

# Evaluation of Common Agricultural Policy measures applied to the wine sector

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# EVALUATION FRAMEWORK

- Council Regulation (EC) n° 479/2008 of 29 April 2008
- Council Regulation (EC) n°1782/2003 of 29 September 2003
- Council Regulation (EC) n° 1234/2007 of 22 October 2007 (Single CMO)
- All wine producers Member States
- Fourteen case study regions: Mosel, Baden-Württemberg, La Rioja, Castilla-La Mancha, Comunidad Valenciana, Champagne-Ardenne, Aquitaine, Languedoc-Roussillon, Veneto, Toscana, Sicilia, Douro, Del Alföld, South-East Romania
- UK market case study

# THE LEGISLATIVE FRAMEWORK

Regulation (EC) n° 479/2008, integrated in 2009 in the “Single CMO”, deeply reforms the 1999 wine CMO. It aims to guarantee both the competitiveness and the sustainability of the wine sector.

The reform represents a shift from a support system based on intervention and measures for limiting production to a system aimed at decoupling and with reduced number of regulatory instruments. It foresees:

- a new programming approach of the EU measures based on five-year **National Support Programmes**. MS may choose among 11 measures.
- **Regulatory measures** including: general rules, oenological practices, rules on designations of origin, geographical indications and traditional terms (from 01/08/2009), labelling rules, rules on producer organisations and inter-branch organisations.
- **Trade with third countries**: import or export licence, Common Customs Tariff, tariff quotas and additional duties on imports of certain products.
- **Production potential**: planting rights are maintained until 31/12/2015 (31/12/2018 at the latest), grubbing-up scheme (until the end of the wine year 2010-2011).

# EVALUATION SCOPE

Assess the **impacts of the CAP measures applied to the wine sector since the 2008 reform** on:

- production and production structures;
- wine growers' income;
- wine producers and enterprises involved in wine processing and marketing of wine products;
- wine products: quality, market balance and on the competitiveness of EU wine products on the EU and international markets;
- efficiency and coherence.

# METHODOLOGICAL APPROACH

The evaluation judgment is based on the following analyses :

- Statistical **analysis of secondary data** from various sources (DG AGRI, EU Regulations, MS, EUROSTAT, COMEXT, COMTRADE, official national statistics and FAO) for the period 2001-2010/2011.
- **Analysis of FADN data** concerning the impact of CAP measures on wine growers' incomes in 12 case study regions and in the producer MS over the 2003-2009 period.
- A qualitative analysis of **information collected from public authorities and agricultural and industrial sector representatives**.
- A qualitative analysis of the results of **three mail surveys through questionnaires** addressed to samples of wine industries, distilleries and public authorities.
- Qualitative analysis of merchandise reviews of EU and third country wines in **food retail chains and wine specialist stores**.

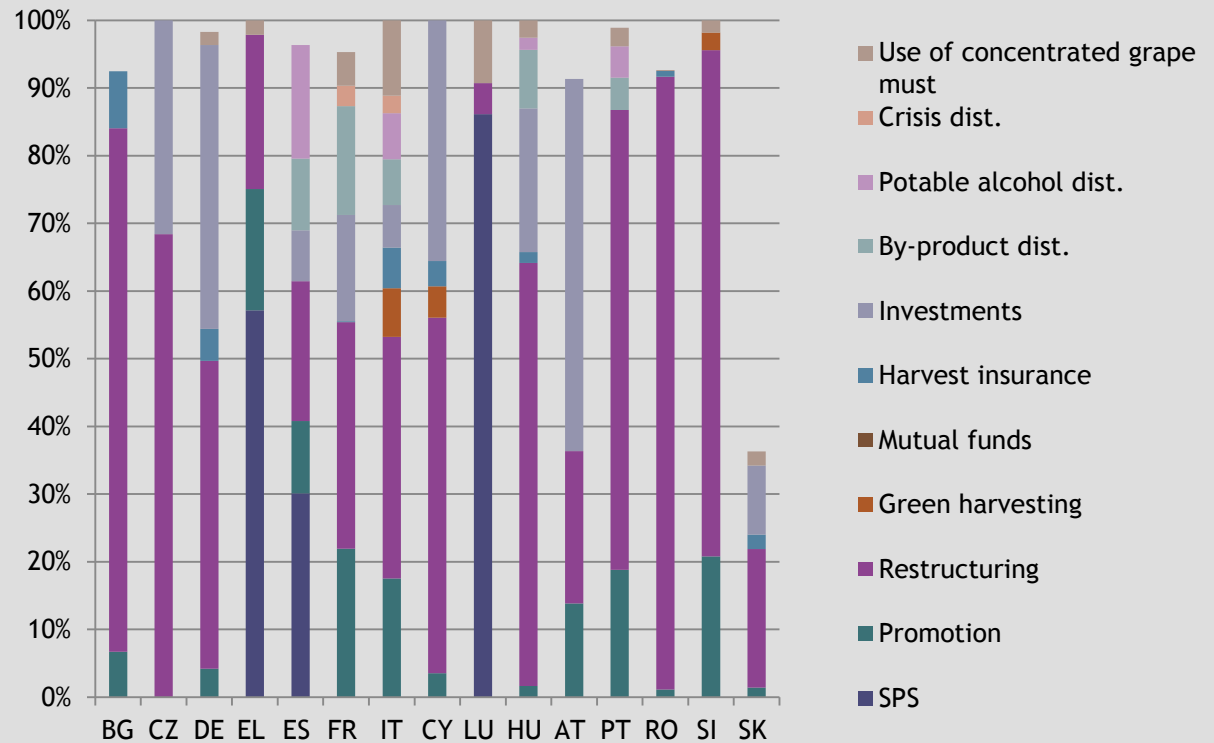
# OVERVIEW OF MEMBER STATES SUPPORT PROGRAMMES

National Support Programmes  
5 years budget (1,000 euro)

BG	112 683
CZ	21 640
DE	163 835
EL	101 475
ES	1 487 852
FR	1 186 810
IT	1 508 531
CY	19 586
LU	2 478
HU	122 175
AT	57 763
PT	274 035
RO	210 500
SI	21 389
SK	21 250
LT	202
MT	1 455
UK	372
Total	5 314 031

Source: DG AGRI

Breakdown of National Support Programmes by measure  
(%, programming 15/04/2011)



LT - 100% promotion; MT and UK -100% SPS  
The measure Mutual Funds was not chosen by any MS  
On-going plans are not included in the graph

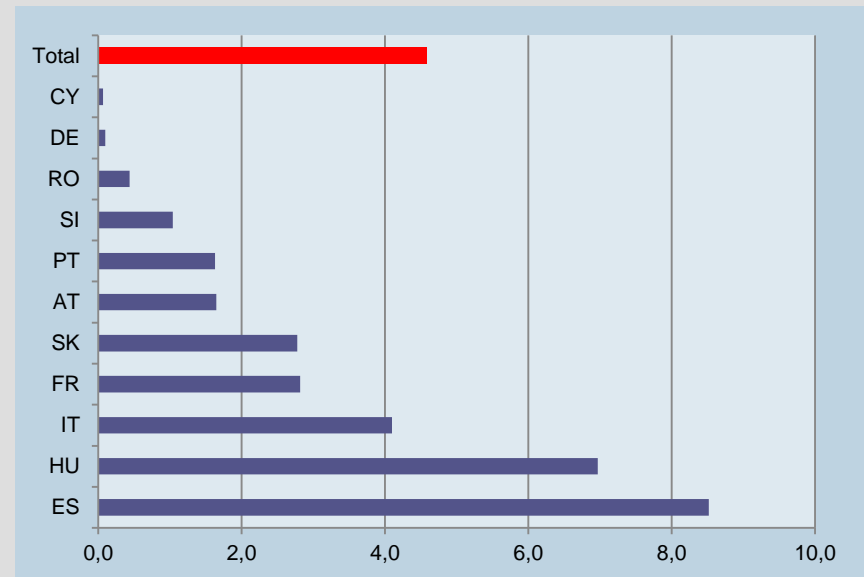
Source: DG AGRI

# MAIN CONCLUSIONS

# IMPACT ON PRODUCTION AND STRUCTURE OF PRODUCTION/1

- At the EU level, the implementation of the reform has led to a decline in production potential compared to the pre-reform period, but wine volume supplied to the market has not declined proportionately.
- Nevertheless, the implementation of the grubbing-up scheme has had a significant effect on EU vineyard area (-4.6%).

% grubbed up area/total area



Source: DG AGRI

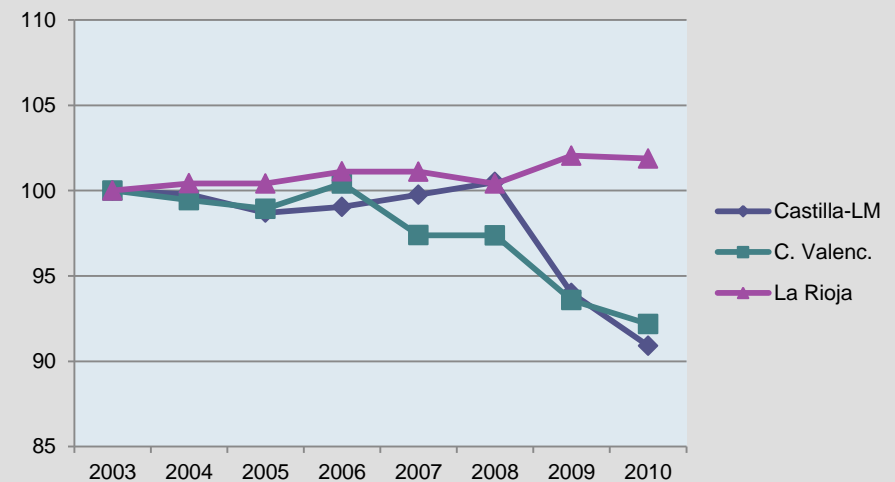
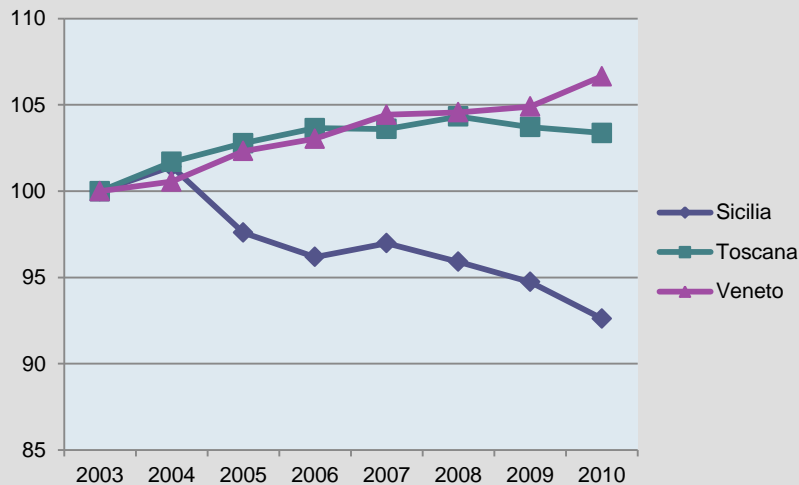
- The end of aid to potable alcohol distillation in Spain (replaced by the single payment in 2011) should have shifted significant volumes on the market for wines without GI (around 3,000,000 hl). Decoupling seems to have caused a considerable decline in the volume of wine for potable alcohol distillation. The shift of such volumes on the market could be sufficient to alter market balance.



# IMPACT ON PRODUCTION AND STRUCTURE OF PRODUCTION/2

- The transitional planting right regime is not a determining factor in the evolution of vineyards given the existence of a planting rights' market.

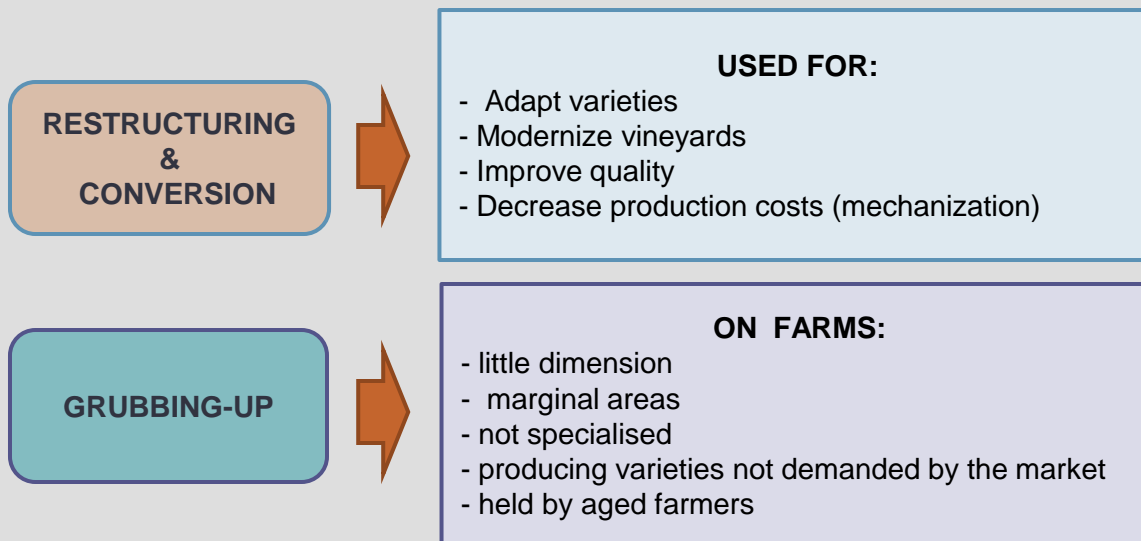
Vineyard area Index number (2003-2010, NI 2003=100)



Source: National Authorities

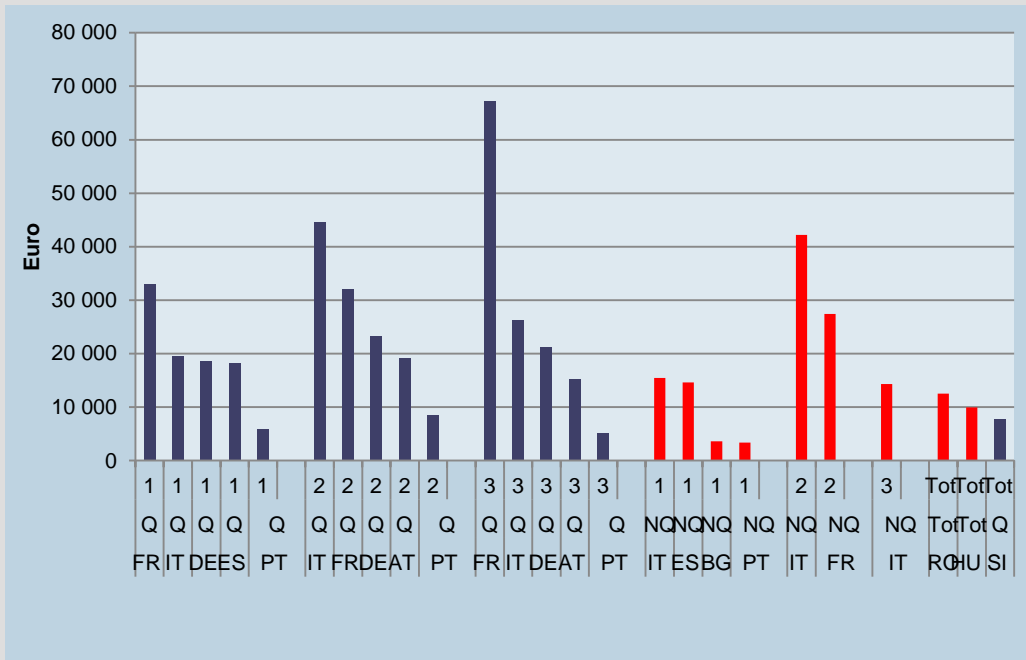
# IMPACT ON PRODUCTION AND STRUCTURE OF PRODUCTION/3

- The measure for "restructuring and conversion of vineyards" should have helped improve the quality at the agricultural level. However, the effects are not yet measurable in practice.
- The grubbing-up scheme has had an impact on the structure of production, albeit in a differentiated way depending on the region where it has been implemented.



# IMPACT ON WINE GROWERS INCOME/1

- In the analysed MS and regions, wine growers' incomes and their evolution over time are relatively differentiated from one group to another.
- Income variability is also heterogeneous depending on the MS / region and according to farm specialization.



Income (FNVA/AWU) in Member States (euro)

Q = Quality wines (PDO wines)  
 NQ = Non quality wines (non PDO wines)

1 = growers selling only grapes  
 2 = growers selling only wine  
 3 = growers selling grapes and wine

Source: FADN

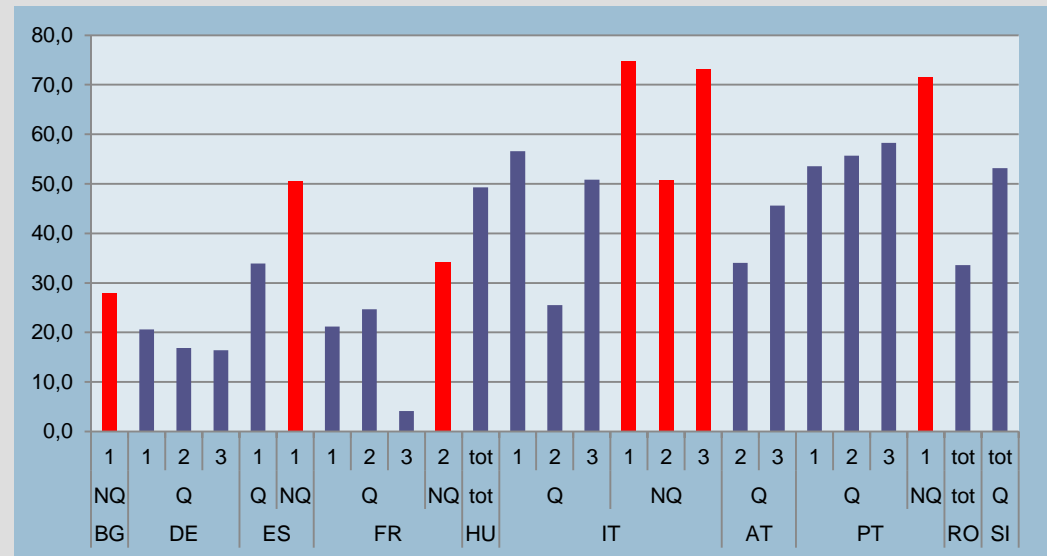
# IMPACT ON WINE GROWERS INCOME/2

- The implementation of support measures has had differentiated effects on wine growers' income: positive effect in the case of single payment and crisis distillation, less positive in the case of green harvesting.
- In most analysed regions, the grubbing-up premium compensates the loss of farm capital represented by the vineyard. In the hypothesis that this premium is invested in 5-year bonds, the income generated by this investment does not compensate the loss of income due to cessation of production.
- However, the resulting income loss is more than compensated in most cases where vineyards are replaced by other permanent crops (fruits, citrus and olive orchards).

# IMPACT ON WINE GROWERS COMPETITIVENESS

- In almost all MS and case study regions, there is a proportion of unprofitable farms that fail to fully compensate the factors of production, including the cost of hired labour, but in particular the cost of family labour.
- This proportion of farms is very high (more than 50%) in some MS / regions and in general, in the group of farms specialised in the sale of grapes for non-PDO wine production.

% of unprofitable farms by Member State



Source: FADN

- The restructuring and conversion of vineyards, where the measure is aimed at developing mechanization, should help increase the competitiveness of wine growers / makers.
- The grubbing-up scheme has also helped to increase the sector's overall competitiveness.

# IMPACT ON WINE PRODUCERS/1

- In general, changes in overall performance of companies do not seem related or only in a limited way to the implementation of the reform.
- Nevertheless, a **positive role** is recognized for:
  - ✓ the conversion / restructuring of vineyards, with effect on the quality of the grapes and thus wine, and;
  - ✓ promotion on third country markets with effect on the expansion of markets.
- On the contrary, a **negative role** is attributed to:
  - ✓ the grubbing-up scheme, which has created problems of supply of raw materials, and;
  - ✓ the maintenance of chaptalisation.

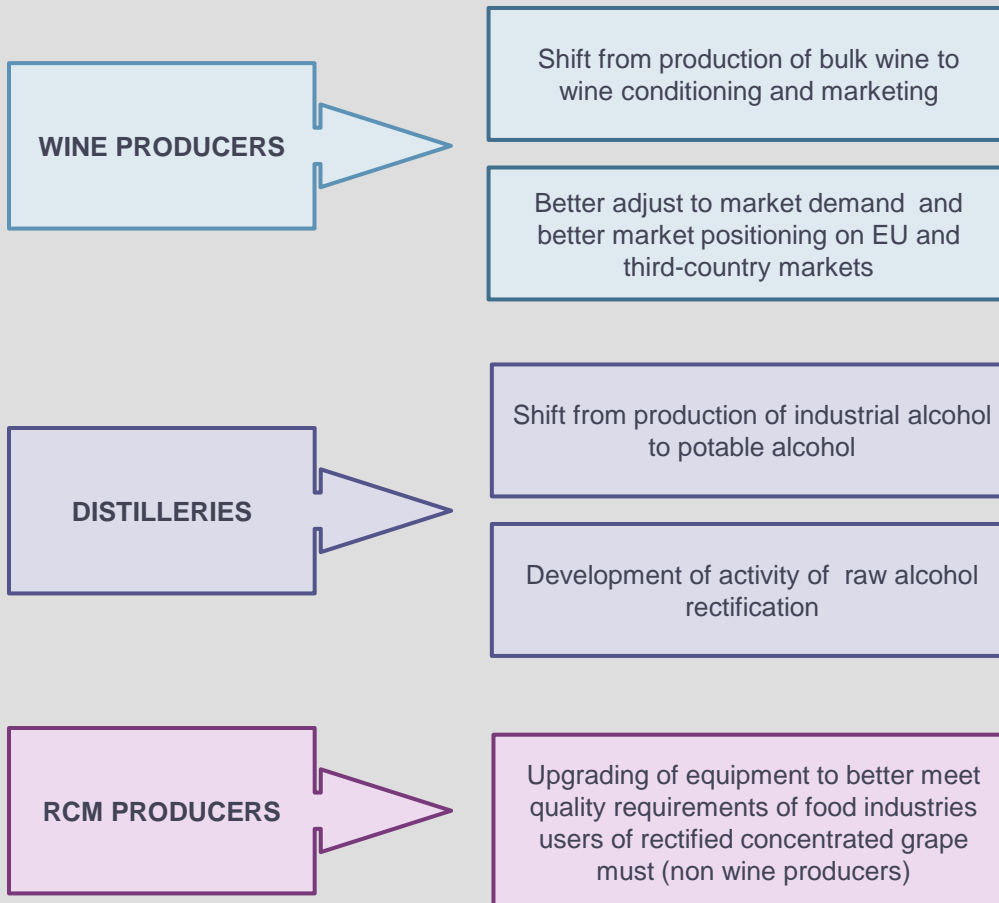


In this latter case, the withdrawal of aid for the use of concentrated and rectified grape must can create problems of distortion of competition between firms located in areas where chaptalisation is authorized and those located in regions where the practice is prohibited by the regulation.

# IMPACT ON DISTILLERIES AND PRODUCERS OF RCM

- The **abolition of subsidies for distillation** (crisis and potable alcohol) had / can have negative effects on wine alcohol production and, therefore, on the overall performance of distilleries. In this context, support to by-products distillation was crucial for distilleries, including those that produce industrial alcohol.
- The **abolition of aid to the use of concentrated grape must** and rectified concentrated grape must can have negative effects on the overall performance of companies producing these products, but more limited than for the distilleries.

# ADAPTATION STRATEGIES OF PRODUCERS



Moreover:

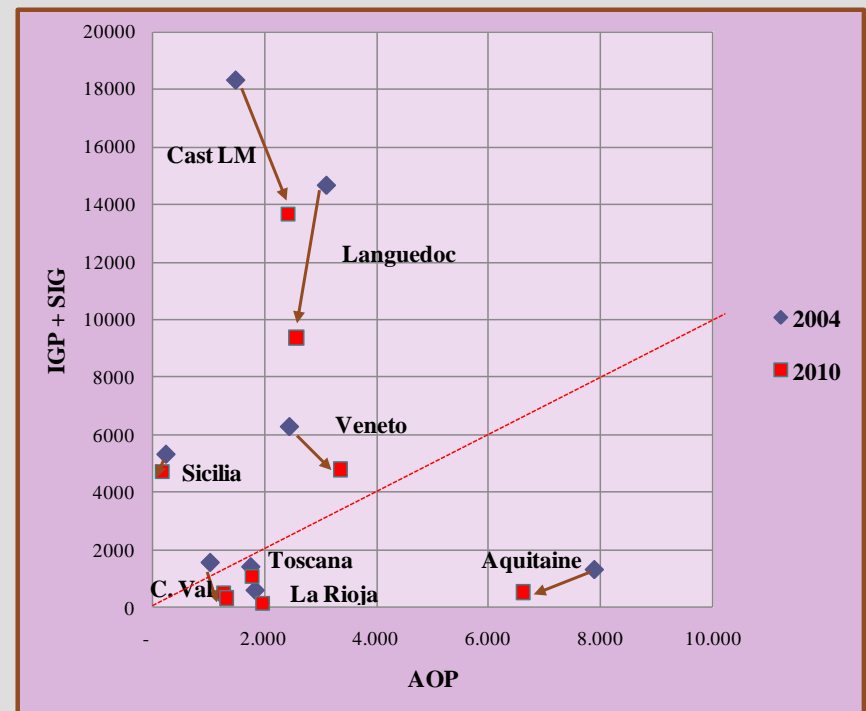
- Some weaknesses of PDO and PGI wines may limit the interest of companies including those export-oriented:
  - ✓ a high number of wines with GI with very limited average production each in some MS / regions and;
  - ✓ lack of interest on the part of retail chains of non-producing countries to use the PDO and PGI labels as quality criterion.
- The role of Producers Organisations and Inter-branch Organisations on improving the marketing of wines and stabilising markets is very limited and highly concentrated in few MS / regions.



# IMPACT ON WINE QUALITY

Production of PDO and (PGI+Without GI): variation between 2004 and 2010  
(1 000 hl)

- The PDO / PGI system favoured the increase of production of wine with GI in most producer MS and case study regions.
- Varietal wines have so far seen limited development. However, especially in Italy but also in France, indication of individual varieties exists for many PDO and PGI wines.
- As far as other CMO measures are concerned, the effects on wine quality are difficult to quantify at present and will be observable only in the longer term.

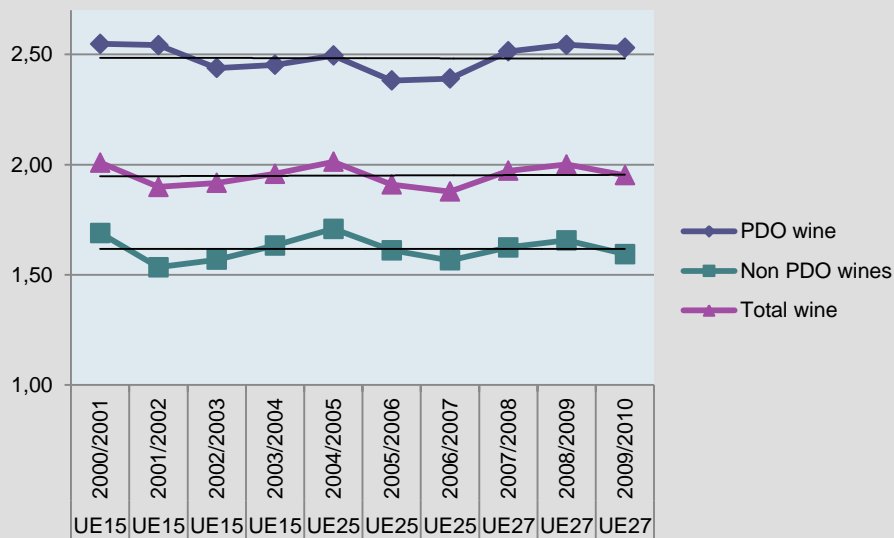


Source: National Authorities

# IMPACT ON MARKET BALANCE

The EU wine market has largely been in equilibrium throughout the 2000/01-2009/10 period. A somewhat similar situation is observed in France and Spain. There are no stocks accumulated, with the only exception of Italy where a slight stock of PDO wines has built up.

Evolution of the ratio total availability/total use  
(2000/01-2009/2010 (%))



Source: DG AGRI

However, this equilibrium is the result of opposite trends in the various balance sheet components:

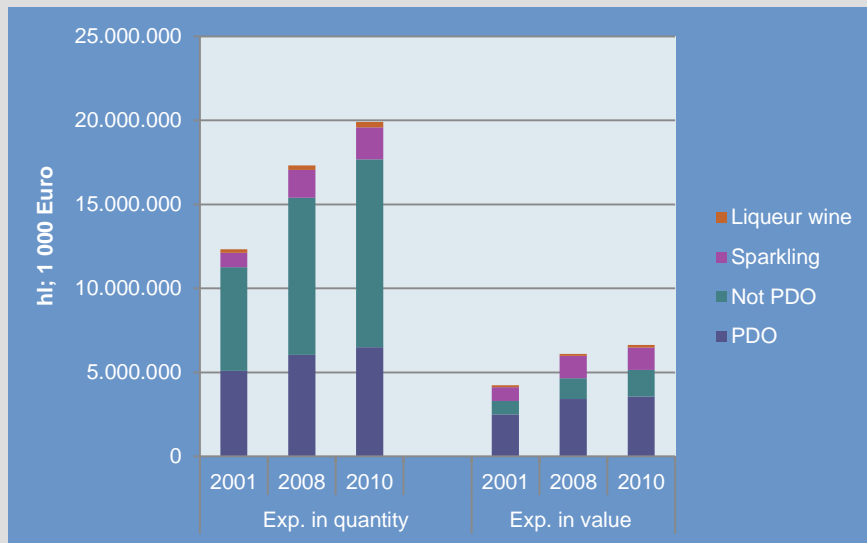
- ✓ the gradual reduction of distillation seems to have been offset by a gradual increase in exports (non-PDO as well as PDO wines) and,
- ✓ the increase in imports was offset by a parallel increase in exports. These developments are underway since the beginning of the decade.

Therefore, the 2008 reform does not seem to have had any important effects.

# IMPACT ON THE COMPETITIVENESS OF EU WINE/1

The analysis highlighted the existence of factors beyond the policy, playing a role on the competitiveness of EU wines: the global economic crisis, fiscal policies adopted by different countries, the euro / dollar exchange rate, and market power of food retail chains.

EU wine exports (2001, 2008 and 2010, hl, 1,000 euros)



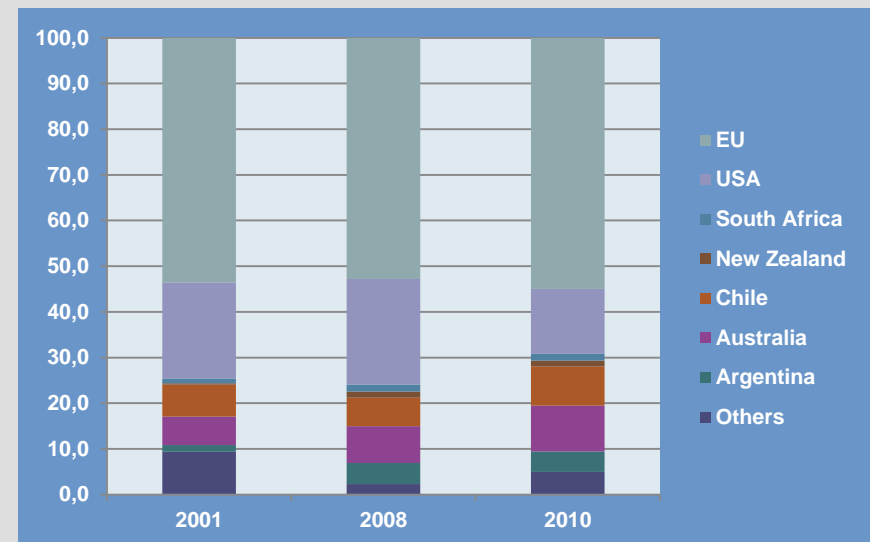
Source: COMEXT

- EU wine export increased. However, different trends are observed for PDO and non-PDO wine exports, as well as in export volumes and values.
- Moreover, most of the market growth was concentrated in a very limited number of third countries that are emerging economies (Brazil, China, Hong Kong). Therefore, it is not possible to establish whether the implementation of the reform, namely the promotion of PDO wines, contributed to this growth.

# IMPACT ON THE COMPETITIVENESS OF EU WINE/2

- In all eight traditional importers<sup>2</sup>, imports from the EU grew less after 2008 than in the previous period, albeit the slowdown was smaller than that of their total wine market. Therefore, the market shares of EU wines increased.
- However, market share of bulk wine has increased more than that of bottled wines. Again, the overall performance is determined by a very limited number of third countries.
- It is not possible to draw clear conclusions on the ability of the reformed CMO, in particular of the promotion measure, to boost the competitiveness of EU wine on third country markets.

EU and competitors' market shares in volumes



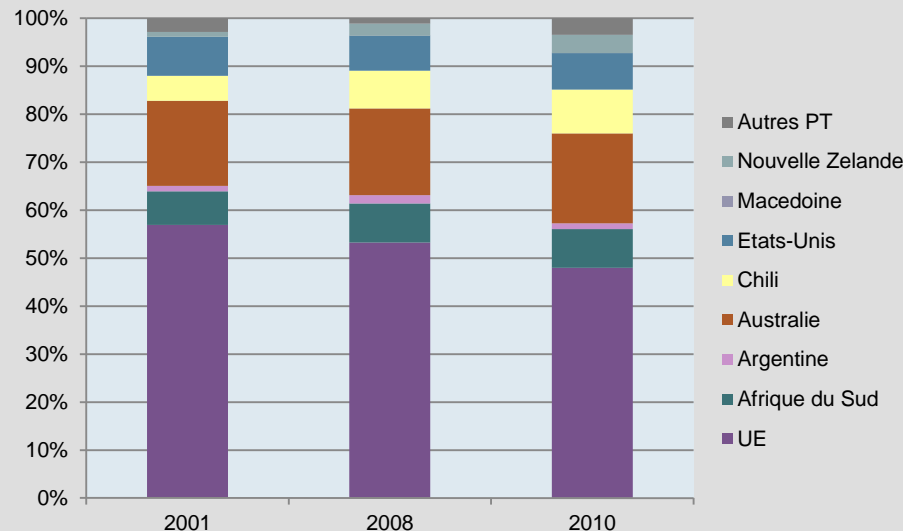
Source: COMTRADE

<sup>2</sup> For which data are available: USA, Russia, Switzerland, Canada, China, Japan, Norway, Brazil.

# IMPACT ON THE COMPETITIVENESS OF EU WINE/3

On the markets of some MS producing little wine or none at all, the market share of EU wines has been eroded over time to the benefit of imported wines. The lack of specific CMO measures to guide the preferences of retailers and consumers towards EU wines has not helped reverse this trend. This is particularly true in the case of PDO wines for which interest of retailers (and consumers) in non-producing MS is limited.

UK market shares of EU and third-country wines



Source: COMEXT

# EFFICIENCY/1

With respect to the **objective of stabilisation of the wine market**:

- Grubbing-up is more efficient than the distillation measures, in particular crisis distillation (expenditure/hl is lower). Moreover, in Sicilia crisis distillation is more efficient than green harvesting (expenditure/hl is higher).

Regarding the **objective of stabilising producer incomes**:

- In Spain aid for potable alcohol distillation is efficient.
- In the same MS, the single payment is efficient (but not sufficient) for growers who have decided to continue producing for potable alcohol distillation, whereas it is not efficient if they have re-orientated production towards non-PDO wines.



The latter case is likely to distort competition between wine growers receiving the single payment and those who are not entitled. Growers receiving the single payment may decide to lower their selling prices thus maintaining a level of income higher than that of wine growers who are not entitled to single payment.

# EFFICIENCY/2

Regarding the **objective of strengthening the competitiveness of EU producers and wines:**

- the measures for "conversion / restructuring of vineyards" and "investments" are efficient, but the terms of implementation in some MS/regions have reduced efficiency.
- A judgment on the efficiency of the measure "promotion on third country markets" is less straightforward, due to factors related to implementation strategy and rigidity of procedures adopted by some MS / regions.

Efficiency of **measures implementation in the form of national support programmes:**

- Concerning the flexibility and adaptability of measures to local needs of wine sectors, the implementation in the form of national support programmes has been effective. However, problems limiting the effectiveness (and efficiency) have appeared, but they are related to the policy management.
- Concerning simplification of administration and management of the measures applied to the sector, the programming approach did not allow to achieve simplification.

# COHERENCE BETWEEN MEASURES APPLIED TO THE WINE SECTOR AND RURAL DEVELOPMENT MEASURES

At the theoretical level, there is overall consistency between the objectives of the CMO measures and those of RD policy. However, there are reservations about certain objectives, relative to:

- the objectives of competitiveness, gaining new markets and balance between supply and demand, given that support through the second pillar encourages less competitive / sustainable production methods and not only production driven by market signals.

In some MS / regions a clear demarcation between RDP measures and CMO measures was difficult to define, which led to delay in the implementation (i.e investments).



# COHERENCE WITH THE PRINCIPLES OF THE 2003 CAP REFORM AS WELL AS THE OVERALL EU OBJECTIVES

There is overall coherence between the objectives of the reformed wine CMO and the principles of the 2003 CAP reform as well as the overall objectives of EU agriculture. However, in some cases the coherence is not that strong.

- The main reservation concerns inconsistency between the measure for promotion on third country markets (promotion of private brands) and that of Regulation (EC) n° 3/2008 (allowing generic promotion).
- Concerning the distortion of competition, the introduction of the single payment scheme in Spain and the possibility to shift production from wine for potable alcohol distillation to still wine opens the market to possible new competitive relationships.
- Moreover, the abolition of support to the use of concentrated grape must can lead to a distortion of competition between regions that can/can not use sucrose.

# RECOMMENDATIONS

## The evaluation results lead to the following recommendations:

1. Concerning the measure for "**promotion on third country markets**", it would be appropriate to revise the criteria in order to facilitate access to the measure also to small businesses that do not always have adequate financial resources.

Moreover, it would be appropriate to extend the measure for "promotion" also to the EU market, with the same terms and procedures established for third countries.

Finally, it may be appropriate to extend the eligibility of the promotion measure beyond wines with GI and varietal wines, to other wines without GI, but possessing the quality standard required by target markets.

2. The measure "**mutual funds**" has not been selected by any MS. It would be appropriate to review the terms of support for this measure in order to increase its attractiveness.

4. The different rules concerning **enrichment** could result in a distortion of competition between firms that can utilise sucrose and those under Regulation (EC) n° 1234/2007 who cannot. Given this distortion, it could be desirable to revise the system.
5. Considering that the closing down of **distilleries** would cause environmental problems in areas where alternative by-product uses are not easy to develop in the short-term or they are not economically viable, the Commission should be sufficiently attentive to this issue.
6. With respect to the **PDO/PGI system** the evaluator suggests to think about a new segmentation of wines in relation to the concept of wine "quality" as perceived by consumers.

7. Concerning the "**single payment scheme**", it would be advisable to control that situations of distortion of competition do not arise as a consequence of the implementation of this measure.
8. We suggest that the MS improve their monitoring of **producers organisations and interbranch organisations** so as to annually assess output shares (in value and volume). Improved knowledge may constitute a preliminary assessment to be used to adapt particular actions of national programmes.
9. Finally, improvements in the **procedures for envelope management** are recommended in order to provide more flexibility to the Authorities in charge.