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Origin-Labeled Wines Versus Varietal Wines on the Quality Market: A Strategy for Cooperative Survival

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For each of Europe's traditional winegrowing regions, geographic appellations prescribe approved grape varieties, as well as a myriad of winemaking product and process characteristics. American Viticultural Area (AVA) law, by contrast, provides only that wine of a certain appellation be made from grapes grown within that region. A transactions-cost perspective shows that the European system, typified by France's Appellation d'Origine Contrôlée (AOC) law, favors cooperatives by reducing governance and marketing costs. This paper moves beyond a traditional transactions-cost approach by analyzing AOC-type market structuring regulation as a case of "bundling." The bundled offer induces more production of quality than would arise if elements of quality were chosen à la carte.

1. Introduction

The commercial wine industry employs three marketing conventions. Wine may be marketed as a varietal wine, as an appellation-controlled wine, as a private branded wine, or as some combination of these three. By "appellation-controlled wine," I refer to wine that meets certain criteria specified and enforced by civil authority, the essential criterion being location of origin. The French Appellation d'Origine Contrôlée (AOC) is perhaps the prototype of such marketing conventions.

In recent years, varietal labeling has gained popularity among producers, even in areas where, say, AOC labeling would be permitted. In California, a counter-dynamic may be in place. American Viticultural Area (AVA) law differentiates the product by region of origin, but provides little information value to the consumer about its contents. Since AVA laws do not specify other qualitative characteristics of the wine labeled with a given AVA (e.g., Napa Valley), AVA designations do not

function as well as a marketing device as the AOC-type designations do. Perhaps for this reason, AVA law leaves a role for shared brands that designate a certain style of wine across multiple, independent producers. California's Meritage Association has established one such shared brand.

Whether or not the apparent ascendancy of varietal wines in France and of shared brands in the US will continue is beyond the scope of this paper. Rather, this paper addresses the following questions: Are appellations and shared brands substitutes? How do the costs of these marketing conventions differ among alternative organizational structures? From a policy perspective, I address two additional questions. Can appellation authorities and shared-brand associations influence organizational structure by changing the costs of these marketing conventions? How should the appellation or shared brand criteria be specified in order to promote commercial success?

In France, interprofessions, quasi-governmental organizations composed of industry participants are largely responsible for the stewardship of AOC regulations. At the national level, the wine interprofession began in 1953 as the *Institut des Vins de Consommation Courante* (IVCC) and then as the *Office Nationale Interprofessionelle des Vins* (ONIVINS) in 1983. Among its areas of purview are 1. planting rights, 2. the viticultural census, and 3. regulation of Vins de Pays (Renvoisé p. 39, 101). In the Languedoc, where cooperatives predominate, establishment of an interprofession is more recent, as is the renown of their wines. The *Fédération Interprofessionelle du Languedoc* came into being in 1993 and then became the *Conseil Interprofessionelle des vins du Languedoc* (CIVL) in 1994. Through the AOC regime interprofessions and their affiliated, partner organizations have had a dramatic effect on the structure of the French wine industry. This paper discusses the effect that this regime has on the viability of certain organizational forms from the point of view of size and structure. In particular, I will argue that AOC-type market-structuring activity serves to reduce the internal governance costs that cooperatives would otherwise incur when attempting to produce wines that compete on quality. In the US, the extent to which collective entities--public or private--influence wine production decisions is quite limited. The Meritage Association, however, represents a shared meta-brand that attempts to play the role that AOC-type regulations play in the French market. Meritage wines come from producers who are members of the Meritage Association and agree to have their Meritage wines conform to certain qualitative characteristics. This paper will de-

fend the rationality of AOC-type regulations on the one hand and shared brands, as exemplified by Meritage, on the other.

2. AOC vs. AVA

In the following paragraphs, I describe the critical differences between France's Appellation d'Origine Contrôlée (AOC) law and the American Viticultural Area (AVA) law.

Beginning in the 1970s, wine writers began to refer to appellations in California, apparently taking their cue from the French AOC regime. In US law, "appellations" refer only to political boundaries, not winegrowing regions as such (Sullivan, 1998, p. 13). US AVAs, recognized by the BATF beginning in 1980, correspond to winegrowing regions independent of political boundaries. But unlike AOC laws in France, AVAs stipulate nothing beyond the geographical boundaries within which grapes must be grown if their wine is to carry a given designation. French AOC laws further require that the production facility itself be located within the designated area and that certain viticultural and vinification techniques traditional to that area be used. Perhaps most obvious to the consumer is that AOC laws prescribe permitted grape varieties. Wines labeled "Burgundy" are Pinot noir, while red Bordeaux wines are chiefly Cabernet Sauvignon and Merlot, with Cabernet Franc and two other grapes permissible for blending. Given this regulatory regime, most French wines are not marketed as varietals.

Some Californian winegrowers believe greater liberality in the US AVA law reflects the fact that insufficient experience exists to prescribe products and processes so strictly. A vineyard manager for Robert Mondavi Winery notes, "every vineyard has its own experiments going on, experiments that are specific to that vineyard" (Mondavi, 1998, p. 307). Others believe that French law is an artefact of political rent-seeking designed to protect the status-quo. California laws, they argue, encourage innovation and market responsiveness. Both arguments have merit. Certain varieties do grow better than others in certain microclimates. But microclimates themselves exhibit significant variation, and California's existing appellations may be too geographically inclusive to isolate individual microclimates, as defined by the growing conditions especially suitable to particular varieties of grape. Furthermore, consumer sovereignty dictates that, given the right (or should we say "wrong"?) consumer preferences, a "bad" Cabernet (a hot-weather grape) grown in a cool region may be more economic than a "good" Pinot noir (a cool-

weather grape), grown in the same region but for which there is little demand. Whatever the welfare implications of these alternative regimes, this paper argues that they differentially affect the cost of doing business under different organizational structures.

3. Three organizational structures

This section describes the range of organizational structures that characterize French wine production. In describing three representative structures from over this range, I will highlight the role of institutions and allocation mechanisms at the critical stage of fruit acquisition. In section 4, I will argue that these differences in organizational structure affect the costs of employing alternative marketing conventions.

3.1 Négociants

At one end of the organizational spectrum, we have the négociants who buy new wine, age it, and market it. We also have the champagne houses, which buy fruit from farmers at market prices. These decentralized structures make full use of the price mechanism at the critical stage of fruit acquisition. The prices at which farmers transfer grapes to the winery is an external price, *i.e.,* not a transfer price, and this external price is largely determined by market forces. As Coase (1937) noted, the use of this price mechanism is not costless. Transactions costs range from the cost of learning what the correct prices are to the hazards of opportunism created by various asset specificities. Still, it is the price mechanism that signals the quality of the grapes and drives the allocation of this critical input.

3.2 The Châteaux

One might place the châteaux system at the other end of the organizational spectrum. This is the organizational structure typical of the Bordeaux region. The château represents a suppression of the price mechanism in the market for grapes. Managerial coordination replaces the allocative function of the price mechanism. Also, by making rather than buying the critical input, the chateau has discretion of a broad range of non-price variables in the process of fruit acquisition. This arrangement economizes on transactions costs but entails governance costs. Governance costs include but are not limited to principal-agent problems in the formulation and implementation of managerial deci-

sions, and the monitoring costs that arise as owners and managers address principal-agent problems.

3.3 The Caves Coopératives

Somewhere in the middle, exist the cooperatives, which represent a significant part of France's wine production. They control 54% of French vineyards by area; and they produce 60% of French table wine, 68% of French Vin d Pays, 44% of VDQS and 40% of AOC wine (Renvoisé, p. 139). These cooperatives use an internal price mechanism to send signals to farmers about which grapes to produce. Thus a price mechanism is in place, but this is not the price mechanism of the market. This organizational structure incurs both transactions costs related to the operation of its internal price mechanism and governance costs. Section 6 discusses cooperative governance costs in greater detail.

4. Organizational form and the Production Economics of Marketing

The economice of marketing influences the production costs of these different organizational structures. Two types of brands exist on the French wine market. One includes the châteaux, the Champagne houses, and the *négociants* who sell their wine both as a private brand and an AOC wine. The second type of brand is essentially *vin de table*, subject to no controls, but sold in high volume to export markets (Mouton-Cadet, for example). This second type also includes wines marketed as varietals. In the one case, brands amplify the AOC, in the other, at least in the minds of some consumers, the brand replaces the AOC. What, then, are the comparable aspects of brands, AOCs, and varietals?

The brand differentiates the product, it signals quality, and it creates economies of scale. Geographic origin is a convenient differentiator of goods. But consumers must be convinced that this origin means something in terms of product quality, i.e., that there is something distinctive about this or that product that comes from this or that location. Since wine is an experience good, no readily observable characteristic of the product signals its quality. (See Nelson, 1970 for a discussion of experience goods.) Haucap Wey and Barmbold (1997) argue convincingly that high-cost location choices are effective signals for high quality experience goods. But this signaling dimension—high quality vs. low quality—inadequately signals the quality of an experience good the quality of

nadequately signals the quality of an experience good the quality of which is more purely subjective. For such goods, consumer sampling is still required, and qualitative consistency is more at issue than quality measured along a particular dimension.

Since successful wine differentiation and signalling must be based on real qualitative characteristics in the *minds of consumers*, product differentiation is subject to economies of scale. It goes without saying, for example, that advertising creates economies of scale in branding. But since wine is subject to repeat purchase, the value of branding is also subject to economies of scale in the sense that sheer volume ensures that a customer will be able to repeat purchase a preferred wine. It is for this reason that ONIVINS grouped what were previously 5 different *vin de pays* to create *Vin de Pays des Cevenes* in order to come up with a commercializable volume (Renvoisé, p. 102). But the brand, to be valuable, must both achieve economies of scale and dependably signify some product characteristic for consumers. Thus quality control and brand go hand in hand. By quality control, I do not mean to imply some notion of good quality or high quality, however. Rather, the importance is in qualitative consistency, such that the brand has information value.

Although appellations and brands have different characteristics, provide different incentives, and suggest different strategies to producers who attach their product to them, appellations and brands may serve much the same function in the minds of consumers. That is, appellations and brands may be close substitutes on the demand side, even though they correspond to very different supply-side institutions.

Denis (1995) has noted, "To economists, the appellation of origin system is too complex to be clearly understood by the consumers, who prefer the system of brands with which they are more familiar. This notion is perhaps true for wines sold in large quantity of homogeneous quality; by contrast, it seems alien to the traditional, elitist notion of the French AOC" (p. 78). This quotation reveals the tension between the demand-side and the supply-side perspectives on brands and appellations. Consumers, Denis argues, prefer brands to appellations because they are familiar with them in other consumer products. The production characteristics of wine, however, suggest that brands may be effective only when the brand in question can be produced in large quantity and consistent quality. Denis, in explaining consumer confusion about appellations, suggests another supply-side reason why brands may be uneconomic: "This lack of understanding [by the consumer] is in any case a manifestation of the break alluded to above between the produc-

tion and the commercialization of agricultural or agro-alimentary products" (1995, p. 7). Thus the degree of industry integration may also dictate the relative costs of branding versus appellation. Integration lends itself to efficient use of brands because of the ability to closely coordinate those characteristics of the product on which the brand is built. Less integrated operations may more profitably rely on appellation, which differentiates the product while allowing greater flexibility in sourcing. Under this thesis, branding would be relatively more costly for a cooperative than for a more integrated or more hierarchical corporate structure.

Despite the stringency and renown of France's appellation law, it would be a mistake to assert that brands are insignificant. The *grands crus* of Bordeaux are known by the Château name (essentially a brand), rather than by the name of the appellation in which they are geographically situated. One could even cite examples of how these "brands" have been leveraged. Mouton-Cadet is a brand of wine that evokes the name Mouton-Rothschild, a Bordeaux first growth. Despite some common ownership, the production of these two wines is independent. In fact, Mouton Cadet is a beverage made primarily from cooperative wine (Denis, 1989, p. 243).

Burgundian wines, in contrast to their Bordelaise competitors, do not lend themselves as conveniently to branding, at least not at the château level. Because estates were, and are, smaller and more fragmented, AOCs have taken on a greater importance. The appellations in Burgundy cover much smaller geographic areas than those in the Gironde and are themselves classified (Denis, 1989, p. 233). Some Burgundian AOCs include the land of only one proprietor (Denis, 1995, p. 16). In fact, since Burgundian *domaines* may consist of vineyards in multiple AOCs (Denis, 1989, p. 234), a single brand used to designate wine bearing different appellations would only create confusion. Burgundian appellations codified the commercial distinctions that had already been made among different *crus*. The small size and large number of AOCs in Burgundy reflects the extent and knowledge of diversity in the Burgundian terrain. The appellations in Burgundy are thus understood to reflect a hierarchy, even if appellations are officially egalitarian (Denis, 1989, p. 65). In Bordeaux, it is not the appellations, but the brands (e.g., the châteaux) that are classified.

Large négocitants such as Georges Duboeuf and Barton & Guestier have succeeded in establishing brands that span different appellations. They are not truly producers of wine in the same sense that estates or

even cooperatives are, however. These large organizations achieve economies of scale in marketing that allow their brand to supervene on regional appellations. The wines themselves, however, are produced under a variety of different arrangements with growers, cooperatives, and estate wineries.

Branding, then, is subject to scale economies on the production side. The same could be said, however, of appellations. Appellations may not be subject to these disadvantages in the same way that brands are, though. The appellation, by virtue of its permanence, may accomplish over time what its low volume cannot hope to achieve in a single vintage. And while this quasi-brand is subject to economies of scale in the same way as a brand, by nature of its public good status numerous individual winemakers may achieve the relevant economies of scale. In sum, to the extent that an AOC represents a distinctive product characteristic in the minds of consumers, it serves the same function as a brand (Renvoisé, p. 104-5).

4.1 Organizational Effects

I have argued elsewhere that the cooperative organizational form, in particular, benefits from the public good aspect of AOC status (Knox, 2000). In effect, the AOC legislation creates a shared brand in which wineries of varying sizes may choose to participate. The economies of scale associated with meeting AOC requirements are still below those associated with private brand building and maintenance. The public good to which US wineries had access was of inferior quality. In fact, the only appellations recognized at the time California cooperatives marketed their own wine were strictly those of political boundaries. Thus California's cooperatives were forced to brand their product. As I argue below, this is more costly for a cooperative than for an independent winery. California's cooperatives were formed in order to accept the grapes of farmers who had trouble selling it. At the same time, brand maintenance, and the consistency it requires, demands some discrimination in fruit selection. Each cooperator would like to demand high quality of fruit from fellow cooperators, provided his own fruit is accepted unconditionally. Cooperators face a prisoners' dilemma of sorts with respect to brand building. The rules to which they will democratically assent reflect the risk aversions and incentives of individual winegrowers. Thus governance costs made brand-building more costly for the California cooperative than AOC compliance is for the *cave coopérative*. Approximately one-third of all US wine inventories in 1953 were held by cooperatives

(Marcus, 1953, p. 12). None survive as traditional cooperatives, and most facilities that survive are owned by large corporations.

5. Varietals as Brands?

As familiar as French appellations are to many wine drinkers, in the absence of comparable US institutions, American wine tends to be classified by grape variety and, perhaps, private brand. A few appellations (AVAs) have achieved prominence, but since the AVA designates nothing beyond the geographic origin of the fruit, such designation has limited information value. Since AOC-type regimes serve a public good function that mitigates economies of scale and differentially benefits certain organizational forms, one might ask whether the institution of varietal labeling might not serve the same function. A variety certainly does denote qualitative characteristics in the minds of consumers. American wine drinkers order Merlot and Pinot noir the way French order Bordeaux and vin de Bourgougne. Then, why should a French cooperative incur either the costs of launching its own brand or the difficulties of conforming to AOC specifications, if it may accomplish the same marketing success by producing varietal wine? Indeed, 20% of French vin de pays is marketed as varietal wine (Renvoisé, p. 103).

5.1 Varietal Free Riders

Although appellations and varieties are capable of conveying the information value characteristic of a brand, both alternatives have public good characteristics that threaten their viability. In the château model, a winery cannot free-ride for long on its own reputation by degrading the quality of its product: the château itself bears the full costs of its own actions. Varietal labeling itself may be subject to very few controls. Where such is the case, a winery may choose to market its “Merlot” knowing that some consumers will buy it based on the varietal's reputation. Purchasers will be disappointed and perhaps not buy again, but the costs of this disappointment are diffused among all the producers of Merlot. Thus American wineries, which typically market their wines as varietals, also invest heavily in branding, in order to reduce the damages caused by varietal free-rides. (On brands in the US, see Renvoisé, p. 105) This necessity to brand in a market that would otherwise be a varietal commodities market, helps to explain the larger scale of production common in the US as compared to countries with AOC-style legislation, in which branding is less of an imperative. Thus, while a varietal

label may function as a brand, its success on the quality market is dubious because of the incentives to degrade quality.

6. An Alternative Paradigm

Why is the AOC regime more effective than varietal labelling in functioning as a brand without imposing additional marketing costs on small-scale operations? Indeed, the AOC accomplishes by edict and enforcement what the chateau does out of self-interest--it enforces quality and punishes or eliminates free-riders.

Recent research has treated shared brands as *assets* that must be *managed* to prevent their degradation. (See, for example, Raynaud and Sauvée, 2000.) The foregoing cast of quality management as a prisoners' dilemma implicitly adopts that orientation. One might alternatively analyze the qualitative consistency that AOC and branding require as a *product* that regulatory authorities *sell* to their protégées. Each AOC embodies numerous specifications, each of which entails some compliance cost on the part of AOC wine producers. The decision about how much, if any, AOC wine to produce incorporates a cost-benefit analysis. Market prices determine benefits, while costs are a function of the guidelines imposed by the AOC, and, as I argue here, the organizational structure in which those guidelines would be implemented.

Because of the economies of scale necessary to serve the function of a brand, the quality control bundle "sold" by the regulatory group is subject to network effects. The signaling value of the controlled appellation increases as the volume of wine sold under its name receives notoriety.

As I have explained, then, the AOC regime reduces the governance costs of quality control that would otherwise differentially disfavor cooperatives as compared to châteaux. One might also infer from this that the appellations that are composed of a single variety risk being perceived as varietals in the minds of consumers, and therefore subject to some free riding on the part of other varietal but non-AOC producers (Renvoisé, p. 35). The broad AOC (so-called “generics”) have this problem to some degree, and the smaller AOC (so-called “communal”) suffer from their low production volume (Renvoisé p. 39-99).

6.1 The Winegrowers' Dilemma

The next part of this paper will illustrate how thoughtful, rigorous and enforceable AOC guidelines are even more essential to the cooperative

than they are to even the small château. To make this comparison, we must examine the different governance mechanisms that operate in each type of organization. In the chateau, the owner decides what kind of wine to make, which grapes to use, when to declassify a wine, when to bottle and when to not. The owner must also make viticultural decisions relating to yield, pruning methods, method of picking, timing of the vendange, etc. In all of these decisions, the owner is guided by the knowledge that the economic outcome of these decisions is his and his alone. He stands to benefit from every sacrifice and suffer from every compromise.

Compare those incentives to the situation of the cooperator who, in theory at least, makes the same decisions that the château owner does, but he is only one owner among many. Perhaps more importantly, he has decision-making power concerning the remuneration mechanisms and rules to be used within the cooperative. His individual incentives would lead him to prefer that he be compensated for vinegar at the same rates as his fellow cooperators are compensated for good grapes. By selling poorer quality grapes to the cooperative at the same rate, he free-rides on the quality of others' grapes. But of course the only rules that will be assented to are those that apply equally to all. The "cooperator" enjoys preferential treatment only by defecting from the agreed-upon rules. As in the classic prisoners' dilemma, defection is each cooperator's dominant strategy.

The resulting sub-optimal equilibrium need not persist, however. Cooperators might rationally decide to devote additional resources to detecting defection, for example. But to the extent that increased detection is impossible or uneconomic, the cooperators can reduce the incentives to cheat by simply making the rules less restrictive. Thus, if cooperators prefer to reduce each others' incentives to cheat--perhaps for social, non-pecuniary reasons--the governance process has a tendency to gravitate towards the least restrictive quality and remuneration rules. Thus, in the cooperative, the problem of free-riders becomes a prisoners' dilemma of sorts. The costs of this dilemma are governance costs of the cooperative. Because of these governance and internal transactions costs, internal quality control costs more within the cooperative than it does in alternative organizational forms.

6.2 The Winegrowers' Solution

The AOC solves this prisoners' dilemma in two ways. First, the market price data available for AOC vs. non-AOC wines defines the benefits of quality control in a much more convincing way than could be conveyed otherwise. This information reduces the governance costs by providing cooperators with information that turns cost-center decisions into profit-center decisions. In fact, for a low volume producer, Absent a collective branding mechanism (AOC) the returns to quality might not exist, as the wine would be commoditized as a varietal. By creating a ready-made brand with quantifiable benefits, the AOC changes the payoff matrix from which the cooperators select their course of action.

The second way in which the cooperative promotes quality production is by offering the various restrictions embodied in the AOC as a bundle of goods--a take-it-or-leave it proposition. As in the marketing and IO literature, such bundling effects a price discrimination that has the effect of getting "consumer" (in this case the cooperators) to "buy" more of the product (quality control) than they would select from a menu of items offered individually. Thus, the form in which the quality control plan is offered, makes it more palatable than it would be if each restriction were voted on in detail, and harmonizes the interests of cooperators, allowing them to escape from the prisoners' dilemma if the AOC rules are well chosen.

Under French AOC legislation, as opposed to brand-building, the qualitative requirements and restrictions that give the AOC its distinctive identity are not voted on by cooperative members. Rather, quasi-governmental authorities with enforcement power impose them. As quality competition has increased, cooperators have recognized that AOC wine is the key to profitability. The existence of legislation that enforces the AOC rules solves the coordination problem that private brand-building would pose, if only because a focal point for cooperative rules has been legislated. Indeed this focal point is really a take-it-or-leave-it proposition. Successful French cooperatives have accepted from the government what California's cooperators could not produce on their own.

In the classic example of bundling as price discrimination, a multi-product monopolist sells to customers with different willingnesses to pay. For example, a film distributor may have rights to sell films to theaters within a certain geographic area. (See Director and Levi, 1956.) In such a market, a profit-maximizing strategy for the distributor might be to rent each film at the minimax of theaters' willingnesses to pay. In

Figure 1, this strategy would suggest pricing Film A at $700 and Film B at $250, resulting in total revenues of $1,900 for the two films in two theaters. But when the distributor bundles the films, the minimax of the willingnesses to pay for the bundle exceeds the sum of the minimaxes for each film individually, resulting in total revenues of $2,000. The bundling strategy accomplishes price discrimination because each customer allocates differently the bundled price between the two films. One result of this strategy is a transfer of welfare from the theaters to the distributors.

Theater	*Film A*	*Film B*	Bundled Price
1	800	250	1050
2	700	300	1000
price*quantity =total revenue	700*2 =1400	250*2 =500	1000*2 =2000

Figure 1: The Classic Case of Bundling

Some researchers have analyzed the economics of common signs of quality, of which the AOC designation is an example, as thought the quality designation were a commonly-held asset. This approach highlights the role of transaction costs and incentive problems in the maintenance of such quality signals. By analogy to the bundling strategy, I am offering an alternative paradigm that highlights suggests the mechanism by which civil authority or cooperative brand managers might raise quality while maintaining participation. The bundling approach conceives of the quality designation not as an asset that must be maintained, but as a good that must be sold. The governing authority is analogous to the film distributor, and its goal is to extract, in some sense, as much quality as possible from participating wineries. The wineries, analogous to the theaters, have different willingnesses to pay for different elements of quality control. These willingnesses reflect the real costs of implementing each control. Never mind that these costs do not result in payments received by the governing body; the governing body is nonetheless in a

position to regulate these costs by bundling together a range of quality control measures.

	Control A net benefit	Control B net benefit	Grouped Controls
Winery 1	**2**	**-1**	**1**
Winery 2	**-1**	**2**	**1**
Winery participation:	**Winery 1 Only**	**Winery 2 Only**	**Wineries 1 and 2**

Figure 2: Bundling with two quality control measures.

In Figure 2, two technologically separable quality control measures, A and B, are considered. Winery 1 receives a net benefit of two from participation in control A alone and a net loss of one from participation in control B alone. Winery 2 receives a net loss of one from participation in control A alone and a net benefit of 2 from participation in control B alone. Were these measures offered separately as quality designations, each winery would participate in one but not the other. If, however, the two quality control measures are offered only as a bundled designation, both wineries will participate in both controls.

7. Conclusion

This paper has explored the three labelling conventions prevalent in the wine industry: appellation, private brand, and variety. I have argued that in the presence of controls that effectively limit free-ridership, AOC-type regimes do can effectively substitute for brands in the minds of consumers while mitigating the economies of scale associated with branding. This alternative regime improves the fitness of cooperatives and small-scale operators that would have higher per unit costs of branding than larger-scaled operations because of governance costs, advertising

costs, and volume effects. I have argued that varietal labelling does not function as an effective alternative to private branding because of the free-rider problem. Last, by construing the maintenance of an AOC as a problem of product bundling and price discrimination, I have shown that increasing AOC participation may be achieved, somewhat counter-intuitively, by increasing the qualitative product characteristics it embodies. Any such increase would need to meet certain requirements, however. In order for the new bundled regulations to effect price discrimination, additional requirements 1. must increase the information value of the brand, thus increasing price and 2. must impose costs, if any, which vary from winery to winery.

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