

## Vienna 2019 Abstract Submission

### Title

Do Denominations Rules Matter: A Hedonic Analysis for Veneto Wines

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Conference Presentation

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### Keywords

DOC, DOCG, IGT, Denominations, Cooperative, Quality Control, Veneto

### Research Question

Are prices for Veneto wines reflecting the Italian DOC (denomination of origin) system?

### Methods

We analyze an extensive data set of Veneto wines using a hedonic model to study if wine prices signal wine quality derived from denomination of origin regulations.

### Results

Results indicate that for the Veneto region denomination of origin labels have no impact on wine prices after accounting for objective wine quality signals.

### Abstract

In wine markets, denomination of origin system is an important instrument to differentiate wine quality and to establish a collective reputation for wines from a specific area. From a historical perspective, such denominations played an important role in securing wine quality and guaranteeing authentic product with given varietal characteristics from a specific geographical location (Meloni and Swinnen, 2013). In Italy, we observe an increasing differentiation with new regional and sub-regional denominations of origin emerging (particularly DOCG labels) aiming to establish collective reputation effects often for very small production areas. This raises the question if there is a limit to how many different regional denominations are sensible in terms of generating a return on collective reputation relative to established and/or less specific denominations or generic regional wine names (e.g. Livat et al., 2018). Therefore, the purpose of this study is to test if the current denomination of origin regime (IGT, DOC, DOCG) and its wine quality regulations are reflected in wine prices as the associated quality pyramid would suggest.

We analyze an extensive data set of wine quality evaluations, prices and denomination of origin rules and producer characteristics under which wines from the Veneto region have been produced. We apply a hedonic model to estimate the impact of denomination of origin labels on wine prices correcting for numerous objective product characteristics including expert quality evaluations, producer reputation, production quantities, wine age, organic production, cooperative vs non-cooperative producers, as well as a list of five well-known wine names (Amarone della Valpolicella, Bardolino, Prosecco, Recioto della Valpolicella, and Soave) which may be equivalent to specific denominations.

We estimate a base model evaluating the direct impact of these variables, a model with interaction terms between

denomination of origin labels and cooperative vs non-cooperative production, and a model with interaction terms between denomination of origin labels and the five established wine names. The data source for the analysis is the annual L'Espresso I Vini d'Italia wine guide, which considers data from the Northern Italian Veneto region accumulated over three editions of the guide (2012, 2013, 2014).

The estimated results of the base model allow to conclude that for the Veneto region general denomination of origin labels (e.g. DOC, DOCG) have no impact on wine prices after accounting for a series of objective wine quality signals. We show that other things equal there is no significant difference between DOC and DOCG labeled wine and independent of the type of producer (coop vs non-coop). Moreover, IGT denominated wines exhibit a premium relative to DOC and DOCG wines which are supposed to be subject to stricter regulations to guarantee geographic authenticity and quality. However, the IGT premium is due to wines not produced by cooperatives.

The base model predicts significant price effects for all five wine names examined with positive premiums for Amarone (+84%), Recioto (+41%) and Prosecco (+27%) and discounts for Bardolino (-25%) and Soave (-7%). The interaction term models show that except for Soave wines, the estimated price effect is significant and independent of the producer type (i.e. coop vs non-coop). The Soave discount is mainly due to wines not produced by a cooperative (i.e. mainly Cantina di Soave). We note that the estimated premium for organic wine is significant at +6%. Moreover, wine age and producer reputation are also significant at +18% per year and +16% for an additional star rating, respectively.

These results are in line with previous research differentiating cooperative vs non-cooperative production (Pennerstorfer and Weiss, 2013; Schamel, 2014). The estimated models provide relatively clear evidence that at least for the Veneto region general denomination of origin labels (e.g. DOC, DOCG) have no impact on wine prices after we account for a list of objective wine quality signals such as expert quality evaluations, producer reputation, production quantities, wine age, organic production, cooperative vs non-cooperative producer type and established wine names. Moreover, the premium for IGT labeled wines not produced by cooperatives reverses the quality pyramid established for Italian wines. Further analysis will be conducted to tease out the effects of lesser known denominations (e.g. Breganze, Custoza, Lugana, Piave).

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# Do Denominations Rules Matter: A Hedonic Analysis for Veneto Wines

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