

Padua 2017 Abstract Submission

I want to submit an abstract for:

Conference Presentation

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Keywords

geographical indications, hedonic price index, off-trade wine market, Hungarian wines

Research Question

What are the price premiums for Hungarian geographical indications?

Methods

calculating hedonic price indices by robust standard error and quantile regression models on a sample of 2681 wines collected from Hungarian off-trade (main wine shops and supermarkets)

Results

The results confirmed the two hypotheses that only some (cca 50%) geographical indications would have a positive price premium, and that individual brands have a solid positive effect on prices.

Abstract

Using the name of origin to differentiate one wine from another and to signal quality has a long tradition. These names represent a certain value in the market as they represent the common reputation of the producers using them.

As wine is an experience good (Storckmann, 2012), applying the findings of Akerlof's (1970) model on market of lemons, it is vital for producers to differentiate their products to obtain higher prices. Using geographical names has been one of the possible solutions for a long time. Geographical names represent a collective reputation (Tirole, 1996), therefore they can act as a collective resource for producers (Hétfa, 2012, Ostrom, 2003). However, collective action has its limits and disadvantages, the problem of free-riding needs to be dealt with.

Government measures to regulate the use of geographical names on wine labels have been introduced since the beginning of the 20th century (yet, regional regulations focusing on the delimitation of the area have been applied much earlier in Chianti or Tokaj, for instance). The institution of the geographical indications first appeared in the French law and then in the EU wine law and in the Common Agricultural Policy.

The concept of monopolistic competition is applied to those markets in which the products are not perfectly homogeneous, therefore the costumers do not consider them perfect substitutes. Such conditions allow the producers to get economic rents. As geographical indications can act as a base of distinction between wines, they can serve as a vehicle for producers to obtain price premiums for their products.

Geographical indications can affect the market price if they credibly represent the reputation of their place of origin and are signs of wine quality. Using a geographical indication means extra costs for producers as the origin of grapes is geographically limited, some oenological practices may be prohibited and other quality restrictions may apply. Therefore, a rational choice is to only label a geographical indication if additional revenue can be expected.

The Hungarian system of geographic indications has been in a gradual transition since the beginning of the new

Millennium. While the German approach to geographical indications is still of major importance, the slow transition to a Latin system has already started as specific regulations on given geographical indications were introduced in some cases. The European Union's wine reform of 2008-2009 gave an impetus to this process.

There is a great tradition in the literature to use hedonic price indices in order to reveal the background of differences in wine prices (see Oczkowski, 1994, Landon and Smith, 1997, Combris, Lecocq and Visser, 2000, Schamel and Anderson, 2003, Lecocq and Visser, 2006, San Martin, Troncoso and Brümmer, 2008 or Schamel, 2009).

This study is based on hedonic price indices calculated on a sample of 2,681 wines. The prices and the use of geographical indications were observed in the Hungarian off-trade sector (main wine shops and supermarkets), data on other variables were provided by the Hungarian wine authority. If a wine was observed on multiple sites, the lowest price was included in the dataset. The scope of the study extended only to wines, other grapevine products (such as sparkling wine) were excluded.

The models include a dummy variable for the quality signs observed (geographical indications, individual brands), and control variables describing the intrinsic character of wines (such as the content in alcohol, sugar and acids etc.) and the quantity produced.

According to the main hypothesis, only some geographical indications would have a price premium in the market. Furthermore, individual brands were expected to have a price premium as well.

Certain geographical indications are segmented into two or three quality levels using additional terms to the name itself (e.g. Eger Superior or Villány Prémium). To deal with this phenomenon, two different approaches were applied: (1) these geographical indications were treated as one single name or (2) two or three separate names (depending on the actual number of quality levels). Model specification selection criteria showed that both approaches were equally precise. As heteroskedasticity occurred, robust standard error models were used instead of ordinary least squares models. Furthermore, quantile regressions were also run (for medians), results were consistent with the normal models.

The results confirmed the two hypotheses mentioned above as the models showed a positive price premium for 10-16 geographical indications out of the 33 observed. In addition, the value of the price premium was negative for 1-4 geographical indications.

The study proved that segmentation based on quality level within geographical indications makes sense, as the price premium was substantially higher for the wines in concern. In addition, the study revealed that prices had a strong and robust relation with individual brands.

The models show that most control variables (quantity, content in alcohol sugar and sugar-free extract, pH) are related to the price. In some cases, there is an optimum for these variables from the perspective of the price as the quadratic tag is significant.

The results underline that in general, geographical indications may influence wine prices, however, this is not true for all of them and the impact may be negative as well. On the other hand, negative coefficients show that some geographical indications are positioned low, which may be a conscious action of the producers.