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EU Wine Reform

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Report Highlights:
The EU's wine reform that was agreed on the last council meeting of 2007 includes measures to remove surplus and uncompetitive wine from the markets. The final proposal is watered down compared to the original proposal from the Commission. The grubbing-up scheme covers a smaller area, crises distillation will still be possible and chaptalization will continue to be allowed.
The reform will come into force on 1 August 2008.

Includes PSD Changes: No
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At the last Council meeting of 2007, the EU's Agriculture Ministers finally agreed to reform the Common Market Organization (CMO) for wine. This reform was proposed by the European Commission in June 2006. The main reason for the reform is to deal with the large overproduction of wine in the Union. Overproduction of wine depresses the market price and is very costly to the CAP, especially when the surplus is distilled into bioethanol.

The reform is to be legally adopted in March this year and will come into force on August 1, 2008 for its main elements. The actions of this reform is not going t be more costly than the previous support schemes and is therefore "budget neutral". All numbers in this report are obtained from the Commission Website.

EU Wine Production
The EU is the world's largest wine producer, consumer exporter and importer. The Union accounts for about 45 percent of the world's wine growing areas and 62 percent of global wine production. The Union is also the biggest consumer of wine and consumes about 60 percent of global consumption.

In the past twenty years, the overall trend has been towards a reduction in the areas under vines, with a 10 percent drop between 1986 and 2004. This overall decline masks two distinct and contrasting developments: the EU has seen a limited, but steady reduction (of 15 percent) in area, while its main competitors have witnessed stunning growth in their production capacity, with increases of 21 percent in the United States, 33 percent in South Africa, 52 percent in Chile, 178 percent in Australia and 360 percent in New Zealand. Worldwide wine production totals about 280 million hl, of which 185 million hl is produced in the EU. The off-farm wine production involves 8,600 cooperative cellars or private wineries, which employ about 76,000 persons in the Union.

The largest EU producers of wine are France, Italy and Spain which account for more than 50 percent of the world's wine production.

The EU wine sector has currently some handicaps compared to its competitors. The production structures are smaller, with higher production costs and smaller volumes for the needs of large-scale retailers, the marketing strategy is less dynamic and there are more regulatory constraints in the EU than outside the Union. These handicaps have led to a large loss of the market share of EU wines relative to competing wines, both on the domestic and on the export markets.

The EU consumption of wine fell by 15 million hl (11 percent) between 1985 and 2004. There is also a shift in wine consumption, where there is a decline in the south of Europe while a new generation of consumers emerge in non-producing countries.

The Reform
The reform of the CMO aims to maintain a better balance between supply and demand on the Community market. Since the introduction of the CMO, the wine market has developed considerably. It has been characterized by a very short initial period of equilibrium, followed by a very marked increase in production, against a constant level of demand, and finally, a continuous decline and a very noticeable qualitative change in demand from the 1980s. The Union has also been facing increasing production and competition from the producers of the New World Wine Agencies (NWWA). The almost systematic recourse to crisis distillation, an overly cautious grubbing-up policy, exaggerated use of enrichment practices, confusing labeling rules and rigid oenological practices also have to be dealt with.

Grubbing-up: In the original proposal from the Commission the "grubbing up" (giving money to winegrowers to turn vineyards over to other use) was projected to reach 200,000 ha at the end of the five year period, and the cost expected to decrease from €430 million in the first year to €59 million in the fifth year.

In the adopted proposal a three year voluntary grubbing-up scheme is expected to help remove surplus and uncompetitive wine from the market. About five percent of the total vine area should be grubbed-up. The proposed grubbing-up scheme concerns all producers, who will decide on a voluntary basis whether or not to participate.

The grubbing-up scheme will not be open to Member States (MS) that produce less than 50,000 hectoliters of wine per year.

The budget available to MS for grubbing up on a voluntary basis covers a maximum area of 175,000 ha over three years. This corresponds to the following ceilings**:**

2008/2009	2009/2010	2010/2011
€ 464 million, i.e. the current premium raised by 20 percent	€332 million i.e. the current premium raised by 10 percent	€276 i.e. the current premium.

Source: European Commission

MS can add own funding, as part of the National Envelope, to the grubbing up system although it may not exceed 75 percent of the already allocated grubbing-up premium.

The European Commission can place an upper limit on grubbing-up at 15 percent in a MS to avoid concentration of resources allocated to grubbing-up in that MS. Each MS is free to exclude mountain areas or areas in serious decline, as well as areas where there is an environmental risk from the scheme. MS can also terminate the scheme where the grubbed-up area reaches 8 percent of its area under vine, or 10 percent at the level of a region. In addition to that, a MS can exclude a maximum of three percent of the winegrowing area from the grubbing-up scheme.

Planting rights: Planting rights is the right for a wine producer to plant vine. In the Commission's original proposal the suggestion was to fully liberalize planting rights as of January 1, 2014 for wines protected by designations of origin and geographical indications. In the agreed reform, planting rights will be abolished in 2015, with some MS being able to keep them at the national level until 2018.
The European Commission sees no contradiction in having a grubbing-up scheme and abolishing the planting rights. The idea is that it will form a two step process. In step one, grubbing-up would help balance the market, and in step two planting rights would be abolished, and wine-makers would base their production decisions on the market.

Single Payment: In order to bring the sector in line with the reformed Common Agricultural Policy (CAP), all areas formerly under vine can claim the status of areas eligible under the single payment scheme and give rise to the payment of the regional average amount of direct coupled aid after grubbing-up. However, the payment may not exceed €350/ha. One reason for making these areas eligible for the single payment scheme is to gain the beneficial effects on the environment since this would mean the cross-compliance rules would be applicable i.e. keeping them in good agricultural and environmental condition.

National Envelopes: Each MS has a national envelope to adapt measures to their particular situation. Part of the national envelope may be allocated on a voluntary basis to operations to promote EU wine in third countries. The reminder of the national envelope is used by the MS to finance at least one of the following measures:

- Restructuring and conversion of vineyards
- Modernization of the chain of production, including innovation and marketing
- Green harvesting (Removal of immature grape bunches)
- Mutual funds (mutual funds are a means of sharing risk among groups of producers, enabling farmers to be compensated in the event of loss)
- Harvest insurance (Crop insurance)

In addition to this, MS will be able to introduce a single payment scheme (SPS) for certain producers on the basis of objective and non-discriminatory criteria.

Amount of national envelopes

Financial year	2009 (€ million)	As from 2015 (€ million)
Bulgaria	23.7	23.7
Czech Republic	3.0	5.2
Germany	22.9	38.9
Greece	14.3	24.0
Spain	213.8	353.3
France	171.9	280.5
Italy	218.2	337.0
Cyprus	2.7	4.6
Luxemburg	0.3	0.6
Hungary	16.8	29.1
Malta	0.2	0.4
Austria	8.0	13.7
Portugal	37.8	65.2
Romania	42.1	42.1
Slovenia	3.5	6.1
Slovakia	2.9	5.1
The U.K.	0.2	0.3
Total	**782.5**	**1,229.5**

Source: European Commission

Crises Distillation:

Without the artificial outlets provided by distillation schemes, producers are expected to make more wine only if they think the market will pay for it. There would no longer be an incentive to over-produce.

During a transitional period of four years, MS may finance crises distillation, subject to certain conditions. The funding for crises distillation may be up to a maximum amount of 20 percent of their national envelope in the first year, 15 percent in the second, 10 percent in the third and 5 percent in the final year.

As from the fifth year MS's will be able to finance crisis distillation with an upper limit equivalent to 15 percent of their national envelope from their national budget if the Commission agrees. MS may also finance the distillation of wine by-products from their national envelope but under certain conditions.

The subsidy scheme for must (concentrated grape juice) remains operational in its present form for a transitional period of four years. Beyond that period the corresponding amount may be transferred to the single payment scheme of the MS concerned.

Rural Development
The amount of wine budget to be transferred to Pillar 2 (Rural Development) is set at €50 million in 2009 and rise to €100 million in 2010, and to €150 million from 2011 onwards. This is a much less significant amount than the one in the Commission's original proposal which suggested Rural Development spending to be €400 million a year by 2014. The reduction was triggered by strong objections from Ministers agreeing with the opinions of the Members of the European Parliament (MEPs). The Agriculture Committee of the Parliament was against redirecting part of spending previously allocated to the wine sector to rural development. The reason for objecting to this transfer was fear that the funding would not be spent on wine-related measures although the Commission had given assurance that the money would be "ring-fenced", meaning all new Rural Development money created by this measure would be guaranteed to go to wine regions.

Indication of grape variety and vintage: The indication of grape variety and vintage for all wines without a designation of origin or a geographical indication will be possible, provided that the accuracy of the information on the label is monitored. MS will be able to limit the list of grape varieties that may be indicated under certain conditions (grape variety rarely found in their territory or grape variety name that may be confused with a protected designation).
Labeling of wines of the same grape variety produced in more than one MS will not be allowed unless the MS's concerned are in agreement.

Designation of origin or geographical indications: Application for a designation of origin or geographical indication will be examined in accordance with a procedure based on the procedure for food products laid down in Council Regulation (EC) No 510/2006 of March 20, 2006 on the protection of geographical indications and designations of origin for agricultural products and foodstuffs. This means the concept of EU quality wines will be based on a geographical origin approach. Wines with a geographical indication (GI) will be divided into wines with a protected geographical indication (PGI). A procedure for registration and protection of GI's will be established and labeling provisions will be simplified by a legal framework that applies to all the different categories of wine. EU wines without GIs will be allowed to indicate the grape variety and vintage on the label. The new labeling requirement will not effect wines from the U.S. that are imported to the EU.

Chapitalization: Chaptalization is a process where sugar is added before or during fermentation to raise the level of alcohol. This process is mainly used in cold climates in which the grapes may not ripen sufficiently to generate enough sugar for the fermentation process. Therefore the wine producing countries in the north of the EU strongly made the case for this process to be kept, whereas the wine producing countries in the south of the Union considered this an unnecessary and unwanted practice.

Hard negotiations led to a continued opportunity to use chaptalization in production. In the reformed wine CMO, the maximum levels of enrichment with either sugar or must will be reduced. MS may request the Commission to increase the level of enrichment with 0.5 percent for exceptional climatic reasons.

Chapitalization is allowed with the following criteria:

	Currently (percent)	**Starting 2009/2010** (percent)
Zone A	3.5	3.0
Zone B	2.5	2.0
Zone C	2.0	1.2

Source: European Commission

A definition of the Zones can be found in Annex III of COUNCIL REGULATION (EC) No 1493/1999

Expected effects of the wine reform

The goal of the EU wine reform to decrease overproduction and make the sector more competitive is likely to get some effect by the measures in the reform. Particularly the incentive to reduce rigid regulations and ensure an adaptability of the rules to take into account economic and commercial developments, and allow orientation towards the market will have effects of the sector. Already this year the production of wine is expected to decrease to 169 million hl, according to the Commission. This is about 8 percent less than last year. However this decrease is due to a smaller than normal harvest.

It is more unclear whether the grubbing-up system will really have any large up-take given that a majority of the EU vine growers are small family farms, many less than 1 ha, and many of the smaller vine farms in regions with poor soil have been vine growers for generations. For farmers who want to continue farming it might be difficult to find substitute crops.

The crises distillation of the surplus wine to make bioethanol for energy purposes has been widely criticized in the Union. The criticism is mainly due to the high costs. On the other hand this ethanol has represented an important part of the bioethanol used for energy purposes with in the Union.

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