Classification and re-classification: Oregon’s Willamette Valley AVA and its new sub-AVAs

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ABSTRACT
An AVA (American Viticultural Area) is “a delimited grape-growing region having distinguishing features.” (Code of Federal Regulations, Title 27) In this study, we analyze the six new sub-AVAs in Oregon’s Willamette Valley AVA. We shed some light on the distinctive characteristics of the wineries that put concerted effort into establishing their own sub-AVAs. We theorize that sub-AVAs emerged because well-established wineries with good reputation among wine critics and consumers wished to separate themselves from the lesser known wineries with whom they had shared the same AVA label. In other words, we hypothesize that the establishment of sub-AVAs in the Willamette Valley was part of a dynamic process; it was an act of re-classification by “better” wineries to distinguish themselves from “lesser” wineries and ultimately collect a higher regional reputation premium, a la Douglas (1986, p. 108), i.e., the people make new kinds of institutions, the new institutions make new labels, and the new labels make new kinds of people.

Classification should matter in winemaking. Wine is an experiential good, and therefore classification is more important for wine than it is for most other products. For winemakers the region in which their grapes are grown can have a demonstrable effect on their wines’ worth, the price at which they can sell their wine. (Lecocq and Visser 2006; Stuart and Smith 1997; 1998; Gokcekus and Nottebaum 2012) In France, for those winemakers on the outside of Champagne’s fence—the Appellation d’Origine Controlee (AOC)—grapes are worth €5,000 per hectare instead of over a million Euros per hectare. (BBC, 2008) Understandably, vineyards clamber to gain entry into the prestigious Champagne AOC. The process of gaining the AOC label is not easy—it takes upwards of ten years and must meet the approval of the state council, France’s highest administrative body—and there is no guarantee of entrance at the end of the lengthy process. In fact, the Champagne AOC has not been expanded since 1927. While winemakers in France struggle to become a part of established AOCs, winemakers in Oregon are pursuing an altogether different course: groups of winemakers in Oregon have been pushing for more exclusivity by lobbying to create new, distinct AVAs within those AVAs already well-established and recognized.

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In this study, we focus on the phenomenon taking place in Oregon, i.e., the establishment of sub-AVAs within an existing AVA, in particular within the Willamette Valley AVA. What makes the Oregon wine industry so different in this respect from its French counterpart? Why are Oregon winemakers attempting to create new AVAs instead of expanding existing ones? We put forward the following hypothesis: Well-established wineries with good reputations among wine critics and consumers seek to differentiate themselves from the lesser known wineries, which share the same AVA on their labels. This hypothesis is built upon the following idea: if the quality of wines produced by a particular winery is consistently above the AVA’s average quality, then this winery is effectively collecting a negative regional reputation premium. Those wineries making wines below the AVA’s average quality are essentially free riding on the success of the other wineries; and, from the perspective of the more reputable wineries—wineries with consistently producing high quality wines—bringing down the reputation of the region as a whole.

Accordingly, we argue that in order to escape that predicament, more reputable wineries might pursue increased distinctiveness through the creation of new, more exclusive regions. Hence, while in France winemakers seek to raise their reputations (and their profits) by associating with well-respected wineries, in Oregon winemakers seek to improve their reputations by separating themselves from lesser wineries.

In this study we first, after describing the US AVA system, briefly describe the key features of the Willamette Valley AVA by focusing on the history of the wine industry in the region, and the current acreage, volume of production, and type of grape varieties planted. Second, we document the recent sub-AVA applications by using the information in the formal applications and the public comments received by the Alcohol and Tobacco Tax and Trade Bureau (TTB) that either supported or contested the proposed AVAs. Third, in the models section we formally introduce our theoretical framework to model the re-classification of these sub-AVAs, and derive our workable hypotheses. Fourth, based on the 121 wineries and their 3,297 wines rated by the Wine Spectator between 1996 and 2008, we conduct statistical tests to check the validity of our hypotheses. Fifth, and finally, we provide a summary and offer concluding remarks.

Our preliminary findings indicate the following: (1) Willamette Valley is known for its red variety, Pinot Noir, and the wineries in its sub-AVAs produce predominantly pinot noir wines. (2) Wineries in the new sub-AVAs produce higher quality Pinot Noir wines. (3) These wineries charge higher prices, and most importantly (4) since the establishment of their respective sub-AVAs, are collecting a much higher regional reputation premium.