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Guest Editor's Introduction to Symposium

"Economic Forces Affecting International Wine Markets"

The articles in this symposium analyze the economics of evolving international wine markets, including issues associated with taxes, measures of quality, reputation, consumer preferences, globalization, and emerging markets in China. This special symposium consists of peer-reviewed papers presented at the "Competitive Forces Affecting the Wine and Winegrape Industries: An International Conference on World Wine Markets," sponsored by the Washington State University Impact Center, the Center for Wine Economics and Business of the Robert Mondavi Institute for Wine and Food Sciences and the Giannini Foundation of Agricultural Economics, University of California, in Davis, California, August 8-10, 2007, and the American Association of Wine Economists in Portland, Oregon, August 14-16, 2008.

The first paper, by Rachael Goodhue, Jeffrey LaFrance and Leo Simon, provides a theoretical analysis of the impact of taxes on the quantity and quality produced by a competitive firm of goods like wine for which market value. They consider the effects of various tax systems on wine quality and quantity distortions.

There are two papers that consider reputation. First, Michael Gibbs, Mikel Tapia and Frederic Warzynski analyze how globalization affects the demand for fine wines worldwide. Often new markets have less experience with wine than buyers in more mature markets. They present a model of the pricing of wine in which the equilibrium price of wine then depends on the proportion of consumers who are naïve or sophisticated, among other variables. The model suggests that a greater proportion of naïve buyers results in greater the reliance on published ratings. This, in turn, makes ratings more influential. They test their model empirically with Parker ratings and wine prices from a sample of red wines from France, Spain and California.

The second paper on reputation by Günter Schamel highlights the conflicting interests involved in building an individual brand reputation versus a collective regional reputation. Brand names are increasingly dominant in international markets. At the same time, region of origin is progressively more important and new campaigns are being launched to promote region specific characteristics and reputation. Using a large data set, he estimates a

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model in which he defines positive and negative brand quality performance based on a brand's quality average relative to its regional average over time.

Moving to measures of quality and consumer preferences, Nan Yang, Jill McCluskey and Carolyn Ross evaluate how sensory qualities, such as astringency, bitterness, aroma, and flavor, affect consumers' willingness to pay for wine. They utilize data collected from untrained consumers, a trained panel, and laboratory measurements of tannin intensity. From this data, a consumer-preference model, consumer-intensity model, a trained-panel model, and an instrumental measurement model are estimated and compared. Overall, the consumer-preference model is the most accurate in predicting consumers' willingness to pay. Astringency has a mostly positive effect, and bitterness has a negative effect. Comparing the accuracy of the other models, the instrumental-measurement model is the next best, followed by trained-panel model, and the consumer-intensity model. This suggests that the instrumental measurements can be used as an effective alternative to trained panels.

On the emerging wine market in China, Hyunok Lee, Jikun Huang, Scott Rozelle and Daniel Sumner analyze trade statistics, wine production data and a new retail wine market survey to assess the nature of competition in the market for wine. Supermarkets are identified as major retail outlets for foreign wines. They explore the role of imports and domestic wine as the demand for quality characteristics have evolved. They focus on the small but growing segment of the market for wine at prices that could make import of wine profitable. Prices of generic Chinese wines are low enough to preclude profitable imports of branded wines. Trade policy concerns are important for the bulk wine imports. At the higher-priced end of the spectrum, the wine marketing system continues limit penetration without substantial marketing costs.

Jill J. McCluskey
Washington State University

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