Discussion opening on Montaigne and Sumner

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Overview

- no specific reference to the wine economy, … but wine as the prototypical case of “quality” product
- focus on global longer-term trends

Contents

- what is going on
- some implications for research agendas
Sumner’s “broad trends”

- Declining total consumption, especially in Europe
- Increasing consumption by non-producing countries
- Declining production of Old World wine
- Increasing production of New World wine
- A movement towards higher quality wine
- Increased international trade
- Globalization of taste and production
Agriculture under Globalization

More agricultural trade

Volume:
- 1973-90: +2.4%
- 1990-2002: +4.0%
twice as much agr. production

Value:
- 1990-2002: +40% in real terms

World exports of agricultural products\(^3\), 1990-2002
(Billion dollars)

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\(^3\) Refers to WTO, ITS definition of agricultural products.

Agriculture under Globalization

More agricultural trade

Infrastructural and institutional prerequisites are needed to claim the benefits from globalization or to better cope with increased risks implied by it

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POVERTY

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Agriculture under Globalization

Change in the composition of Agr Trade

Significant
• 1990-2002: from 42% to 48% of total AgTrade

Generalized
• Both DC and LDC

Why?
• Engel law
• product differentiation
### Agriculture under Globalization

#### Change in the composition of Agr Trade

*Shift from a Ricardian comparative-advantage-based trade to a reputation-based trade in agricultural products, i.e. a loss of importance of cost-based competition and an increase of importance of quality-based competition.*

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Positional goods

Change in the composition of Agr Trade

- reputation effects matter … especially under globalization
- lower transportation costs
- trade liberalization
- cheap information circulation
- positional goods (e.g. services and de-commodified goods)
  - rank-ordering that is based on reputation
  - which is in turn based on trust, fame (plus advertising), wealth, etc.
Positional goods and competition

Wine as a positional good

<table>
<thead>
<tr>
<th>Price Range</th>
<th>Description</th>
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<tbody>
<tr>
<td>$plito$$</td>
<td>Luxury &gt;$25</td>
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<tr>
<td>$$</td>
<td>Ultra premium $15-$25</td>
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<td>Super premium $7-$14</td>
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<td>Premium $3-$7</td>
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More volume

More reputation

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Positional competition

Positional competition pros

• developing synergies
  - generic reputation vs. specific reputation
  - non transferable assets, e.g. history, culture, landscape, etc.

Positional competition cons

• much harder than competition for pure private goods (Pagano, 2007)
  - trust: objective quality vs. perceived quality
Some research implications

• can commodity-based agriculture still be the **engine of growth** as it used to be in the pre-globalization development patterns?

• what are the ingredients of AGR de-commodification? How to build **reputation**:
  - collective (e.g. AO, region, etc.) vs. individual
  - short-term (e.g. *Wine Spectator*) vs. long-term (e.g. Parker classification)

• are there **patterns of rural development** based on de-commodification?
Some research implications

• globalization is a **discriminating** phenomenon:
  - distributional concerns in DCs:
    who is really capturing economic rents? what are the implications for rural development?
  - distributional concerns at global level:
    is commodity-based agriculture disadvantaged under globalization? (positional competition with soaring commodity prices)