Producer cooperatives, institutional change and politics in the wine industry, 1880-1980

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Ideas behind presentation

- Government intervention - but looking at production
- Examine the wine industry from both an organizational and rent seeking perspective
- Show how reasons for an institution such as cooperatives change over time

French wine industry in the 20th century: from crisis to crisis. Why?

- Consumption in France fell from almost 200 litres /capita /year in 1920s to 50 in 2008.

  Why? Health concerns and close substitutes

- Supply grows because of technological change (and price incentives)

  Yields grow from 18 to 40 hectoliters/hectare between 1860 - 1950s 40hls, 1960s 50hls; 1970s 60hls.

- High capital costs of planting = limits voluntary uprooting of vines

So why does the industry remain profitable during the 20th century?

1) Entrepreneurial success – creative destruction
2) Part-time producers (1963 1.3 million producers – only 54% sell wine; only 38% full time.
3) Collective action which increases efficiency and / or changes the nature of market power for growers (*cooperatives, appellations*)
4) Rent seeking activities and subsidies

Farm Groups and Government in 20th Century

- Weakness of farmers' bargaining position in the market by 1900
- But major influence in national politics (*1930,* France 36%; Germany 29%; Spain 45%. 1.5 million winegrowers in France).
- Result farm groups demand help from the state to create institutions to benefited industry / growers

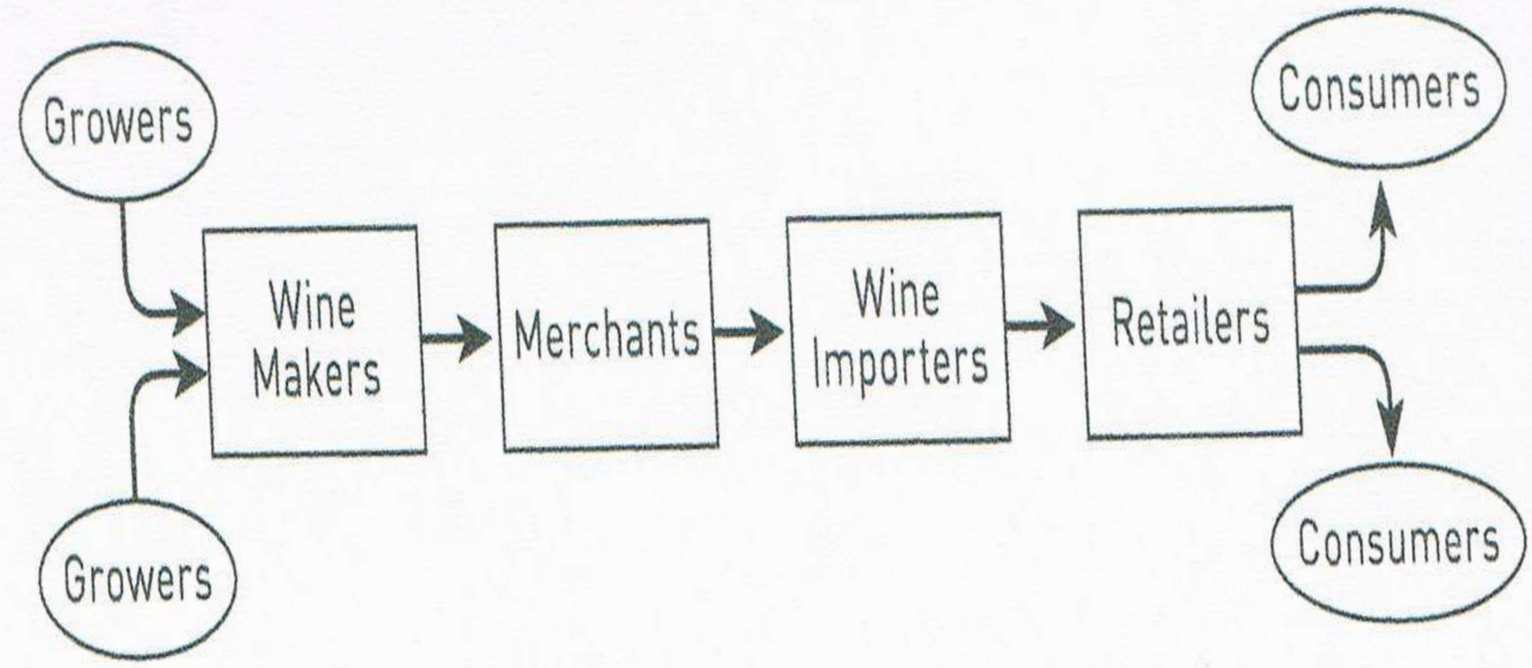
Why cooperatives?

Two very different explanations for the producer cooperatives:

1.an organizational perspective (transaction-saving properties of the family farm + the economies of scale found with cooperatives in processing and marketing farm produce)

2.marketing associations which allow members to to restrict output and raise prices

How is the industry organised?



Historical experience : number of wine cooperatives, 1914-2000

	France	Italy	Spain
c. 1914	79	150	?
1933-5	595	128	100
1950-1	997	161	193
1960	1149	223 (?)	508
1970	1202	624	782
1980	1158	783	848
2000	870	607	715

Quantity of wine produced by cooperatives (% of total)

	Spain	France	Italy
1921	4.5		6
1950	8.6	27	6
1960	24	36	
1970	51	45	18
1980	62	49	38
2000	70	52	55

Why so few cooperatives before 1930s?

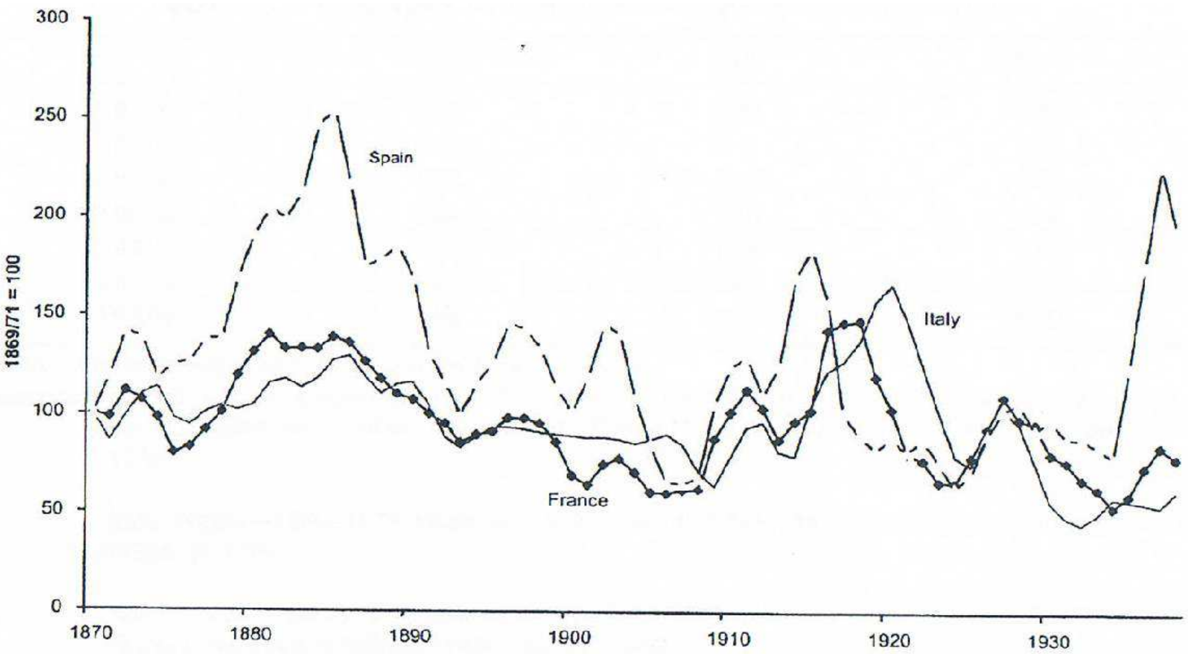
a. High start up costs / lack of credit (French laws 1906/7)
b. Leadership problems – local association; political parties; Church
c. Operational shortcomings – quality and payment for grapes. Cooperatives dumping ground for poor quality fruit

2. Cooperatives as cartels: the limits to market power

- Between 1914 and 1939 world wheat production grew x2 consumption
- US corn, French wheat & Japanese rice prices fell by 50%

Private cooperatives in some cases were successful in reducing supply. Why not wine?

Wine prices in France, Italy and Spain, 1870-1930



Note: Nominal wine prices have been dividened by the cost if living index of each country.
Sources: Italy: "vivo comun", Istituto Centrale di Statistica (hereafter ISTAT) (1958).
France: Ministére du Travail (1933) and Scholliers and Zamagni (1995, pp. 207–208).
Spain: Balcells (1980, pp, 377–379) and Maluquer de Motes (1989, pp. 518–519).

Private cooperatives and market power: Hoffman & Libecap thesis

US Cooperatives successful in restricting supply in 1930s when:	European wine producers	New World wine producers
Relatively few producers	No	Yes
Product quality homogenous	No	Yes
New entry difficult	No	No
Commodity perishable	No	No
Prices recover with small production cuts	No	Yes?

Why? – New World

1. Terroir – consistent, high grape quality (no vintages!)

2. New wine-making technologies associated with hot climates allowed production. Capital intensive (10k hl = 30 or 40 family vineyards)

3. homogenous wines allowed branding of cheap dry table wines

California Wine Association (CWA) created in 1894

'cultivated more vineyard acreage, crushed more grapes annually, operated more wineries, made more wine, and had a greater storage capacity than any other wine concern in the world' (Peninou, 2000)

- A producer driven commodity chain – 2/3 market

Argentina

- Rapid growth – industry highly volatile
- 10 wineries responsible for 1/3 production
- ‘Cooperative’ 1916 to ‘regulate’ market
- Growers who did not join paid punitive tax

Politics and the limits to New World cartels

- In both Mendoza and California - big business and trusts tolerated,
- both had less than 5% of nation’s population,
- and produced 95% of domestic wine output.
- California Wine Association – trust & control of Out-of-State trade
- Argentina 1916 Law – made illegal by National Parliament

And Europe? Attempts in the Midi before 1914

- 1905 Bartissol – 20 millions hectolitres
- 1907 Palazy – 12 millions hectolitres

- Failed because:
- Lack of capital
- Free rider problems

- Conclusion: need to implicate the State

The State: problems of incentives & information

- Incentives: production controls, higher prices, subsidies, etc. create incentives to growers to increase output (*new plantings, fertilizers, irrigation, etc.*)

- Information: adjustment of production at the farm level requires surveillance & capacity to sanction violators

Solution: corporatist partnership between government & farm organizations

- Government helps resolve problems of collective action (government gives material rewards to those that comply)

- Corporatist client guarantees compliances and resolves the technical problems of monitoring in exchange for resources from the government
- (*i.e. wine fraud; vineyard or winery practices, etc*)

French wine groups & the State before 1939

- Phylloxera (creation of exclusion zones)

- *1907 Confédération Générale des Vignerons du Midi* (CGV) – quality controls to end fraud

- 1931-4 *Statut du vin* – quantity controls (irrigation, scrub vines, progressive tax on excess output)

The growth of cooperatives after 1950

- Government problem: need to create a voluntary system to raise growers' incomes, but not increase output

- Cooperative members' benefits & obligations:

a) Cheap credit to build and equip wineries

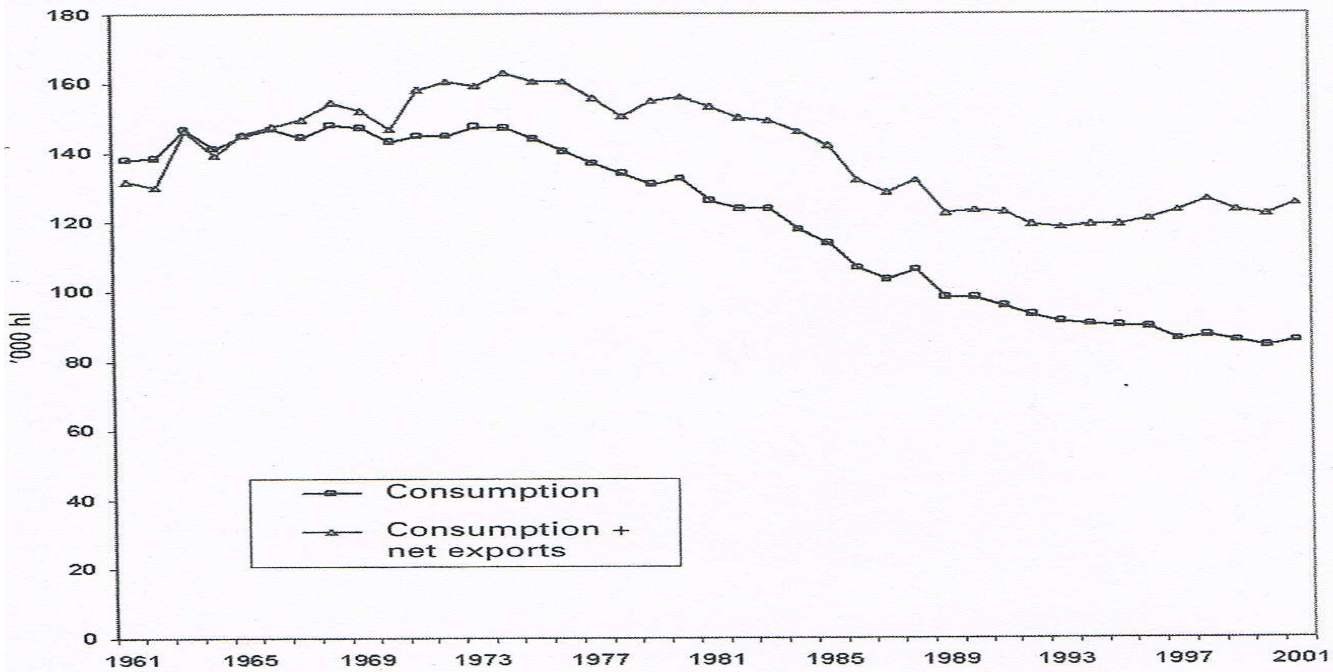
b) Minimum price paid by cooperative for wine

c) But obligatory distilling at times

Success? Slow growth in output between 1950 and 1985 (000s hls)

	France	Spain	Italy
1880	29,900		28,562
1895	26,900	21,600	24,901
1910	28,700	11,283	32,642
1925	65,100	26,698	48,876
1940	49,400	14,168	30,494
1955	60,300	16,847	58,441
1970	74,400	25,637	68,870
1985	66,900	28,268	63,340

Volume of domestic consumption and net exports (France, Italy, Portugal and Spain, 1961-2001 ('000 hl)



Source: Anderson and Norman (2003, Tables 67 and 78).

Long-run decline in European consumption - but which wines?

- Segmented markets
- Cooperatives – low quality bulk wines
- Profitability linked to volume and not quality with cooperatives (Midi lobby)

- Government objectives – reduce quantity / increase quality
- Institutional choice: appellations in exchange for growers limiting yields

Area of vines and exports of wines from French *appellations* and Spanish *denominaciones de origen*, 1958-1993 (% of total)

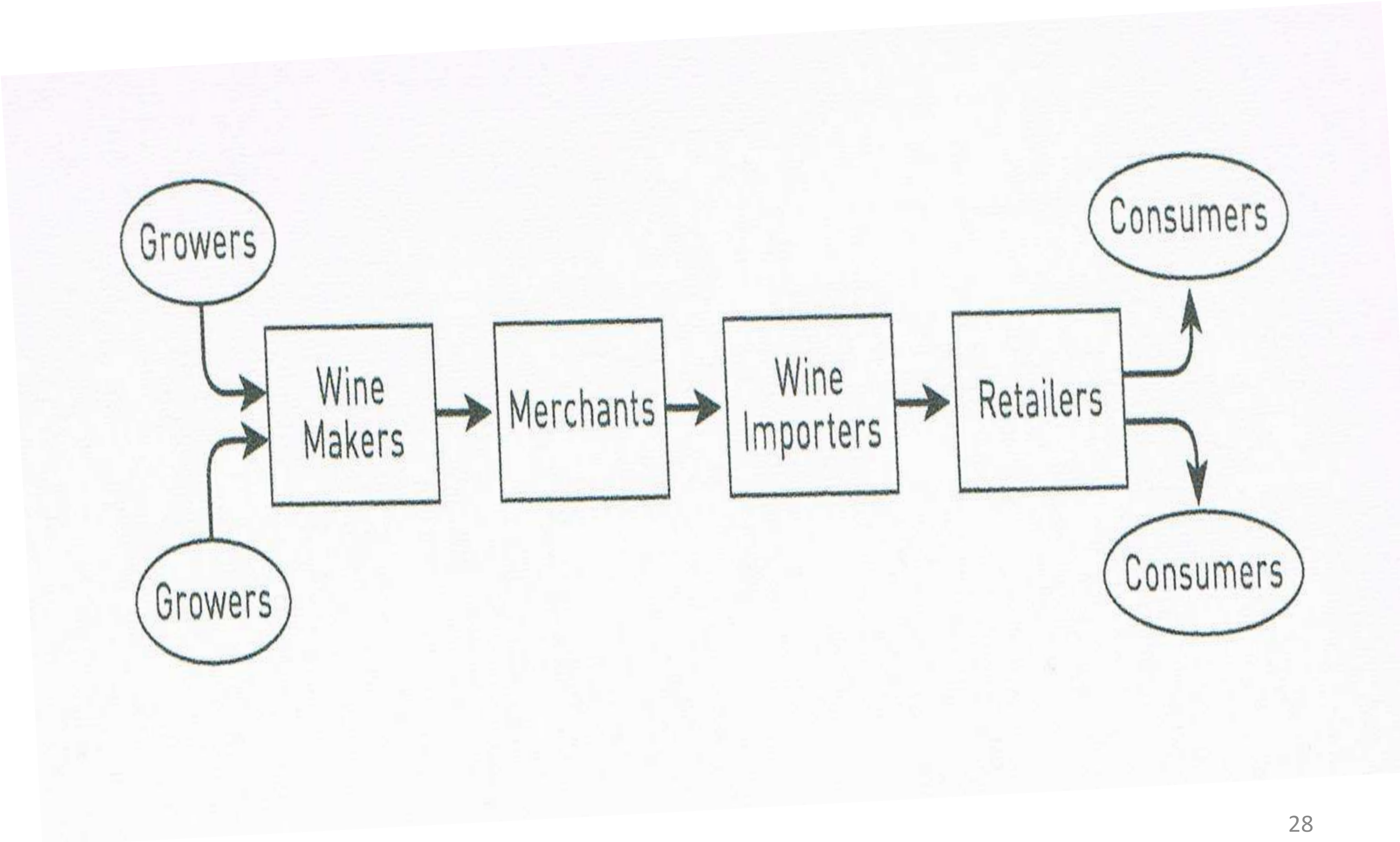
	Spain		France	
	Area	Exports	Area	Exports
1958-4	26	76		
1965-9	40		19	61
1970-74	25	79	21	74
1975-9	55	53	25	63
1980-4	30		31	45
1985-9	35	58	40	50
1990-3	46	67	46	52

Conclusions: can cooperatives and appellations together raise quality?

- What quality? Buying grapes? Not a problem if the wine price is high enough
- But now forward integration into marketing

- But marketing advantage with privately owned wineries – they can purchase wines they need to blend
- Cooperatives – need to brand **their** wines

How is the industry organised?



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