production. But such changes awaited the 1910s crisis.

### **The Major Champagne Crisis**

#### *The crisis and the PDO (Protected Designation of Origin)*

The major crisis of the Champagne vineyards derived from the long-term difficulties created by the production of mediocre wines related to the phylloxera infestation and by competition from other areas (the south of France). The situation in the vineyards was disastrous especially because of epidemics: after phylloxera, vines had to be replanted, and therefore growers got into debt; mildew also attacked the vines, and the late crops were bad. Many vineyards had been sold or mortgaged. Then a catastrophic grape harvest followed in 1910, with very few grapes and of poor quality; this led to a fall in prices and the collapse of the wine growers' income.

The crisis led to a revival of the fight for the protection of the Champagne label in order to overcome competition from other sparkling wines and from grape providers from other areas. At the same time the question of delimitation was asked: what areas would be inside the delimited zone and therefore benefit from the label monopoly, and which would be outside? A strict delimitation, corresponding to the historical birthplace of the first sparkling wines, the Marne, stood in contrast to a wider delimitation, including the vineyards of the Aube area that came afterward.

When the 1905 law was in preparation, two deputies of the Marne *département* had unsuccessfully presented amendments for delimitation. The fight of the people from the Marne area to impose a very strict delimitation was waged in the name of "permanent local customs." They refused the result of an enquiry of the Agriculture Minister proposing to include inside the delimited area thirty-seven municipalities of the Soissons district and did not accept the delimitation constituted by the union of the Marne area and the Condé-en-Brie canton. Wine growers then started frenzied struggles to be integrated within the Aube area. After many ploys in parliament, the Assembly's committee proposed to include in the Marne area more than forty-four municipalities of the Château-Thierry district and thirty-six extra municipalities of the Soissons district.

This delimitation was approved by the Council of State and specified by the decree of December 17, 1908, geographically delimitating the appellation territory and identifying the sparkling wine of Champagne and wine made from grapes produced in Champagne. Therefore Aube champagne was excluded, but the decree did not specify how the law should be enforced. Wine merchants who had regularly used cheap grapes coming from the Aube area anticipated the consequences of a strict delimitation. Acting opportunistically, they suddenly increased their purchases of grapes and wine from the Aube area. Hence the relations between wine growers from the Marne area and cheating wine merchants

from the Aube area degenerated. Riots and rebellions intensified, while each camp tried to strengthen its pressure on the members of parliament and the local administration. Some wine growers from the Marne and the Aube areas were vigorously in favor of a strict delimitation, others were in favor of a wide one, but they were all holding red flags against the authorities and the wine merchants/growers. The slogan of the 1911 great demonstration of wine growers in Epernay was: “down with cheating! Hurrah for the wine growing limited Champagne!” In January 1911 the Aube area wine growers’ federation was created and organized violent demonstrations, as did wine growers of the Marne area. In Troyes armies of vine growers holding pickaxes gathered under the slogan, “Champenois we were! Champenois we will stay and so be it.” Four hundred twenty-nine out of 446 city councils resigned. Under the pressure of events, the Senate decided to suppress the decree of 1908, and a violent counterattack started in the Marne. The catastrophic grape crop of 1910 together with the fall of grape prices, increasing debt, and the phylloxeric crisis formed the background of these events.

On April 11, 1911, the red flag was flying over Damery, a small village in the Marne. People were singing the *Internationale*, accusing the wine merchants of getting supplies in the Aube area even farther from the heart of Champagne; they devastated and burned the cellars of the Aube area wine merchants. The vineyards were occupied by 40,000, while the Senate abandoned the idea of reconsidering the decree of delimitation.

The February 13, 1911, law against fraudulent practices again took up the claims for a distinction between Champagne and other sparkling wines and *mousseux* but, on request of the government, did not impose sanctions. It also established the need for a certificate of origin for any wine transportation, separated premises for the treatment of local wines and imported wines, and the inscription of the word Champagne on the corks. A March 6, 1911, decree tried to reduce the conflict between the Marne and the Aube areas by deciding a quite wide delimitation of the territory entitled to the label of origin but yet distinguishing two types of Champagne: a first-rate Champagne for the Marne area and a second-rate one, with the label “second-rate Champagne,” for the Aube area. This revived the disturbances, people from the Aube feeling degraded and people from the Marne area deprived of their right to the label monopoly. Thus, the government turned to the judiciary, the “wisemen,” with the law of May 6, 1919, which provided for a judicial delimitation: all the territories a priori had a right to the label, except if there was an opposing action before the courts.<sup>9</sup> This law took up again the text of the previous

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<sup>9</sup> Article 1 of the law said: “any people or any union claiming that an origin label is applied, to his direct or indirect damage and against his right, to a natural or made product and in opposition to the origin of this product or to local loyal and constant customs, will have an action before court to forbid the use of this label (the said label)”; article 17: “the Champagne origin label given in the declaration of harvest will be acquired as long as it has not been contested within a one year

law of 1905 on fraudulent practices and added sanctions in case of non-observance. Moreover it made provision for creating a label area in accordance with “local, loyal and constant customs.” Any wine grower who believed one of his colleagues did not respect this adage could bring the case before the courts. An August 19, 1921, decree completed the law of 1919 by increasing the level of sanctions. It distinguished sparkling wines with origin label, sparkling wines produced in a closed tank, and sparkling gasified wines, and controlled their labeling. There followed many actions before courts from the wine growers’ union and from the wine merchants (but the term ‘champagnised’ continued to be allowed and was forbidden only in 1927).

Even if the Champagne monopoly was clearly reasserted and the right to the label had been reinforced, the delimitation of the club was not yet settled. In 1929 growers and merchants from the Aube area took the Champagne label, and the people from the Marne area answered with lawsuits. The Paris Court of Appeal (decisions of February 2 and 16, 1923) and the Court of Cassation (judgments of May 26 and 27, 1925) decided in favor of the people from the Aube area on the grounds that the territory permitted the label had to be understood as the territory of the ancient province of Champagne. In 1922 the Ministry of Agriculture created an advisory committee to study the measures promoting the intensification of wine exportation and to ensure the national and international respect of the protected designations of origin. In 1925 the committee’s work to delimitate the Bordeaux area started and the negotiations for the Champagne area delimitation resumed. In order to receive a designation and to have it before the other wine-growing regions, growers from the Marne area accepted the wide delimitation on the condition that the Aube area use the traditional grape varieties of the Marne. On February 3, 1927, the president of the drinks committee of the Chamber of Deputies returned an verdict accepted by everybody and later inserted into the law of July 22, 1927. This law imposed a compromise reinserting the Aube area producers in the delimitation zone (within the limit of the soils already planted with vines, which limited the potential zone and gave a guarantee of quality, the first planted soils thought to be better for vines) but obliging them to conform to the quality strategy of the Marne area wine merchants: it defined strict quality criteria (limitation of authorized grape varieties, yields, methods, and so forth). The text of the law also asserted again the need of fermentation in bottle against the attempt to enlarge the fermentation methods in closed tanks, risking therefore a lower quality and non-discrimination with the competitors.

After the law of 1927 the use of ‘Champagne’ was reserved to wine made with grapes completely harvested and worked in the delimited zone.

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time limit.” *Journal Officiel du 8 mai 1919* (Paris, 1919). See also Jean-Claude Barbier, “Contribution à l’étude des relations entre les professions et l’Etat: L’exemple du Comité inter-professionnel du vin de Champagne” (Ph.D. diss., Université de Reims, 1986),1: 142-44.

An agreement was found to forbid the use of the term ‘champagnised,’ but as a compromise, the term “champenoise method” was accepted to mean sparkling wines fermented in the bottle. The attempt to substitute “fermentation in bottles” failed. The term ‘champenoise method’ was used frequently until the decision of 1985 to require it to cease on August 31, 1994.

### *The strategy of the Great Houses*

The Houses used the crisis that had put into question the previous development model to take advantage of the specific benefits they had: capacity for innovation, the possibility of producing a quality wine, and knowledge of the foreign markets. They wanted to define the development path of the sector: the monopolization of a part of the final market, that for quality sparkling wines. For this purpose they used the struggle for the PDO (protected designation of origin) as a means to impose a policy of quality on the whole sector and to restructure it on new bases. The “protection” of the PDO (a legislation invented on this occasion in the Champagne area and afterward extended to many wines and agricultural products) would allow the segmentation of the market into two strictly separated categories, ordinary sparkling wines and quality sparkling wines, namely Champagnes. Starting from a comparative advantage of quality and fame at the beginning of the sparkling wines’ development—an advantage confirmed by the eagerness of many competitors outside the region to use the Champagne name, therefore implicitly recognizing the quality of the wines produced in the soil—they planned to accentuate this circumstance and make it a definitive advantage. The legal protection cannot be interpreted as an a posteriori protection of pre-existing advantages: they had participated in its construction. Its implementation was the result of a coherent plan carried out by resolute actors (the great wine merchants) through a lobbying process that allowed them to halt alternative strategies in order to impose their strategy on the whole sector and to organize its implementation.

At the beginning of the twentieth century the restructuring of the sector around a policy of quality had been possible because of a variety of changes:

- Since 1850 the growth of demand, particularly internationally, allowed a clear specialization in the production of sparkling wines (to the detriment of the quiet wines). In 1910 red wine had nearly disappeared, at least from the main vineyards of Reims and Epernay. Moreover, as the differences in soils played a minor part, a general policy of quality obtained at the same time a less scattered and more consistent quality.<sup>10</sup>

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<sup>10</sup> The negotiated management of the grape market led to the establishment of price lists for every wine, intangible price lists. The classification of Champagne wines reflecting the diversity of soils gives very few differences in price (the price of the wine ranked as the lowest in the scale of prices represents 60% of the price

- The technical progress in growing vines but above all in making wine constituted a barrier to entry for wine growers to the production of the final product. The necessity of assembling different wines in order to improve and stabilize quality, the recourse to chemistry, oenology, and to expensive equipment limited the wine growers to a role as grape suppliers. While at the beginning of the nineteenth century wine growers often also made the product, at the end of the century the Great Houses assembled wines and sold them; wine growers produced the grapes and sold them to wine merchants.
- The control of the export market by the great wine merchants led to an internal restructuring that allowed them to implement innovations in oenological technology and to organize the differentiation of products according to the local preferences of the export markets.
- The fact that grapes were hard to transport without spoilage, the importance of the protection represented by transport costs and taxes and the possession of specific assets (storage places, expertise, and so forth) consolidated the relation between local grapes and the wine made from them.

Under these circumstances the economic domination of the large traders and their political control on the region allowed them to impose, via the PDO, the strategy of quality on the whole sector.<sup>11</sup> The Great Houses imposed it on the fraudulent wine merchants (those who did not buy local grape or musts) against their opportunistic strategy of production from imported raw material. They also imposed it on the wine growers, by playing on the requirements of the PDO, which made it compulsory to link the quality of the final product to the quality of the grape. Thus free riding would be gradually eliminated. To obtain the benefit of the PDO, wines had to submit to a certification process, based on qualitative criteria. Therefore, the PDO system eliminated the strategies of low quality, imposed high quality, and set up Champagne wine as a luxury good.<sup>12</sup> The implementation of legal policies of protection, which were presented as consumer protections, had, in fact, two main effects. The first was the guarantee of monopolistic rents through the creation of a configuration of rights favorable to the regional area. A second, even more important because it was the basis of the Champagne statute, was that the PDO

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of the top wine), and there is no comparison to the difference in prices between a Petrus and a Côte de Bourg, a Romanee-Conti and a Passetoutgrain.

<sup>11</sup> Jean Rémy Moët had been the mayor of Epernay for twenty years; Victor Moët, his son, followed him, while Nicolas Ruinart was the mayor of Reims. The Great Houses had the means to direct regional development and to weigh in according to their interests on the choices of the members of Parliament, as shown by the lobbying displayed around the definition of the designation of origin.

<sup>12</sup> For a formalized analysis using evolutionary games, see Christian Barrère, "The genesis, evolution and crisis of an institution: the protected designation of origin in wine markets," *Journal of Institutional Economics* 3 (Aug. 2007), 165-81.



system did not sanction prior effective advantages (a better quality) but was a means to organize that quality.

The study of Champagne regulation confirms this hypothesis. Regulation provided a means for a gradual and permanent reinforcement of quality, to enlarge the gap between Champagne and other sparkling wines and to establish Champagne as a unique luxury sparkling wine. The lobbying of Champagne producers and politicians focused on the gradual reinforcement of quality standards. A law (March 20, 1934) separated Champagne more strongly from other wines by prohibiting the production of sparkling wines other than the PDO Champagne in the Champagne area. Another (May 22, 1977) reinforced this prohibition. In 1935 a special regulation for Champagne was added to the PDO regulation. It defined stricter standards of quality for Champagne: maximum quantities authorized, standards of pressing, procedures of wine making and wine conservation; in 1936 and 1938 the methods of vine cutting and the maximum production were also specified by directives.<sup>13</sup> The Champagne region was the first wine area to have a defined maximum production; producers going beyond it lost the Champagne designation. The majority of these rules were specific to Champagne.

‘Discipline’ (in Michel Foucault’s sense) played an important additional role. The increase in production related to the effects of the PDO induced vineyard expansion and the entry of bad quality producers. The organization of production and standardization in order to preserve quality was a condition for the reproduction of the monopoly. For this purpose, the tax system was used.

Since 1905 the profession had wanted a regulation to separate the wine storehouses using the two types of grape (regional and foreign), and to create particular titles of movement for the Champagne wines in order to check the real provenance of the wines. After the catastrophic 1910 vintage, titles of movement from the tax department had to indicate the precise origin of all grapes and wines. In 1927 the law distinguished two titles for wine circulation, one for sparkling wines, another one for “tranquilles” (non-sparkling) wines. In 1907 the Ministry of Agriculture created a “special agent against the fraud of Champagne wines”—who was the general secretary of the vine growers’ trade union.

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<sup>13</sup> The general trade union of the vine growers addressed the parliamentary committee charged to prepare the decree of 1935 in these terms:

the project that we have the honor to present you is inspired by the following general idea: Champagne must remain a wine of quality. . . . Because some wine growers and some traders seemed to give up this quality insurance, because they do not seem to understand the harm they do to our Champagne wine, since deliberately they persist in such mistakes, it seemed to your sub-committee necessary to undertake the regulation of our corporation.

Quoted by Barbier, “Contribution à l’étude des relations entre les professions et l’Etat,” 1: 224.

In 1924, an agreement between traders and vine growers led to the selection of better types of vines and continued the imposition of discipline on the sector: the vine growers' trade union published the names of both vine growers who had torn out bad types of vines to replant with good ones and those who did not; merchants stopped buying the grapes of the latter. Authorized modes of pruning the vines (low size giving a smaller vintage but better quality) were also decreed; high size would be penalized by a purchase price for the grapes 20 percent below the norm. Standardization of grape delivery was also defined: grapes should be peeled and rotted items removed.

A special subcommittee for Champagne wine, created in 1935, could propose variations in the standards (of production, cutting, pressing) and minimum grape prices, with a mechanism for sanctions (tax penalties and loss of the right to the Champagne PDO), every year to the Ministry of Agriculture (which always validated them).

### **The Result: Glory and Wealth**

Even though the red flag flew over the town halls of the Aube and Marne areas in 1911, what ultimately came out of that crisis was the protection of the PDO, which allowed the Great Houses to reap massive profits. But it also ensured a final outlet for Champagne wine and indirectly for the grapes of the wine growers, as a result of the establishment of the wine's distinctive features.

The crisis was resolved by the improvement of sales based on the PDO. The victory forced the Champagne area players to have a concerted plan; therefore, interprofessional compromises and internal discipline measures were required. The wine growers' union regained control of its base, and those who attempted to evade the regulations were excluded from the trade.

### *Building up a heritage*

Prior to the quality strategy, internal consultation took place within the framework of a club defined by its geographic basis; with the new strategy, members were compelled to modify their internal behavior and to undertake a unified position based on a vigorous struggle against free riding. The Great Houses could extend penetration of foreign markets. Gathering around the big traders might have offered producers and traders of lesser size sales opportunities in an expanding market. But, because of the investment required by brand politics, they were blocked from that course. The PDO strategy, however, allowed them to ensure their development, the PDO being a new good provided by the club. They would benefit from the reputation created by the prior investment of the great brands and their penetration into foreign markets. This policy was supported by the wine growers, who would see their monopoly of the grape supply established. Moreover, a concerted negotiation of prices was



created, which strengthened the position of the vine growers against the traders, who had traditionally been dominant.

An implicit agreement was then made between the great traders and the rest of the sector: the regional club benefited from the effects of the traders' investment in quality, and then it aligned on quality politics. All these activities developed the idea of a "collective interest for the profession," common to each group and moving in the same direction, wine merchants depending on the product and vine growers on the outlet. Two decisions of the Cassation Court—September 4, 1894, and February 29, 1912—said that both unions represented the same community and defended the same collective interest. At the end of this long historical process of the construction of the AOC (Appellation d'Origine Contrôlée—that is, PDO), the Champagne sector was equipped with a heritage indivisibly constituted by a judicial and legal heritage (PDO, trademarks, regulations, discipline), by an economic heritage (land rents, production processes, marketing networks, and corresponding profits), and by an institutional heritage (the concerted management of the problems of the sector). The implementation of legal policies of protection was presented as a consumer issue, but, in fact, it guaranteed monopolistic rents. Moreover, the PDO system did not simply sanction prior effective advantages (a better quality), but was a means to organize and enforce that quality and to obtain a configuration of rights favorable to the region.

The growth created by this exceptional operation of 'patrimonization' can be seen through the considerable increase in production (50 million bottles in 1950, 102 in 1970, 249 in 1989, and more than 320 by 2010) and of the corresponding wealth.

#### *The management of the heritage*

The multiplication and the institutionalization of the transactions between wine growers and wine merchants led to the constitution of a grape market. Wine merchants needed an increasing and constant supply of grapes, all the more so since Champagne required long and complex storage. The establishment of the quality strategy led to concerted interprofessional action regarding the management of the supply and demand of the grapes. A new type of market emerged: an external-internal one. The market was external to the economic unities of production (the wine growers) and to the unities of transformation-marketing (the merchant houses), but it was internal to the two groups of the sector, with management by ad hoc organs (Comité interprofessionnel du vin de Champagne, the CIVC). That allowed the extension of a common discipline of production, standardization of vine cultivation methods, and establishment of norms of quality. Finally, the concern for ensuring production growth and market control explained the establishment of institutional procedures for managing the rivalry for profit among the professions, procedures that led to negotiated, fixed grape prices. The objective of a "fair" price for grapes, allowing all the actors of the sector to

live with dignity while reducing transaction costs, was a part of the institutional meso-economic compromise; the increased stability of set prices, a break with the prior situation, also allowed a regular investment by the wine growers in raising the quality of the grapes.<sup>14</sup>

However, the strategy of the Great Houses was a bit more ambitious. They wanted to set Champagne wine at the top of the wine markets, with the support of the wine growers' trade union. To do so, they organized a permanent reinforcement of Champagne's quality. The 21<sup>st</sup> article of the 1935 decree creating the National Committee of Labels of Origin held that a special complementary regulation could be elaborated for Champagne wine. The corresponding decrees defined quality norms for Champagne, with maximum authorized yield levels, norms of pressing, of vinification, and of preservation of the wine. In 1936 and 1938 the regulations were strengthened. The Champagne area was the first vine region to define a maximum ceiling for production, with the loss of the Champagne PDO as the penalty for exceeding it. And most of these regulations were specific to Champagne wine.

#### *The first product of the commodification of luxury*

A luxury good is not a good the nature of which is luxurious. It is a good perceived and felt as a luxury, a cultural product. This perception is related to an exceptional characteristic of such a good that allows it to be distinguished from basic goods. In the case of wine, the gap between standard and luxury goods is based on superior quality. As explained earlier, the superior quality of Champagne wine is not a natural one but one that has been built through a specific and determined strategy of quality.

During the eighteenth and nineteenth centuries, Champagne became the wine of luxury and celebrations; it was the wine consumed in the royal courts because of its reputation for high quality. That reputation also meant that the wine was reserved for aristocratic groups, and consequently implied a special market and a higher price compared to ordinary wines.

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<sup>14</sup> The president of the wine merchants wrote his members and the wine growers: "for the wine grower to stay in the vineyard and grow it, above all when big outside salaries can attract him, his life and his work have to be secured by a lucrative enough selling price. No remedy out of this"; quoted by Barbier, "Contribution," 1: 107. In contrast, instability was strong in the previous system. Achille Muntz, *Recherches sur les vignobles de la Champagne* (Paris, 1893), quoted by Emile Lessard and Jean-Claude Barbier, *Le Champagne: Agronomie, économie* (Paris, 1981), gives the price per kilo of grapes paid by the houses Moët et Chandon and Clicquot: for Ay grape, 2.5 in 1891, a nearly normal year; 3.75 in 1892, a poor production year; 1.1 in 1893, a year of abundance and good quality; for Hautvillers grapes, respectively, 2.0–2.50–0.75; for the Pierry grape, 1.9–2.25–0.87; for the Cramant, 2.5–2.75–1.20.

Thus Champagne wine was first erected as an aristocratic luxury good. But the management of the Champagne heritage surpassed this result. The Great Houses invented a new type of luxury good: the democratic and mass market luxury good. And this was followed by others of its kind, giving birth to a new luxury paradigm.

A luxury paradigm defines what luxury goods are, who can consume them and how, what function is assigned to them, whether they are a large or a small part of individual consumption, and so on. The definition depends on a societal paradigm: how does the society consider itself? A model of luxury corresponds to each paradigm.

Historically, there have been two luxury paradigms. The first one is the aristocratic model, in which a radical social segmentation between the elite and the people marks social functioning: in France, the Ancien Regime used the terms 'blue' (aristocratic) and 'red' (popular) blood. Aristocratic groups are the proper focus of luxury: ordinary people are not able to appreciate luxury goods; it would be like giving pearls to swine. Haute couture or 'Grande Cuisine' supplies typical luxury goods. For wines, the segmentation between aristocratic and popular wines was established and strengthened. Champagne wines, belonging to the emblematic aristocratic wines, were consumed all around the world and associated with the exceptional, the extra-ordinary.

However, this paradigm was gradually replaced by a new one, the paradigm of mass luxury in a mass market economy and democratic society. All the individuals are formally equal in market and contract relations. Therefore, everybody is entitled to consume luxury goods (which remain extra-ordinary goods), according to their willingness to pay—that is, respecting the market constraint. Access to luxury is a democratic right. Such is the case for Champagne wine, explaining how its sales could grow from 30 million bottles in 1950 to more than 300 million since 1998. Champagne wine is no longer an aristocratic wine but a mass product, a luxury mass product. Many people around the world can regularly consume Champagne; others can do it occasionally. The mass market luxury that begins with Champagne was later extended to clothing, with the development of luxury ready-to-wear coming from haute couture, then in leather goods, and so on.<sup>15</sup>

Champagne became the first mass luxury product in relation to its semiotic characteristics: extra-ordinary wine, symbol of feast and luxury. The exceptional position of Champagne is indicated by its notoriety, as shown by Table 1, tracing the number of Google references related to Champagne wine.

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<sup>15</sup> Every year Louis Vuitton sells more than 3 million handbags, and Hermès sells more than 50,000 of its basic shirts. So even if there are very fine craft workers involved (some kind of artists), there is at the same time mass production.

Table 1  
Number of Google References in English (December 2009)

Wine Variety	Number of References
Asti wine	504,000
Asti Spumante wine	59,600
Prosecco wine	588,000
Chianti wine	4,120,000
Napa Valley wine	2,340,000
Bordeaux wine	1,240,000
Bourgogne wine	939,000
Champagne wine	23,700,000

### **Institutional Creativity Process at the Source of the Success Story**

How was it that a major crisis in the vineyards simultaneously produced big losses and great poverty, yet opened a new path of development leading to an incredible expansion of the Champagne industry? How was it that the crisis exacerbated the struggles among the different kinds of players but yet induced concerted management?

The answer requires taking into account the creative process that occurred. It was mainly the leadership of the great Champagne merchant houses that was decisive. The increase in the relative and absolute economic power of export merchants, who had earlier played the quality card, allowed them to impose their leadership on the sector. The *maisons* incited the actors to enter a process of self-organization that allowed the merchant leaders to define a compromise among them and to enforce it. They used the crisis as an opportunity to eliminate older strategies and to impose their high-quality strategy by means of institutional creativity (the new regime of PDO).

#### *The self-organization of actors*

Historically the Champagne industry was mainly composed of two great types of actors defined by their professional activity: first the wine growers who produced the grape (and, some of them, for less than a century, had also produced the finished product; they were called *récoltants-manipulants*); second, the traders (who bought the grapes, made the wine, ensured natural fermentation, and sold it)—now the Great Houses of the trade. Between them intermediaries existed for a while, but they were eliminated by the reinforcement of the local grape monopoly and by the setting up of an institutional organization of the grape market that established direct links between the wine growers' and the wine merchants' groups.

These two main groups of actors contain numerous members: today there are 18,500 wine growers; more than a hundred are important merchants. Furthermore, these actors had diverse internal interests, because many of them had related activities (trade in other wines, or even in other products, such as cereals production) or had intervened in Champagne only as a complement to other activities. This situation made the development of concerted action expensive in time and money and facilitated free riding.

The following factors have allowed the self-organization of each profession:

- In the 1840-1870 period, the increase in demand for Champagne led traders to specialize in that wine. The wine growers were encouraged to develop grape monoproduction for sparkling Champagne.<sup>16</sup> Afterward, inside the zone of delimitation, the strategy of quality led to limits on quality variations among local vintages.<sup>17</sup> The “defrauders” (those who sold as Champagne wine from other areas or other grapes) lost the game and had to give up their low-quality strategy to align themselves with the high-quality strategy. The interests within each category were thus unified.
- Institutional arrangements were used to enforce this alignment. Wine growers were encouraged to regroup and to accept an economic agreement with the traders. The law was used to develop institutional regroupings. The March 21, 1884, law on the trade unions authorized the creation of the Champagne wines Trade Union.<sup>18</sup> The December 15, 1888, law led to the creation of unions to fight against phylloxera. In 1901 the first wine growers’ trade union appeared, in 1904 the first wine growers’ federation. The crises encouraged the emergence of collective forms of organization that were better able to control their members and to organize negotiations and lobby the political powers.<sup>19</sup>

The self-organization of actors decreased the complexity and the operating costs of coalitions, expressing the close dependence between the trans-

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<sup>16</sup> A separation was made between producers of grapes for Champagne and producers of other grapes and other wines, with a tendency toward the absorption of the latter into the first group, following the increasing profitability of Champagne grapes in relation to that of other grapes and wines.

<sup>17</sup> This was different from the other vineyards and from those that existed in Champagne centuries earlier. At the end of the seventeenth century, the price of wine from Asfeld in the Ardennes, included in the category of Champagne wines, was sold for between 10 and 14 livres the “pièce” against 500 to 600 for Sillery wine: *Le Champagne* (Paris, 1975), 69.

<sup>18</sup> The members included traders representing approximately four-fifths of the total sales. The first objective was to fight in court against market piracy.

<sup>19</sup> During the phylloxera crisis, the wine growers’ groups obtained reductions in the prices of chemical products, financial support to replant vines, collective guarantees from the banks, and used political lobbying.

action costs structure and the configuration of actors' strategies and positions.<sup>20</sup> It also illustrates the dynamic interdependence of strategies.

*The ability to use the crisis as an opportunity*

Crisis provided an incentive to action. In the 1910s the legislation on AOC (PDO) followed the great crisis in Champagne. The great traders, with the help of the political system, imposed their quality strategy against other potentially effective strategies. The recognition of the designation extended and crowned the strategy developed by the traders from the last quarter of the nineteenth century, especially their multiplication, from 1880, of legal actions to exclude "foreigners" (to the region) from the Champagne market.

The historical crisis of Champagne released original forms of conflict management. At first, the crisis naturally exacerbated their antagonism and their shock, but it also polarized them around positions common to each camp; therefore it unified and incited them to concerted action. E. Bin, the leader of the first wine growers' trade union, told his companions: "Do as merchants do—group. Alone you are nothing and you will never be anything; grouped, you will be everything."

Paradoxically, the constitution of a coalition in favor of discipline is facilitated in times of crisis because the situation cannot last without important opportunity costs. Thus inaction is the most costly possibility; when the pursuit of the crisis means the occupation of the vineyard by troops, as in 1911, the research of issues, in each camp, becomes urgent and its cost more bearable. The cost of coalition is also lowered, because some of the work is taken on by administrative and political personnel (the prefect of the Marne played an extremely active role in the search for solutions and in creating incentives for compromise).

Institutional innovation, after a phase of exacerbated antagonism, modified the organizational system to restructure the various forces and to create a new peaceful, or negotiated, competition. The revolt of 1911 created a turning point in instituting dialogue after a difficult confrontational phase within the sector.

Moreover, the crisis allowed the parties to agree to a compromise by pushing their common interests to the fore. A part of each camp's interest was shared with the other camp; another part of the opposition was annihilated (the struggle of the vine growers was not against merchants in general but against the "defrauder traders"). The remaining opposition factors were first minimized compared to the common struggle against a common enemy, the foreigners to the region and the defrauder traders. Those issues could then become the object of compromises. External actors to the confrontation, with their own interests, also acted to obtain

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<sup>20</sup> Douglass North, *Institutions, Institutional Change and Economic Performance* (Cambridge, Mass., 1990); Oliver E. Williamson, "Contract Analysis: The Transaction Cost Approach," in *The Economic Approach to Law*, ed. Paul Burrows and Cento G. Veljanovski (London, 1981), 39-60.



compromises and to limit the conflict's negative effects on them. National and regional political authorities intervened in the situation, imposing the law of 1911 that forbade external wine imports.

"Defrauder" merchants had to abandon their opportunistic strategy and to align on the strategy of quality. Unification around the great merchants on a quality strategy implied outlets, in an expanding market, for producers and smaller merchants, but they were blocked by the level of investment required by a trademark and quality policy. The strategy of the PDO, however, gave them a new club good, the designation and the associated segmentation of the sparkling wines market. It allowed them to ensure their development. They would benefit from the training and reputation effect created by the investment in quality of the great trademarks and by their penetration of foreign markets. Local wine growers were given the monopoly of the Champagne grape supply, and a process of price regulation was organized, with the guarantee of a 'fair' price. Then wine growers were prompted to regroup and to accept an economic agreement with the traders. Institutional arrangements were used to reinforce this alignment. An implicit agreement thus united the great traders and the entire sector: in return for reaping the rewards of the great traders' investment in quality through a regional club effect, the sector was aligned on a policy of quality.

### **Conclusion**

Champagne development has not followed a process of the rational use of pre-existing instruments; rather, the elements of its success were created. Its experience did not conform to a previous model. Its development has been a creative process, an original and singular process. It did not result from individual efficiency research or transaction cost minimization. It was a process of production of institutions by institutions. Through institutional creativity, the leading Champenois actors, mainly the great *maisons*, were able to transform a major crisis into an opportunity to influence Champagne's development path, different from that of other sparkling wines such as Asti Spumante or Clairette de Die. The great *maisons* created a new mass luxury good and, through the formation of a heritage, selected a means of reproducing a monopolistic comparative advantage.