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EVALUATION OF COMMON AGRICULTURAL POLICY MEASURES APPLIED TO THE WINE SECTOR



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THE REFORM OF THE WINE CMO

The 2008 reform of the wine CMO is part of the 2003 CAP reform, established through Regulation (EC) n° 1782/2003.

Regulation (EC) n° 479/2008, integrated in 2009 in Regulation (EC) n° 1234/2007 or "single CMO", deeply reforms the 1999 wine CMO.

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 aims to guarantee both the competitiveness and the sustainability of the wine sector and it foresees:

- A **new programming approach** of the EU measures based on five-year National Support Programmes. Member States 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).



OBJECTIVE AND METHODOLOGY

The purpose of the evaluation is to assess the effects of the reformed Common Agricultural Policy (CAP) measures applied to the wine sector.

The evaluation covers the 2001-2011 period distinguishing between years before and after the implementation of the 2008 reform. The evaluation interests the 18 Member State wine producers and examines in detail 14 case study regions¹ and the UK market.

The path of analysis for the evaluation is based on the methodology proposed in the structuring phase, in turn derived from the theoretical analysis of CAP measures applied to the wine sector.

¹ Mosel, Baden-Württemberg, La Rioja, Castilla-La Mancha, Comunidad Valenciana, Champagne-Ardenne, Aquitaine, Languedoc-Roussillon, Veneto, Toscana, Sicilia, Douro, Del Alföld, South-East Romania.

The methodology applied in this evaluation combines quantitative analysis with collection and analysis of qualitative data:

- Statistical analysis of secondary data from various sources for the period 2001-2010/2011.
- Analysis of FADN data concerning the impact of CAP measures on wine growers' incomes 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 addressed to samples of wine industries, distilleries and public authorities.
- A qualitative analysis of merchandise reviews of EU and third country wines in food retail chains and wine specialist stores.

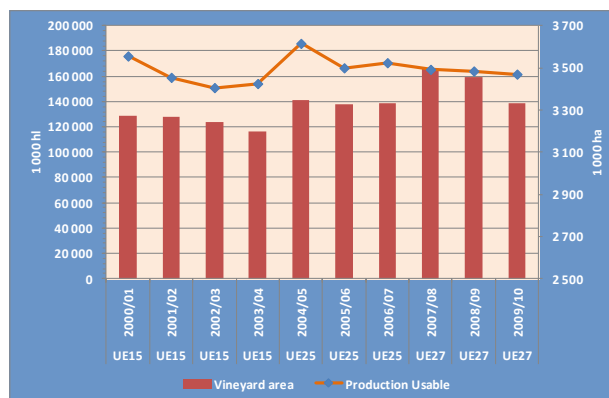
Limits of the evaluation

- The analysis of effects of the reform was only possible for three marketing years 2008/2009-2010/2011.
- Different sources provide different data.
- Certain measures do not produce immediate results (e.g. restructuring, promotion, investments), real effects cannot be measured in the short time frame of this evaluation.
- The most recent available FADN data are 2009 data. Thus FADN sample data was used as a baseline for simulations.
- Lack of secondary data on developments in the performance of wine enterprises.

IMPACT OF THE REFORM ON PRODUCTION AND STRUCTURE OF PRODUCTION

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%).

EU vineyard area and production (2000/01-2009/10)



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 Geographical Indication (GI). 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.

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



The implementation of the measure for "restructuring and conversion of vineyards" should have helped improve the quality at the agricultural level. However, given the time delay in the actual start of production of restructured vineyards, the effects are not yet measurable in practice.

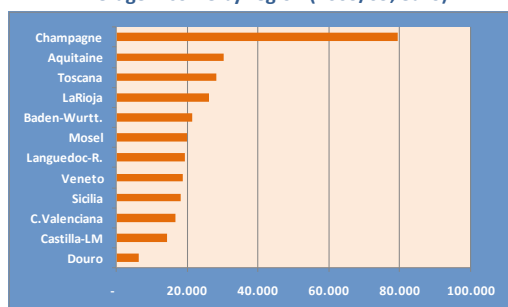
The grubbing-up scheme has had an impact on the structure of production, albeit in a differentiated way depending on the region where it has been implemented.

IMPACT ON WINE GROWERS INCOME

The analysis, based on FADN data, covered wine growers as well as farms producing and selling wine, distinguishing between different farm typologies (specialised in PDO/non-PDO wines).

In the analysed Member States and regions, wine growers' incomes (FNVA/AWU) and their evolution over time are relatively differentiated from one group to another. Furthermore, income variability is also heterogeneous depending on the Member State/region and according to farm specialization.

Average income by region (2003/09, euro)



Source: FADN

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. The results of the counterfactual analysis under the hypothesis that this premium is invested in 5-year bonds

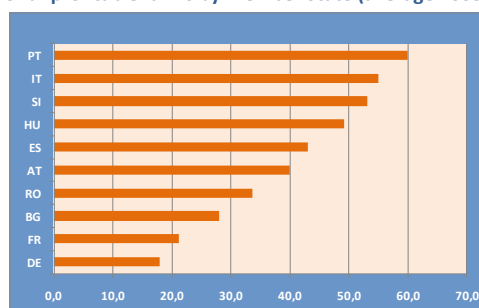
shows that the income generated by this investment does not compensate the loss of income due to cessation of production. However, the resulting income loss is more than compensated in most cases where vineyards are replaced by other permanent crops (fruit, citrus and olive orchards).

IMPACT ON WINE GROWERS' COMPETITIVENESS

Two indicators were used for this analysis: the margin on variable costs including the cost of hired labour and the margin on variable costs including both the cost of hired labour and the value of family labour.

In almost all Member States 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 (higher than 50%) in some Member States/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 (average 2003/09)



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 improve the sector's overall competitiveness.

IMPACT OF WINE MEASURES ON WINE PRODUCERS

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 for 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 to 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.

The reform as a whole has led a significant proportion of companies to adapt their strategies, particularly to better adjust to market demand and better market positioning on EU and third-country markets.

The shift from production of bulk wine to wine conditioning and marketing is the most important adaptation strategy adopted by the majority of wine producers well before 2008.

Some weaknesses of PDO and PGI wines may limit the interest of companies including those that are export-oriented: a high number of wines with GI (1560) with very limited average production in some Member States/regions and lack of interest on the part of retail chains of non-producing countries (EU and third countries) to use the PDO and PGI labels as quality criterion.



IMPACT OF WINE MEASURES ON DISTILLERIES AND PRODUCERS OF CONCENTRATED/RECTIFIED GRAPE MUST

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 for 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.

IMPACT ON WINE QUALITY

The PDO / PGI system introduced in the wine sector by the CMO reform favoured the increase of production of wine with Geographical Indication in most producer Member States and case study regions, although harmonization has required an adjustment of national systems in some Member States (notably France) and was set up late in others (i.e. Germany). So far, the system has not had very important effects on the production of varietal wines without GI.

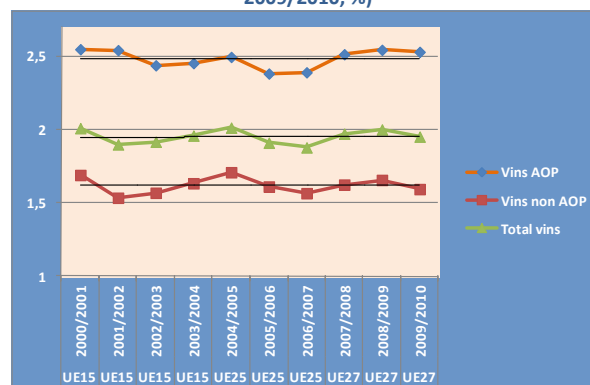
Varietal wines have so far seen limited development. However, especially in Italy but also in France, indication of individual varieties exists for many PDO and PGI wines, which also explains the limited number of varieties for which mention of variety is authorized (wines without GI).

As far as other CMO measures are concerned, the effects on wine quality will be observable only in the longer term.

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

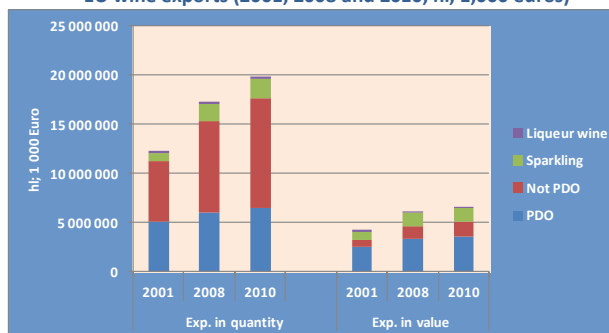
However, this equilibrium is the result of opposite trends in the various balance sheet components: the gradual reduction of distillation seems to have been offset by a gradual increase in exports (non-PDO as well as PDO wines) and the increase in imports was offset by a parallel increase in exports. These developments are underway since the beginning of the decade. Therefore, the 2008 reform does not seem to have had any important effects.

Notwithstanding these findings, the implementation of the grubbing-up scheme has contributed to maintaining market equilibrium.

IMPACT ON THE COMPETITIVENESS OF EU WINE PRODUCTS ON THIRD-COUNTRY AND EU MARKETS

EU wine export to the group of ten traditional markets² and to all new markets 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.

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



Source: COMEXT

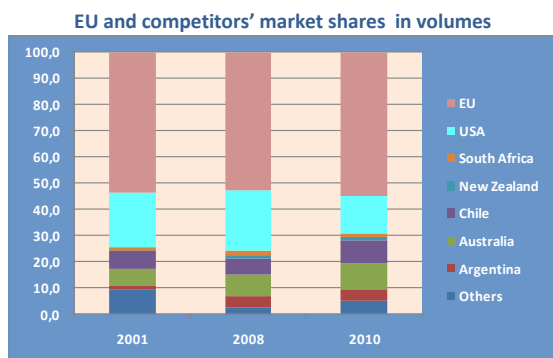
In all eight traditional importers³, imports from the EU grew less after 2008 than in the previous period (as an effect of the economic crisis), albeit the slowdown was smaller than that recorded for their total wine market. Therefore, the

² In decreasing order of importance : USA, Russia, Switzerland, Canada, China, Japan, Angola, Norway, Brazil, Ivory Coast.

³ Those for which data are available: USA, Russia, Switzerland, Canada, China, Japan, Norway, Brazil.

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.

In the eight traditional importers, the ratio between "average prices of EU wine / average prices of competing wines" shows different values. The decrease in the ratio for bulk wines after 2008 suggests larger export volumes of lower quality wines, wines that were possibly previously produced for the potable alcohol market.



Source: COMTRADE

Ultimately, 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. It should be mentioned that wine producers' opinion about the measure for promotion on third country markets is mostly a positive one, in spite of lack of statistical evidence in most analysed countries.

On the markets of some Member States 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 Member States is limited.

EFFICIENCY OF MEASURES APPLIED TO THE WINE SECTOR

With respect to the objective of stabilisation of the wine market, the results show that grubbing-up is more efficient than the distillation measures, in particular crisis distillation. Moreover, in Sicilia crisis distillation is more efficient than green harvesting.

Regarding the objective of stabilising producer incomes, in Spain aid for potable alcohol distillation is efficient. In the same Member State, the single payment, which substitutes aid to potable alcohol distillation, 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.

Regarding the objective of strengthening the competitiveness of EU producers and wines, the measures for "restructuring of vineyards" and "investments" are efficient, but the terms of implementation in some Member States/regions have reduced efficiency.

Providing 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 Member States/regions.

EFFICIENCY OF THE NATIONAL SUPPORT PROGRAMMES

Concerning the flexibility and adaptability of support measures to local needs of wine sectors, the implementation of measures 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 WINE MEASURES AND RURAL DEVELOPMENT MEASURES

At the theoretical level, there is overall consistency between the objectives of the CMO measures and those of Rural Development policy. However, there are reservations about certain objectives.

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

In some Member States/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 BETWEEN THE OBJECTIVES OF THE WINE CMO AND 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.

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.

