Which is worth more, the wine, the bottle or the label?
Identifying Counterfeit Wines at Auctions

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Abstract

The counterfeiting of fine wines was broadly exposed in Billionaire’s Vinegar. The story in this book begins in 1985, when Hardy Rodenstock came into possession of several bottles of wine that were engraved with the letters "Th. J.", which Rodenstock claimed had originally belonged to Thomas Jefferson. In the same year, Christies sold the first Thomas Jefferson bottle to Malcolm Forbes for $156,450. Since then, many more bottles have been sold, all of which are believed to be counterfeit. Experts speculate that as much as 20% of older fine wines have been altered or forged (Wallace, 2008).

This paper uses market transactions to indicate the extent of sale of counterfeits wines. For this purpose, we draw on secondary market prices for wine on unsuspecting markets, such as the auction-house market in the U.S., and on suspecting markets, such as eBay in Europe (mainly Germany and France). Due to the prevalence of fraudulent wines, the European eBay market exhibits substantial price discounts compared to the auction market in the U.S., which is exclusively served by the big auction houses. (In the U.S., wine sales through eBay are prohibited.) We are interested in the price difference between these two markets. In Figure 1, this difference is extraordinarily high for wine number 4. We interpret this as a market based measure of the fraction of counterfeits.

In addition, we compare prices for empty wine bottles (with the label on them) to full bottles. In Figure 1, empty bottles of wine number 4 are in demand which results in a decreasing price difference between empty and full bottle. The difference between empty and full bottle price is, of course, the value of the wine itself – market-adjusted for the likelihood of being a counterfeit.

Finally, we observe prices of wine labels and compare those with the prices for empty bottles (with labels on them). The price difference is the value of the mere glass bottle. We do not assume the value of the glass bottle to vary from vintage to vintage – unless it is used as a crucial ingredient for a doctored wine.
Figure 1
Quality Adjusted Prices for Wine, Wine Bottles and Wine Labels

References