

Innovation, Tradition and Institutions: The Political Economy of French Wine Production

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The historic judgment of Paris, in which California wines first surpassed their elder French cousins in a blind tasting, shook the world of wine in 1976. But it was not until 2003 that New World wines outpaced French exports.

To be sure, many demand-side factors – from changing health attitudes and the recent adoption of draconian drunk-driving laws in France, to exchange rate fluctuations, EU agricultural and trade policies, and patriotic consumer tastes – affect production and sales of French wine. However, the supply-side is much more intriguing; indeed, in a deliberately broad simplification, New World wine production can largely be characterized by innovation, whereas French wine production (mostly) follows a pattern of tradition, from *terroir* and Appellation d'Origine Contrôlée (AOC), to a widespread reluctance among producers to innovate, even as an attempt to capture increased market share and match the successful innovation of New World production techniques.

Other papers have already explored the more traditional economic conditions and implications surrounding wine production, strategic choices of market regulation, and the dynamic of tradition versus innovation. This paper builds on the existing literature by adopting a broader methodology of institutional political economy – from the informal mental models of French wine producers balancing tradition and innovation, to the more formal manifestation of these mental models in the evolving national regulation of wine production. As the subject of this study is both the formal and the informal, so is its methodology. On the formal side, this paper relies on an examination of the existing literature and changing French regulations, supplemented by interviews of French government officials, particularly at the Institut National de l'Origine et de la Qualité (INAO), the regulatory agency under the French Ministry of Agriculture which controls wine appellations. On the informal side, this study rounds out the formal literature and laws with field interviews of French vintners and industry professionals, designed to shed light on supply-side mental models.

In order to narrow the broad field of French wine, this study focuses on two regions: first, Burgundy, which holds approximately one third of all AOCs in France and is known as one of the most "*terroir-conscious*" regions; second, Languedoc-Roussillon, a region where vintners have been more eager to experiment with different production techniques and marketing (including a notable willingness to risk losing the coveted AOC label for the sake of experimenting with new and improved blends, along with the "*cépage unique*" marketing, hitherto rare in France, if common in the New World). This paper sets the foundation and leaves open the possibility for further research, not only in a broader array of French *terroirs*, but also in other regions, whether Italy or the New World countries which have grasped such a large market share in recent years.

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