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Reform of the Wine Sector

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Report Highlights:
The European Commission has announced plans for a fundamental reform for the EU wine sector. The main objectives are to increase competitiveness, strengthen the reputation of EU wines, win back market share, balance supply and demand, and also simplify the rules of the market organization. After considering four possible options, the Commission currently favors profound reform through either a one-step or a two-step approach.

Includes PSD Changes: No
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Reform of the Wine Sector

The European Commission has announced plans for a fundamental reform of the wine Common Market Organization (CMO).

The need for reform is made apparent by the increasing imbalance between supply and demand. Several factors condition the current market situation:

- A steady decline in overall EU consumer demand, and shifting patterns of consumer preferences (quality versus table wine, labeling, other alcoholic preferences etc…).
- Increasing imports of new wines, which are growing at a faster rate than EU exports. Since 1996, the volume of imports has grown at a rate of 10 percent a year, up to 11.8 million hl in 2005.
- The financial unsustainability of growing intervention stocks;
- The prospect of the EU accession of Romania and Bulgaria (both countries have significant wine production).

Assuming the wine CMO is unchanged, EU production could increase by 27 million hl by 2010/2011. This would be an increase of 15 percent from current production levels.

The **main objectives** of the European Commission's reform proposal are:

- To increase the competitiveness of EU wine producers, strengthening the reputation of EU quality wine, reestablish a presence in old markets, and win new markets worldwide;
- To create a wine regime that operates through clear, simple rules – to effectively ensure a balance between supply and demand;
- To create a wine regime that preserves the best traditions of EU wine production, and reinforces the social and environmental fabric of rural areas.

Four options have been under consideration

To address the inadequacies of the current Wine CMO, the European Commission considered four options:

- Option 1: the status quo with limited changes,
- Option 2: a profound reform of the Wine CMO,
- Option 3: an integration of the Wine CMO into the model of the reformed CAP,
- Option 4: the deregulation of the wine market

Under each of these options, the Commission evaluated the impact on the stability of the market, producers' revenues, the development of vine-growing regions, budgetary cost, the environment, etc. The Commission has published these impact assessments.

On the basis of these assessments, the Commission concluded that the status quo (option 1), the integration of the Wine CMO into the reformed CAP model (option 3) and the deregulation of the wine market (option 4) were not viable.

In practice, **option 2, the profound reform of the Wine CMO**, could potentially be implemented under two scenarios (version A or version B). Should the Member States accept the Commission reform proposal, there will be considerable debate over the merits of Version A and Version B.

VERSION A: A ONE STEP REFORM

The main feature is the rapid abolition of planting rights and the grubbing-up program. Under the current legislation, the planting rights regime expires on August 1, 2010. Simultaneously, the grubbing-up program would also be abolished. Vine-growers would then be free to proceed with grubbing-up at their own expense. Cultivated areas would enter into the single payment scheme. Member States could nevertheless maintain the right to limit the areas producing wine with a Geographical Indication.

VERSION B: A TWO-STEP REFORM

Version B sets a two-step process. After a rapid stabilization of the market through an ambitious grubbing-up scheme, there would be implemented plan to restore competitiveness. Facilitating this stabilization, least efficient wine producers would be encouraged to grub-up through the provision of an attractive financial incentive. This incentive would be progressively decreased each year, to encourage early adoption of the plan. The objective would be to uproot 400,000 hectares over five years, at a cost of €2.4 billion. The decision to uproot would be left entirely to individual producers, and Member States would have the authority to limit the application of this plan with their territory. Grubbed-up areas would automatically fall within the single payment scheme.

Other features that are common to both versions

- Abolition of distillation programs and other aid measures: All aids linked to wine surplus, which have not proved to be effective, would be abolished: distillations, storage aid, aids for the use of musts, and also the prohibition of "*chaptalization*" (adding sugar).
- Introduction of national envelops: Each Member State would be given the ability to finance measures necessary to modernize their own wine sector, taking account of the different needs of each region. "National envelops" would be defined on the basis of objective criteria enabling the use of certain measures for restructuring and crisis management.
- Promotion of rural development objectives: Rural development programs could be introduced to further help modernize the EU wine sector: pre-retirement aid, installation aid for young farmers, agri-environmental measures or investment aid to facilitate modernization in the transformation or sale of wine.

Quality standards, simpler and more effective labeling and enological practices

The regulatory framework on wine quality would be made compatible with the horizontal rules on Geographical Indications (PGI) and Protected Designation of Origin (PDO).

In this context, the Commission suggests to simplify the definition, classifying wine in two categories: "Wines with a Geographical Indication", comprising quality wines and those table wines with a Geographical Indication, and "Wines without a Geographical Indication", referring to those table wines not having a Geographical Indication.

The Commission proposes a clear distinction between Industrial Property Rights and labeling rules. It would also facilitate the production of wines from single variety grapes or from blends of two or more varieties. Enological practices allowed at international level by the International Organization of Vine and Wine (OIV) would be permitted for EU producers, pending a review by the European Commission. This would guarantee quicker acceptance of practices and application of new technical developments.

Finally, the Commission hopes to encourage EU wine producers to better meet consumer demand for "New World style" wines. With revised labeling guidelines, products would be authorized to mention vine varieties without a specific geographical indication. The new labels would aim to encourage greater harmonization of traditional terms, streamline the linguistic requirements, and liberalize the use of trademarks.

CALENDAR OF THE REFORM

On June 22, 2006, the Commission published its Communication to the Council and the Parliament, and also released its Impact Assessment report covering the several options and their likely effects. The reform of the wine CMO will be adopted through the EU consultation procedure. This procedure gives the decision making power to the Council, with the Parliament playing a role in consultation. In this case, the Economic and Social Committee, and the Committee of the Regions, will also be consulted. A legislative proposal will follow later this year, or in early 2007.

Current situation: Crisis distillation of wine in France, Italy, Greece and Spain

Just two weeks before publication of the reform proposal, the Commission announced that it had approved to open crisis distillation of wine for up to 5.6 million hectolitres in France and Italy. The excess of wine production was again due to falling prices and increasing stocks.

Under the current wine CMO, crisis distillation may be used as a market intervention tool to address exceptional disturbances created by major surplus. For France, a maximum of 1.5 million hectolitres of table wine and of 1.5 million hectolitres of quality wine has been offered for crisis distillation. For Italy, crisis distillation has been opened for a maximum quantity of 2.5 million hectolitres of table wine, and 100,000 hectolitres of quality wine. The Wine Management Committee has also approved distillation measures for Spain and Greece.

Wine crisis distillation volumes in 2004/05 and 2005/06

(000 Hl)	2004/05		2005/06			
	Distilled		Requested		Opened	
Table Wine	Italy	2,000	Italy	3,000	Italy	2,500
	Spain	4,000				
	Greece	340	France	2,000	France	1,500
	Hungary	400	Greece	370	Greece	370
	Total	**6,740**	**Total**	**5,370**	**Total**	**4,370**
Quality Wine			France	2,000	France	1,500
	France	1,100	Spain	300	Spain	300
	Greece	40	Greece	130	Greece	130
	Hungary	100	Italy	100	Italy	100
	Total	**1,240**	**Total**	**2,530**	**Total**	**2,030**

The price paid for the wine to be distilled is € 1.914 per percent volume and per hectolitre for table wine, and € 3.00 per percent volume per hectolitre for quality wine. The total cost to the EU budget is € 153 million, out of a total wine budget of € 1,494 million in 2006.

Agriculture Commissioner Mariann Fischer Boel has already pointed out that "crisis distillation offers temporary assistance to producers, it does not deal with the core of the problem - Europe is producing too much wine for which there is no market."

France has already expressed its dissatisfaction with steps taken by the Commission. Despite the fact that the recent distillation approval was an increase from 2004/05, France has complained that the Commission's approval fell 1 million hectolitres short of the requested amount. French Farm Minister Dominique Bussereau has therefore announced additional French national aid for the wine sector, looking to supplement the EU price up to €3.35 per percent volume per hectoliter for table wine and 2.90 for quality wine, up to € 5,000 and 450 hectoliters per farmer of each quality and table wine. However, there will probably need to be some determination to see whether this supplement is compatible with EU state aid rules, which impose a limit of 3,000 euro per farmer over 3 years. The Commission is expected to review the situation once the French Government formally presents it to the Commission.

In April, earlier this year, the French government presented a memorandum, which was also signed by Spain, Portugal and Italy – the four countries represent 90 percent of EU wine production. The 4-page paper recognized the EU consumption stagnation, and the increase in competition of New World wines. The memorandum underscored the need to address four main priorities: better organization of EU production; improvements in marketing; a clear defense of geographical indications; and the need to retain most of the tools to regulate the market and effectively manage crisis. Soon after the publication of Commission's reform proposal, the French government released a communication to indicate its dissatisfaction. Spain has also indicated that will not agree with any proposal that could adversely affect Spain's wine competitiveness.

COPA-COGECA, which represents many EU wine producers and cooperatives, has expressed deep disappointment with the Commission's proposals for wine reform. Although COPA-COGECA generally agrees with the need for reform of the European wine sector, they have expressed serious concerns with several aspects of the Commission's proposals. According to COPA-COGECA, extensive vineyard grubbing could destabilize the economies in several regions and also carry some serious environmental problems. The resulting reduction in wine production could also concede significant market share to imported wines from third countries. COPA-COGECA firmly opposed to winemaking with must from third countries, and also to the mixing of European wines with wines from third countries. The EU farm union also criticizes the Commission for its expectation of modernizing the sector without making adequate funds available to achieving this goal.

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