

An institutional approach to French wine strategies: The Cahors case

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Abstract

The AOC model, which has ensured the success of French wine for decades, has been challenged since the early 2000s by the emergence of the so-called "New World" wines. It has been particularly criticised for its complexity, its lack of clarity and the confusion that it creates between "typicity" and "quality". Yet, not all AOCs are equally affected, and some New World wines now seem to be falling into crisis as well. We argue, therefore, that the problem does not lie in the model itself, but rather in the way it is regulated in different French wine regions. In this paper we consider the problem from an institutional standpoint and propose the following assumption: that the performance of each AOC classified vineyard is an outcome of its institutional features and more precisely of the relationship the AOC as an institution creates between geographic *terroir* and its institutional territory. Our analysis draws on the example of the Cahors wine region.

Key words: terroir, territory, institutions, AOC, Cahors

Topic area: the value of country and region of origin

Introduction

Reference to the origin of wine has long been seen by French grape growers and wine merchants as the best solution to combat fraud, enhance their products and distinguish them from the competition (Martin, 2004). This strategy reached its peak in the 1930s with the introduction of the "denomination of registered origin" system (*Appellations d'Origine Contrôlée* - AOC), which substituted a relationship to the territory of production of wine in its collective dimension for the relationship with individual producers or merchants. The success of French wines was attributed to this model for decades until the emergence of so-called "New World" wines in the early 2000s, with their focus on grape variety and brand rather than origin. The AOC model has since been criticised for its complexity, its lack of clarity and the confusion generated between "typicity" and "quality" of the product, whereas New World producers favour simplicity in order to respond to market needs (Corade and Delhomme, 2008). But current findings draw a more nuanced picture, as not all AOC wines are affected in the same way, while some New World wines – e.g. in Australia – seem to be facing a crisis.

We believe that if the AOC model itself is not to be questioned, the way it is enforced in different French vineyards will determine their performance. We propose to consider the problem from an "institutional" standpoint and suggest the following hypothesis: that the performance of a classified AOC region depends on its institutional features and more precisely on the relationship that the AOC, considered as an institution, creates between the region's physical *terroir* and its institutional territory. To support our proposal, the paper is set out as follows: we first define the scope of institutional theory and its contribution to the analysis of strategies for the wine industry. We then show how the institutional approach allows for a renewed analysis of the concepts of *terroir* and territory, stressing the importance of the AOC considered as a specific institution. We then consider the case of Cahors wine, on the basis of the analytical framework described above. A brief discussion and conclusions follow.

1 Institutions, *terroir* and territory: applications to the wine industry

The Institutional School brings together economists, sociologists and historians, whose common interest is the impact of institutions on the behaviour of and coordination among economic actors (Veblen 1899). New institutional economics (North 1990; Williamson 1985) is less interested in economic activity itself than in its framework rules. North defines institutions as: "formal rules or informal constraints and their modes of implementation that guide and regulate the behaviour of economic actors" (1991: p. 97). These rules are imposed on economic actors, yet they are themselves a product of these actors' attitudes and strategies. North distinguishes "formal" institutions, being explicit and taking the form of constitutions, laws, regulations, codes, and "informal" ones, often implicit and comprising social norms, conventions, personal habits, and organizational routines.

The focus of the institutional approach has often been national socio-economic systems, with the aim of understanding the characteristics of national forms of market economy and creating typologies (Albert 1991). As well as analysing the performance of institutions in a particular national context, it can also be applied to a "mesoeconomic" level, that is to a particular industry. It is particularly relevant for the study of the wine industry (Boyer 1990, 2006; Marchesnay 2002; Torres 2005) as a sectoral perspective may also be cross-spatial and provide new elements to understand the concept of territory.

The concept of territory is central to the French wine industry where the region of origin of a wine is a specific asset, whose development has been the cornerstone of the industry's strategy on a national level (Hinnewinkel and Le Gars, 2002). As highlighted by Calvet (2005), the geographical origin of wine has gained such a symbolic strength that even most standardised wines cannot help but mention it. However, the use of numerous terms in its characterization makes the concept

relatively complex, referring to various notions of origin, such as vineyards, land, territory, according to different and often confusing meanings. Strictly speaking, the term vineyard, for example, is a reference to an area of land planted with vines, but in a broad sense it is used to designate a wine district. In the words of the French denomination Institute (INAO), the appellation of origin of a wine is the country, region or locality, referring to the product and whose quality and characteristics are exclusively or essentially due to the geographical environment, including natural and human factors. However the scale chosen to characterise appellations of origin is not clear and we propose a clarification, which will help to integrate the territory within a sector strategy.

The wine *terroir*, traditionally a homogeneous geographical area, can be defined according to a variety of concrete, tangible factors – such as soil, geology, geomorphology, hydrology, climatology and sunshine – that preceded human intervention and exist independently of it. People are not absent from the *terroir* but their role is limited to allowing the revelation of its virtues. Though precise, this definition lacks an operational nature, as the boundaries of a *terroir* are dependent on the degree of precision with which its homogeneity is analyzed. A detailed analysis can lead to the fragmentation of a given geographical area into a multitude of micro-plots, while a lesser degree of precision opens the door to disputes between *terroir* insiders and outsiders.

In all cases, we believe that this definition of the *terroir* under-estimates the importance of human society interactions. We therefore call for a less restrictive definition, which reinstates human action as a component of the *terroir*. A *terroir* is indeed a homogeneous territory endowed with a very strong identity, characterized by a set of natural, cultural, historical and social resources (Rastoin and Vissac-Charles 1999). Moreover, *terroirs* are not exogenous, but rather a structure whose components are less important than geographical resources built by economic players and their interactions: individual and collective skills, explicit or tacitly transmitted from generation to generation, building on enduring collective trust facilitating the exchange.

Thus *terroir* is a territory within the meaning given to that term by Pecqueur (2000), "an abstract but geographically situated space of cooperation between actors that aims to generate specific resources and new solutions" (p. 15). As a territory it can also be analyzed as a "situated institutional setting". It is no longer a simple bounded set resources, but a social and historical construct (Levesque 2008), a set of institutions embedded in a given geographical area that give it its identity. It is a system of actors connected by different types of proximity, namely geographical, organizational and institutional. This institutional approach offers a new understanding of wine territories, pointing out its constructed nature, resulting from interactions between various actors.

Terroir can be used by firms for strategic purposes (Martin 2004; Rastoin and Vissac-Charles 1999) as it enables local players to develop "specific resources and therefore a competitive advantage" on the basis of a given territory's natural and cultural assets (historically inherited production methods, intrinsic characteristics of the territory, know-how), and protects them from competition (Corade and Delhomme, 2008). As a formal institution, the denomination of registered origin (*appellation d'origine contrôlée* – AOC) is the cornerstone of the system. It is a label, a set of formal rules, standards and regulations, whose purpose is to "protect a locally embedded product from competition" (Filippi and Torre, 2003). The combination of geographical, organizational and institutional proximity drives the identification between the place, the company and the product. This forms a high barrier to entry that gives insiders a monopoly on the niches it creates, generating a "rent" situation, as the product can be differentiated, marketed and sold at a high price (Pecqueur cited by Corade and Delhomme, 2008).

Yet the system is not completely closed and outsiders are likely to take advantage of territorial land rent by creating confusion with regards to the name and origins of products – see the use of

designations "Champagne" or "Chablis" in the United States. The impact of the AOC is both "horizontal", as it plays the role of a territorial marker and a guarantee of the uniqueness of the product, and "vertical", as certification constraints reinforce the presumption of quality. We now apply this institutional analysis to a case study of the Cahors wine region.

2 Cahors vineyards between crisis(es) and mutation

The Cahors AOC area currently represents about 4,300 ha of vines over a total geographical area of 21,700 ha, spread across 45 municipalities along the River Lot in South Western France. The estimated annual production of about 180,000 hl is carried out by around 430 producers, of which some 140 belong to the *Côtes d'Olt* cooperative in Parnac (25% of overall production). All of the AOC is composed of red wine. The dominant grape is Malbec, which represents 80% of the vines over the AOC, as well as 11% of the global area planted with Malbec. The vineyard is located on two major types of soils, one on Kimmeridgian limestone, and one on other alluvial soils of the Lot river valley, including silicious terraced rows on its hillside (low, middle or high terraces). A study covering the entire geographical area of the AOC led to the identification of nine main distinct *terroirs*, according to geology, soil depth, altitude and distance from the Lot, slope or plateau (Rouvellac, 2009). Among these, the higher terraces of the Lot river Valley are considered to be the most relevant for high quality wine production.

Cahors wine is said to be one of the oldest wines in Europe, having been introduced by the Romans in 50 BCE and it remained world famous until the Eighteenth Century – when it was found in England and Russia. It then suffered from competition from Bordeaux wines, before being hit by phylloxera in 1876. The vineyard did not recover until the 1950s and was about to completely disappear with the frosts of 1956. Only a limited number of small estates (below 5ha) survived, run by farmers for whom wine was one product among others. Little attention was paid to quality at that time.

A cooperative (*Les Côtes d'Olt*) was nonetheless established in Parnac in 1947 by 146 producers, that later played a significant part in the rebirth of the vineyard: it resumed production in the early 1960s, emphasizing quality by means of limited yields and the use of selected grape varieties, such as Malbec. It also started selling bottled rather than bulk wine (Tulet and Velasco-Graciet, 2003). These decisions quickly paid off as the cooperative was able to significantly increase the price per hl paid to producers. Its production capacity increased sharply in a few years, from 21,500 hl in 1958 up to 107,000 hl in 1972 (50% of overall production at that time), making it then a key player in the vineyard. This emphasis on quality made it also possible for Cahors wines to be granted an AOC in 1971, limiting yields (to 50 hl/ha) and setting the minimum natural level of alcohol (11.5% vol.), while making Malbec the main local grape variety. At that time Cahors AOC covered 440 ha (Tulet and Velasco-Graciet, 2003).

The success of the region resulted in the emergence of an increasingly structured group of specialised winegrowers, for whom wine was their main and often only production. First generation producers later often transferred their properties to their heirs, usually endowed with a higher technical knowledge, enabling them to incorporate a large number of technical innovations. Moreover, this first group was complemented with newcomers, such as Alain-Dominique Perrin (cf. *infra*), whose financial means were sometimes very important, that also settled in the vineyards and specialised in high-end production. The cooperative thus found itself under increased competition and gradually lost its importance (Tulet and Velasco-Graciet, 2003).

Yet, after a period of relative prosperity, the Cahors AOC has recently been experiencing a difficult situation and the decline of major indicators such as the price of vines and of bulk wines, average income per hectare and ROI (see Table 1). This is due in particular to limited sales channels,

as 80 to 85% of Cahors wines are sold in France, mainly through super- and hypermarkets, while 45% of the wine sold in hypermarkets is priced below 2 Euros. Until 2008, supply remained higher than demand, leading to an increasing requirement for storage. The result is a Malthusian management of vineyards, characterized by a continuing decline in the planted area and in the number of producers (630 in 1986, 470 in 2001).

(Take in Table 1 about here)

A key issue that is often blamed for the poor performance of the AOC is that it is not sufficiently hierarchical: it makes no distinction between the different local *terroirs* nor between the various wine quality levels. The result is uncertainty for consumers with regards to both the product typicality and quality, as only the origin is guaranteed by the AOC. This type of structure is likely to foster "free rider" attitudes and ultimately degrade the reputation of the entire vineyard. Consequently the only option for individual producers is to emphasise their own reputation at the expense of the collective image conveyed by the AOC. One might think that Cahors could merely transpose the Bordeaux "aristocratic" classification model (Laferté, 2006), except that no formal ranking has been formally defined.

Various attempts have therefore been made to supplement or amend the organization of Cahors' AOC: a Quality Charter was for instance defined in 1999, involving up to 80 producers. Yet, perceived as too strict and elitist, too far away from the interests and concerns of most producers, it gradually declined and currently only encompasses about 25 small producers. An attempt to reform the AOC was also launched in 2002, under the leadership of a "newcomer", the businessman Alain-Dominique Perrin, with the support of specialized winegrowers. However, as it was seen as likely to involve a downgrading of vineyards located on the lower and poorer quality terraces, it was vetoed by small independent winegrowers during a famous meeting of 18 December 2002.

3 Discussion

The problems faced by Cahors wine can be analyzed from an institutional perspective, as the weakness of the AOC as an institution is a reflection of the territory's lack of institutional consistency. The implementation of AOCs requires a high degree of institutional proximity among local actors, i.e. common rules of action and a real convergence of views and values, which is hard to find in the case of Cahors. Cahors' wine region is clearly bounded from a geographic standpoint and found its identity in its struggle with the large neighbouring region of Bordeaux (Velasco-Graciet, 2002). However, it is still fragmented and characterized by a limited and questionable degree of institutional proximity. Consequently, wine producers were only able to agree on a "lowest common denominator", that is to say a generic AOC that did not take the variety of local *terroirs* into account.

The failed attempts to reform this AOC can also be attributed to an institutional environment that appears to be dominated by conflicts between individualism, corporatist and collective interests, hierarchy and egalitarianism, as well as many other overlapping lines of confrontation, which hinder the establishment of a structured and efficient classification system (Tulet and Velasco-Graciet, 2003). Corporatism has brought different groups of actors into opposition and, combined with individualism, these are major sources of conflicts, as highlighted by a study led by Olivier (2009). Corporatism may also turn into "toporatism", as defined by Torrès (2003), that is to say, a general distrust against outsiders that will prevent externally driven reforms. Alain-Dominique Perrin's failure is a clear case of the above.

Further highlighting the fragmentation, the wine producers - key players in the system - are divided into several groups. The first is composed of independent winegrowers, whose activity is marked by traditional polyculture. Their operations are generally small and often located on the lower terraces, poorer quality land that are threatened by the reforms proposals which they oppose.

A second group is composed of the larger and specialized winemakers. They often own the best land and consequently wish to improve the efficiency of the AOC in order to be able to increase the prices of their high-end wine. They in particular support the idea of making the Cahors AOC more transparent and establishing a clear hierarchy of Cahors wines. They are often known as participating or having participated in the Quality Charter.

A second dividing line opposes the cooperative and its members to independent wine makers. Under competitive pressure from specialized independent winegrowers, the cooperative adopted in the 1980s and 1990s a strategy of low prices likely to enable it to increase its sales volumes. This strategy has been criticised by independent growers for pulling all prices down, with negative implications as far as quality is concerned. Moreover, the low price strategy involved reducing production costs, including purchasing costs from members of the cooperative. The cooperative was therefore often accused of "not playing by the rule" by independent producers, as it was thought that the members of the cooperative would not be paid a fair price for their grapes. The cooperative was consequently able to "dump" its wine on the market, supporting unfair and harmful competition on price. Although such a strategy seems to be questioned now, especially after the cooperative got into a strategic alliance with three other ones in the South Western France, antagonisms remain acute.

A third group - the merchants (*négociants*) - has undergone major changes over recent years: local merchants whose priority was to ensure distribution channels for their production have gradually been supplanted by outsiders seeking to expand their supply, resulting in price pressure that impacts the entire vineyard. Winemakers have sought to replace merchants and market their wine themselves, yet without possessing the required skills (Olivier, 2009).

A final group consists of "institutional" actors. It includes the National Institute for Origin and Quality (INAO) that is in charge of carrying out the AOC policy at national level. It mandates the Cahors Wine Defence Union (*Syndicat de Défense de l'Appellation*), a coalition of growers and merchants, to manage and protect the AOC label. Another player is the professional union (*Union Interprofessionnelle des Vins de Cahors*, UIVC) that is responsible for the promotion of Cahors wines. The union recently refused to join an extended regional union in an effort to promote the local identity of Cahors wine.

All of these players are aware of the need for reform of the AOC, but do not necessarily share the same views on possible solutions: opposition is particularly strong among small independent wine producers to whom hierarchical rankings would mean a loss of revenue, and the largest and most dynamic operators, for whom the lack of hierarchy is an incentive to non-cooperative behaviour that could bring the entire region down and could eventually lead to its extinction.

As mentioned by Tulet and Velasco-Graciet (2003), the vineyards of Cahors are anything but unchanging, as different powers contribute to its reconfiguration and the establishment of a genuine institutional territory supporting a strong local identity. The sense of urgency of the situation having prevailed over the reluctance of most players, a new attempt at reform has been underway since 2008, based on a "Plan Malbec" aiming to "reposition Cahors wine as part of a wider range of Malbec wine in order to penetrate new markets, particularly export ones". The reference to Malbec has become a vehicle for a new definition of the area's identity, aiming to unite all players and get them to accept a new segmentation of supply. This new reform attempt moreover coincides with a renewal of the social fabric, giving an increasing role to younger producers, who are often outsiders, which could contribute to the renewal and quality increase of supply.

4 Conclusions

We have argued that problems with the market effectiveness and under-performance of the Cahors AOC result from its lack of institutional embeddedness among organisations and individual actors and not from its geographical and cultural dimensions. A traditional perspective on defining the production *terroir* does not explain the failure of individual producers to build the market assets that should accrue from the *terroir* as a resource. The AOC is not a source of competitive advantage through differentiation in Cahors as it is in other AOCs. Our analysis has shown that the current dynamics and fragmentation are preventing the region from developing new shared values and a sense of identity on which to re-build the AOC. The recent focus on Malbec as a potential enabler of the co-operation required to build organisational and institutional proximity clearly illustrates the value of reinstating human action into the understanding of *terroir*. Future research will track the dynamics of this case.

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