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Title
Regulations obstruct U.S.-German wine trade on the web

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Conference Presentation

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Keywords
foreign trade; web; long tail of wines; infrastructure; transaction costs; regulations; data privacy; Germany; USA

Research Question
What obstructs US-German web trade in wines from the long tail?

Methods
Methodical rejection-of-alternatives

Results
Two types of regulations obstruct US-German wine trade on the web: the three tier system in the USA, and data privacy regulations in the EU/Germany.

Abstract
Some wine tastings generate significant insights in addition to the usual gustatory experience and associated pleasures. For some of us, a wine tasting held in 2015 for a few UC Davis wine professors was such an epiphanic event. The purpose of the tasting was to compare Mosel Rieslings with American ones. To have an appropriate sample, one of us had to lug through airports and onto airplanes several bottles of Brauneberg Juffer Rieslings of various quality levels from a particular vintage and vintner all the way from Germany to California. We knew of no other feasible way to avail of such wines even in California, which is no stranger to the wine culture. After the tasting one of us wanted to get to Germany several bottles of red Zinfandels from the Sierra Foothills and from Anderson Valley of Sonoma County. None of the California wineries would ship their wines to Germany. So the suitcase was again the only available mode of export. Having to lug bottled wines around the world in suitcases suggests that frictionless global trade is still a mirage. In our paper, we scrutinize potential frictions to cross-Atlantic web-trade in wines from the long tails of wines produced in the USA and in Germany.

If we strung out the distribution of wines produced from any one variety, style, location, or brand by their production volume or sales volume, we most likely would observe a distribution that consists of a short head of a small number of wines with huge sales, e.g. some Gallo wines or Liebfraumilch wines, and a very long tail of wines with tiny sales, such as Brauneberger Juffer Kabinett from a particular vintner. Only a small share of those small volume wines are shipped internationally and many of those that are shipped are the ones with prices that make shipping costs a small share of retail price.

In a conventional store the shelves serve two functions: to display the product, and to store the product in sufficient volume to avoid stock-outs between shelf replenishments. Stores therefore allocate more shelf space to wine brands with high volume of sales rather than low volume wines. Moreover, given that shelf space is limited, only a tiny share of wines (defined by brand and the other particulars) never make it onto the shelves of any particular store (even large physical stores). The tail of wine available in wine shops is thereby curtailed and low-volume wines are typically locally unavailable to the detriment of customers with a taste for specific low-volume brands.

In a webshop the information about the wines on offer is unbundled from the physical bottles and the brands on offer do not have to compete for limited shelf space, but they do compete for webshop visitors' attention. Once the information about a bottle of wine has been stored in a database the resource cost of displaying that information to a customer is effectively zero. Zero cost of displaying information suggests that a webshop may hold in stock data about a near-infinite number of wines and the shop can offer a long tail of different wine brands. We have seen this effect happening in Amazon's bookshop on the web.

There is another difference between conventional shops and webshops. Transporting goods from a conventional store to a customer's home usually is the task of the customer. In web commerce the buyer has no physical access to the physical goods and, under current conventions, the seller rather than the buyer, arranges for the transport of the goods sold from some warehouse to the buyer's doorstep.

Web commerce was focused on domestic business for long. Now it increasingly crosses borders. Moreover, finance ministers of the German states (and States in the USA) have afforded cross-border web commerce the ultimate seal of significance: they are concerned about hundreds of millions of euros (dollars) in taxes not collected from web commerce imports. Wine webshops can therefore be expected to offer long tails of wines from German and the USA. Why did we have to lug our wines across the Atlantic?

Our research approach involves three steps. We first checked the reality of long tails of diverse wines with low volumes of sales in wine webshops in a rapid appraisal of a non-random sample of 43 U.S. and German wine webshops. In particular, we counted (a) webshops that carried Rieslings from Germany's Nahe or from the Brauneberg at the Mosel in Germany, and (b) webshops that offered Zinfandels from the Sierra Foothills, or from Anderson Valley in California. We also counted the number of webshops in Germany that offered to ship wine to the USA, and the webshops from the USA that offered to ship wine to Germany. The evidence from this appraisal is sobering: long tails in wine are rare, and webshops ready to ship wine across the Atlantic are rarer yet.

In the next step we used Stewart Brand's "pace layer framework" to generate hypotheses why there are so few wine webshops that provide access to the long tails of wine. The layers of interest to us are (1) commerce, in particular the state of wine trade, (2) infrastructure, as indicated by the state of logistics as well as the state in information infrastructure in the USA and Germany, and (3) governance, in terms of tariffs and taxes on wine, and regulations of the wine industry and of trade in wine. Finally, we discriminate among the several potential causes of the poor development of US-German wine commerce on the web by methodically scrutinizing the hypotheses and rejecting the implausible ones. We consider how and why wine trade on the web differs from book trade on the web.

By pacing through the major layers in which web commerce is embedded, we have learned:

1. The long tail of wine on the web looks very much "docked" on US and German webshops;
2. Internet and web access are ubiquitous in the United States and in Germany;
3. Tariffs and taxes on wine exports and imports are near negligible for quality (expensive) wines;
4. The United States and Germany are among the world's most active importers and exporters of wine and the long tail of wine has not been docked by a broad lack of wine demand or supply;
5. Transatlantic transport costs make large jumps at the transitions from parcel post to less-than-container loads to airfreight; transport costs per bottle seem, however, not to be prohibitive for wine lovers who tend to buy expensive wine;
6. Web commerce is unlikely to benefit much from government enforcement of web-based transactions;
7. Data privacy concerns have added another layer of governance that did not exist in conventional cross-border transactions, but seems not to much hinder other e-commerce such as in books.

Given the evidence, methodical rejection-of-alternatives suggests that government regulations are the major cause for the absence of long tails of US and German wines offered by webshops. The three-tier system in the USA, whose cross-state trade-obstructing impact is well known. Data privacy regulations, in contrast, are a relatively new form of regulation. We therefore attempted to characterize that type of regulation by identifying regulations relevant for webshops, and by measuring their readability with a software tool. The regulations were voluminous and their readability was low. We therefore conclude, that, in combination, wine market regulations in the USA and data privacy regulations in Germany and the EU jointly obstruct wine trade on the web. To the detriment to consumers and producers they have effectively clipped the tails of US wines that are accessible to German consumers, and of German wines accessible to US consumers.

Privacy

- Regulations obstruct U.S.-German wine trade on the web
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