Lausanne 2024 Abstract Submission

Title
Unraveling the Economic Impact of Wine Counterfeiting

I want to submit an abstract for:
Conference Presentation

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Keywords
Counterfeited Wine, Sassicaia 2015, Economic History of Wine Counterfeiting

Research Question
What is the economic impact of counterfeited wine after the announcement of big wine fraud scandal?

Methods
I employed scatter plots and a Difference-in-Differences analysis to assess the impact of the 2015 Sassicaia wine fraud on prices, comparing affected vintages against controls within datasets from Liv-ex.

Results
The analysis revealed a statistically significant increase in prices for Sassicaia 2015 post-fraud, contrasting with stable prices for control wines, indicating a nuanced market response to the scandal.

Abstract
This thesis delves into the multifaceted world of wine counterfeiting, exploring its economic history and consequential impact on the secondary market prices of fine wines. It is presented as two main parts. The first part of the thesis provides a brief history of counterfeit wine through the ages and in recent times, both for intrinsic interest and to provide background and context for the econometric analysis that follows. The second part includes a case study, which entails an “event study” kind of analysis of prices of fine wines before and after an effective “announcement” revealing to the world market that certain wines had been counterfeited. The case study focuses on Sassicaia 2015. In 2020, Italian police uncovered 6,600 fake bottles of Sassicaia 2015. This analysis compares
the economic performance of Sassicaia 2015 with other vintages of Sassicaia, as well as selected other Super Tuscan and new world fine wines.

Part I: Economic History of Counterfeit Wines
The practice of wine counterfeiting, deeply entrenched in the annals of viticulture and enology, has undergone significant evolution since the creation of wine. In ancient Rome, the complaints of Pliny the Elder were a testament to the rampant fraudulence of wine. Even the elite could not be certain of their wine's authenticity. During the medieval era, the emergence of laws targeting wine fraud marked its widespread nature. With the rise of celebrated wine regions like Bordeaux and Burgundy, during the 18th and 19th centuries, winemakers began to brand corks and bottles, as a direct countermeasure against escalating forgery. And the modern wine appellation system also started to emerge.

The post-World War II economic boom catalyzed a heightened demand for luxury wines, providing fertile ground for fraudulent activities. High-profile scandals, particularly the Hardy Rodenstock “Jefferson bottles” affair in the 1980s, thrust wine counterfeiting into the public consciousness. The dawn of the 21st century introduced an era marked by heightened sophistication in fraudulent practices, exemplified by the notorious Rudy Kurniawan scandal that duped collectors out of millions of dollars in fake wines.

In contemporary times, the wine industry faces this enduring challenge. Producers are developing and using state-of-the-art solutions like advanced labeling technologies, blockchain and advanced traceability to fortify the battle lines between authenticity and deception.

Part II: Case Study of Sassicaia 2015
In October 2020, Italian police uncovered a significant operation involving 6,600 counterfeit bottles of Sassicaia 2015, a vintage renowned for its quality and value. The analysis employs a Difference-in-Differences (DiD) methodology to assess the economic impact of this fraud on the price of Sassicaia 2015 compared to other vintages and selected Super Tuscan wines. The study meticulously gathers monthly average prices from January 2014 to March 2024, utilizing data from Liv-ex (The London International Vintners Exchange). This comprehensive dataset provides insights into the price dynamics influenced by the counterfeit scandal.

The findings reveal that the disclosure of the counterfeit bottles led to a discernible increase in the market price of the authentic Sassicaia 2015, contrary to expectations that fraud would diminish value. This anomaly is attributed to heightened consumer awareness and possibly an increased perceived rarity of the genuine product post-scandal. The thesis explores these dynamics, offering a nuanced understanding of how adverse events can paradoxically enhance the value of high-stakes commodities like luxury wines.

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