

# COMMISSION OF THE EUROPEAN COMMUNITIES

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COMMISSION COMMUNICATION TO THE COUNCIL

DEVELOPMENT AND FUTURE OF WINE SECTOR POLICY

Commission discussion paper

1. THE PRESENT SITUATION AND PROBABLE FUTURE TRENDS

1. As agreed with the Council at the time of the latest price-setting round, the Commission has made a thorough analysis of the present situation and likely trends for the Community wine sector and the market organization (MO).

The major basic problem is a structural imbalance of the market, inbuilt and permanent, that the MO mechanisms have failed to bring under control.

2. The decline in consumption, of some 2 million hl a year, i.e. 1.6%, is a heavy constraint to which no end is in sight. It is particularly marked for table wines but for quality wines <sup>psr\*</sup> as a whole the market is at least saturated. In any case the two markets overlap to a substantial extent. The harmonization of indirect taxes on alcoholic drinks, decided by the Council in October 1992, does not make any marked difference to average excise and VAT rates in the sector and is hardly likely to affect consumption. The new vine products (alcohol-free and light 'wines', semi-sparkling grape drinks, wine coolers, etc.) so far developed do not really offer any significant relief either.

Nor is the world situation favourable. New competitors with lower production costs than those of the Community are appearing: eastern Europe, Argentina, Chile, Australia and the United States. The Community market is, irrespective of any GATT agreement, likely to become more open to imports in coming years, while exports, most of which do not qualify for refunds, will undoubtedly even in the best cases hit a ceiling.

3. In this unfavourable situation the trend in Community production potential has not been adequately controlled by the MO mechanisms. A rapid survey will confirm this.

While areas under vines, at present some 3.5 million ha, are dropping they are not doing so at the same rate as consumption. There is no new planting (except fraudulently or by special authorization) but permanent grubbing amounts to only about 50 000 ha a year and the premiums granted seem more to accompany than to foster a natural decline in areas under vines.

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\* Quality wines produced in specified regions.

Yields are increasing at around 0.5 hl/ha a year, unchecked by the market mechanisms i.e.:

- neither by compulsory distillation, designed to penalize the highest yields but failing to do so because weakened by voluntary distillation, state aids, a lack of progressive severity in the price scales, the producer group loophole, exemption of musts for concentration, downgrading of quality wines psr, transfer of distillation obligations, etc.
- nor by means of the rules on maximum quality wine psr yields, which are either not at all or too flexibly applied in some Member States;
- nor by differentiation of grubbing premiums in line with yields: it is mostly the least productive ground that is grubbed and in certain areas grubbing results in higher yields on the remaining land.

Further, enrichment using sucrose or concentrated grape must is at present an encouragement to increase yields. Use of grape must is promoted by a Community aid scheme introduced in 1979 to offset the sugaring traditional in northern areas.

In short, the MO does not have enough impact on production, which if no policy changes are introduced, can be expected to amount to around 178 million hl or even more by 1999/2000. The wine surplus would then be at least 39 million hl, with a profitable outlet on alcohol markets for only 15 million hl, mainly for products for human consumption.

Annex I gives more detail of the likely Community supply balance by 1999/2000 if present trends continue:

- reduction in areas of 50 000 ha/yr;
- an increase in yields of 0.5 hl/ha per year;
- a fall in wine consumption of 2 million hl/yr.

These forecasts of course take no account of the impact of annual fluctuations in yield.

4. The concern that these facts arouse is intensified by consideration of the situation for alcohol downstream of distillation. The MO merely transfers, at high budget cost, the wine sector surplus to the alcohol sector: by 1999/2000 the alcohol surplus for which there is no profitable outlet would be around 4.4 million hl if not more.

5. Their impact on the level of production aside, the MO instruments also suffer from numerous malfunctions:

- discrepancies between Member States in applying the criteria for classification as quality wine psr, resulting in particular in an uncontrolled shift from the table wine category to the quality wine psr category;
- too much use of national-level statements, manifestly distorted, for establishment of forward estimates and distillation decisions;
- numerous derogating provisions;
- problems of monitoring and fraud: the viticultural inspection unit, with a staff of only two at present, exercises a positive but much too ineffectual role and in many wine-growing areas the vineyard register is far from operational.

6. The problems of market imbalance and malfunctioning of the MO instruments cannot be dealt with without taking due account of the key role that viticulture plays in the rural economy of certain regions. Some 15 can be identified, in the various producer Member States, where the viticultural tradition is particularly strong. Regional disparities are striking. A broad distinction can be made between regions where most producers have so far been able to exploit their production by aiming for specific quality standards or through effective marketing (northern production areas, Languedoc-Roussillon, northern Italy, several Spanish, Portuguese and Greek regions etc.) and the regions where a large number of producers have tended to resort to distillation, paid almost at the market price, and have done little to develop their commercial strength (southern Italy, Castile-la Mancha, central Portugal).

Viticulture has social, landscape and environmental functions. The reduction in areas under vines, mainly through grubbing, carried out on the basis of individual decisions, thus carries risks of depopulation and desertification of certain areas, particularly hill areas, and of pock-marking the countryside with waste ground.

While viticulture has positive environmental aspects, clashes of interest are not absent, owing to the damage caused by intensive treatments with plant-protection products and water pollution from winemaking and distilling.

7. Budget expenditure on the present wine-growing arrangements amounts to over ECU 1 600 billion (1993 financial year and 1994 PDB) and breaks down as follows:

- storage, distillation and alcohol	:	ECU 900 million
- aid for must	:	ECU 150 million
- grubbing	:	ECU 450 million
- refunds and miscellaneous measures	:	ECU 100 million

## II. INADEQUACY OF RECENT REFORM MEASURES

1. The picture given above is not entirely new. The Commission had already drawn attention to the deepening market imbalance and the inadequacy of the MO instruments in presenting the proposals<sup>1</sup> that led to the Dublin European Council's decisions of December 1984 and to the Council's decisions of March 1988 on stabilizers in the wine sector.

These decisions made some improvements to the market organization:

- the Dublin decisions spotlighted the role of compulsory distillation for selective elimination of surpluses and the need for its penalization to be severe;
- the 1988 decisions reinforced the penalties, introduced budgetary restraints and relaunched structural adjustment of production potential through grubbing.

However, these reforms did not restore sound conditions to the market as expected since on the one hand consumption kept on declining and on the other hand the producers still drew enough support from the various existing distillation measures to keep producing wine of inadequate quality, often solely with a view to distillation.

2. More recently, in 1992, the CAP reform accompanying measures opened new possibilities for action to combine lower production, rural development and environmental improvement. These measures are, however, from the budget angle in particular, targeted on the reform sectors, chiefly arable crops, beef and sheepmeat. They do not prefigure a reform of the wine sector and address it only secondarily. Moreover, it is uncertain that they take adequate account of the very close links in the sector between market organization and rural development, especially where an in-depth reform is involved.

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<sup>1</sup> COM(84) 440 final, 25.7.1984.  
COM(88) 125 final, 4.3.1988.

3. In conclusion, the present diagnosis clearly shows that the action taken in the past has not properly tackled the main problems:
- leaving the system as it stands at present means a continuing structural surplus, of at least 39 million/hl by 1999/2000, with profitable outlets on the alcohol market available for only 15 million hl of this;
  - the MO has become too complex, making supervision more and more difficult; simplification is required;
  - the regional wine economies have weakened and disparities have deepened;
  - the impact of viticulture and of the Community instruments, particularly grubbing carried out on the basis of individual decisions, on the environment and on land-use has worsened;
  - the allocation of responsibilities between Community, national governments and regions has not worked efficiently. The attempt to apply uniform rules throughout the Community has been undermined by a series of derogations.

### III. WHAT ORIENTATION FOR THE FUTURE?

This communication does not contain detailed reform proposals as for the 1991 CAP reform<sup>2</sup>. The Commission's wish at this stage is to put forward for consideration some suitable approaches to the challenges posed by the sector.

This communication is therefore wholly in line with the policy adopted by the Edinburgh European Council in December 1992 of transparency of Community decisions, requiring the widest possible consultation.

The Commission considers that a clear objective, i.e. overall balance on the wine market, must be achieved by the end of the century. This balance means that Community production of all wines (table wines, quality wines psr and "other wines") should equal within a few years the Community's non-subsidized utilization, plus exports but minus imports.

To reach this objective, it will be necessary to act in all the Member States in such a way as to reduce their production to levels compatible with the goal of balancing the Community market bearing in mind our international commitments. It will thus be necessary to act on production potential or yield levels, or both. The main policy instrument will comprise multiannual regional viticultural adjustment programmes. These programmes will become the favoured forms of assistance in this sector.

<sup>2</sup> COM(91) 100, 1.2.1991.

The other factor which will have a positive impact in controlling yields is the proposed adjustment in wine-making practices. This will involve in particular increasing the minimum natural alcoholic strength and reducing the authorized rate of chaptalization (sugaring in the dry). These adjustments will be gradually introduced in conjunction with the regional viticultural adjustment programmes.

Lastly, distillation measures will be gradually reduced as the aims of the regional programmes come to fruition. As soon as market balance has been achieved and the new policy is fully operational, only market-response distillation would be required to overcome fluctuations in a crop which is highly sensitive to the vagaries of the weather.

An indirect but very important aspect of these developments will be a general improvement in the quality of wine. The trend will be towards production of wine in smaller quantities but of better quality.

1. Ordered adjustment of production potential; ordered adjustments of areas and better control of yields

Up to now structural adjustment has been effected by controlling planting rights and the permanent abandonment scheme involving grubbing. This approach has not been effective enough quantitatively and has had a negative impact on the environment and on land-use, and the Commission has already proposed<sup>3</sup> significant adjustments to it to remove the harmful effects of juxtaposing plots covered by individual grubbing decisions.

It considers however that as part of a comprehensive MO reform it is necessary to go further and, observing the principles of partnership and programming, to initiate a real policy of orderly adjustment of potential. This policy would be facilitated as far as the budget is concerned by substantial savings made on distillation (see point 3 below).

Under this approach and for the sake of consistency at national level, the Member States should allow all their wine-producing regions the option of benefiting from the multiannual regional viticultural adjustment programmes. Based not only on specific goals for controlling production (reducing areas under vines, controlling yields, taking action on enrichment, etc.) but also on the impact on the environment and rural development, etc., these programmes would introduce a wide range of instruments adapted to a regional setting, some of which are set out below.

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3 COM(93) 85 final, 22.3.1993.

\* Ordered adjustment of areas under vine

The primary side to these programmes would remain the grubbing inducement with full attention paid to land-use planning. The national/regional authorities would be asked to present a detailed programme to the Commission where grubbing-up would be part of comprehensive local programmes which would include related measures such as re-parcelling, afforestation, environmental protection, and additional rural development measures.

Premiums would be raised substantially compared to current levels and would serve to compensate those wine producers who grub up and to finance related measures in the overall projects. It would be up to the competent authorities to decide the balance between these two approaches, in line with particular local conditions.

A ceiling would be placed on the amount of premiums financed at 100% by the Community with an overall total for premiums in the region. Complementary national and regional aid would be authorized. Payments would be staggered over ten years.

Prohibition of new plantings and verification of replanting rights would continue to apply temporarily, at least until elimination of the structural surpluses.

Given these greater inducements and the more comprehensive nature of the scheme, the Commission believes that grubbed vineyards should remain covered by Article 9 of Regulation (EEC) No 1765/92<sup>4</sup> and thus remain as a result ineligible for the aid per hectare granted to producers of certain arable crops (cereals, oilseeds, protein crops).

\* Better control of yields

The second side to these programmes would be a set of aids promoting limits on yields and the adaptation of existing vineyards and marketing structures:

- direct aid per hectare of vines, paid directly to the producer on the condition that it helps to control production and achieve the objectives set out in the regional programme, such as:
  - to accompany market reform measures by encouraging the use of yield-reducing procedures (destemming, early cropping, adjustment of wine-making practices, enrichment in particular, see point 2 below);

<sup>4</sup> OJ No L 181, 1.7.1992, p. 12.



- . to compensate for serious structural handicaps (e.g. in order to maintain viticulture on hills, steep slopes, land at particular risk from erosion or fire, replacement of wine varieties so as to respond better to demand, etc.);
- . to promote environment-friendly cultivation techniques (integrated control, targeted control, etc.);
- limited aid for disseminating the results of research and technical training of growers;
- aid for specific marketing measures designed in particular to facilitate closer contact with the market for growers who, having become accustomed to depend on distillation, must restructure their operations;

This second aspect would be part-financed, with a budget agreed in advance, by the Commission and the Member States.

Draft programmes would be discussed, in a spirit of dialogue and partnership, with the Commission and would have to be approved by it under the management committee procedure.

Consistency between the different parts of each programme, their probable contribution to achievement of the various objectives, and the likely effectiveness of the control and monitoring mechanisms established would be essential criteria in prior appraisal and approval of programmes.

Programmes would initially be established for the period to 1999/2000. Payment of Community funds would be subject to satisfactory progress in programmes as shown by regular assessments and would continue to be dependent on compliance with the agreed objectives. Furthermore, on expiry of the programmes, an ex-post assessment would be carried out.

Rapid, practical implementation of a wine register based on a parcel survey, considerably simplified by comparison with the present register and replacing it, would be one of the compulsory monitoring measures.

## 2. Additional measures to secure market balance

Any comprehensive reform must embrace common measures to restrict yields and to boost outlets within the limits of the possible.

The main concern is wine-making practices and enrichment in particular. The Commission considers that both sugaring and subsidized enriching with concentrated musts encourage higher yields and in the last few years have helped worsen market imbalances.

In this respect it considers that simplification is possible:

- reduction of the number of wine-growing zones to two (A and B on the one hand, C1a, C1b, C2 and C3 on the other);
- an increase to 6% vol. in the minimum natural alcoholic strength in northern regions;
- the Member States to be allowed to authorize sugaring at the rate of 1.5% vol in southern regions and 2% vol in northern regions.
- enrichment (additional or not) with concentrated must allowed, without aid.

Such conditions would only be reached after a transitional period of three to four years for the various factors involved: the minimum natural alcoholic strength, sugaring, aid for concentrated musts.

Member States and/or regions would remain free to impose more restrictive rules in line with their objectives or traditions. However, provision should be made for derogations in certain specific cases. The absence of sugaring could also be highlighted on bottle labelling.

The Community would contribute to the cost of the monitoring arrangements required to ensure that these rules were complied with.

The Commission also intends proposing strict rules on yield restrictions and downgrading rules for quality wines psr and more generally would like to introduce a minimum of common requirements for classification as quality wine psr.

It considers that for those Member States that so wish a lightweight Community trade-association framework for the viticulture and wine sector should be available on the lines indicated in its 1990 communication on inter-branch relationships<sup>5</sup>.

A carefully thought out vine-product promotion policy is possible. Within the Community action would be limited to research, information and consumer education but outside it there could be generic advertising of Community wines. Some of our trading partners already do this for their wines within the Community.

Lastly, it feels it is necessary to pursue and intensify bilateral and multilateral negotiations that will improve coordination between producing countries throughout the world on wine-making practices and protection of registered designations.

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5 COM(90) 562, 26.10.1990.

### 3. In-depth reform of distillation arrangements

Pending the structural adjustment of production potential, it will be necessary to retain a means of eliminating each year's surpluses by distillation. The scale of distillation will decline as the market approaches balance, while the Member States which achieve balance more quickly will benefit.

The experience of the past few years, even after the 1984 and 1988 reforms, has however convinced the Commission that sweeping changes are required.

Compulsory distillation ought to remain the cornerstone of the system since it alone can eliminate at tolerable cost the outstanding market surpluses.

It is necessary however to determine the quantity to be distilled and its allocation between Member States using objective and automatic criteria so that the market is properly stabilized.

In line with the proposed policies such a system could be based on reference quantities for national production, set in absolute figures and covering production of all wine (table wines, quality wines psr, 'other' wines).

All production of each wine year exceeding the national reference quantity would have to be distilled at a very low price in the Member State of production. The Commission would adopt production estimates and the quantities to be distilled by each Member State before 31 December of the wine year and a mechanism for correcting estimate errors in the following wine year would be set up.

The total of the national reference quantities would have to correspond to anticipated Community utilization plus exports and minus imports. Assignment between Member States would be proportional to their traditional production. The average for the last four years (1989/90 to 1992/93) could be used after excluding the marketing year with the lowest production in each Member State, as shown in Annex II.

The national government would have responsibility for carrying out compulsory distillation on behalf of the Community, and would allocate the relevant amounts among its producers. To this end the Member State could either use a scale based on yields as at present, a scale based on the production stocks at the end of the marketing year, or any other objective criteria.

Quality wines psr must be included in reference production to ensure that a possible increase in production of such wines, in particular through transfers from one category to another, does not have an impact on the overall market, thereby nullifying the market stabilization. However, the Member States would be free to continue to exempt quality wines psr when allocating the quantities to be distilled, as long as the total national obligation was met.

Wine made from dual-purpose grapes (table and wine-making) would be included in the new system, the Member States being free to allocate distillation obligations using the criteria they wish.

After a transitional period of three or four years the purchase price for wine sent for compulsory distillation would have to be set at an extremely low level in order to make distillation more discouraging, reduce the cost of public intervention and offer a budgetary margin of manoeuvre for adjustment of production potential.

A single voluntary distillation, not deductible from compulsory distillation and replacing the present preventive and support distillations, would be retained. Normally effected at the beginning of the wine year, it would be intended to regulate isolated surpluses only and would be depressive as to both quantity and price.

Compulsory distillation of wine-making by-products would be retained. Member State could always set a higher level than at present within the framework of their general distillation obligation.

Downstream of distillation there ought to be a review of the sharing of responsibility between the Member States and the Community in disposing of wine alcohol. This is not proving satisfactory at the moment and a move is needed to Community financial responsibility for disposal with part-financing by producer Member States.

A necessary condition for success will be the absence of national aid in addition to the purchase price for distillation: such aid gives producers a false idea of the real state of the market and halts the structural adjustment of production potential.

#### 4. Increased monitoring

The proposed policies can be effectively implemented only where appropriate national and Community monitoring structures are in place. Structures of this kind have already been suggested in this communication. More generally, the policies proposed tend towards a simplification of Community rules and regulations and increased responsibility for the Member States: their implementation will thus require the Member States to carry out more detailed checks than are done at present.

All aspects of the proposed reform will be affected by the increase in monitoring: the regional viticultural adjustment programmes, the new compulsory distillation scheme and accompanying measures, in particular those involving wine-making practices, and the yields of quality wines per.

The priorities in the Commission's view are, therefore, to improve and increase the existing monitoring procedures and introduce penalties at national and Community level. In this regard the provisions of Regulation (EEC) No 2048/89<sup>6</sup> on checks in the wine sector must be applied without exception and amendment of the Regulation should be considered in the light of the policies proposed. The Commission believes that it is even more necessary at Community level to create joint monitoring units, bringing together the Community inspectors and inspectors from the national monitoring services.

In terms of budget cost, these policies will reduce expenditure under the intervention arrangements involving distillation, while increasing expenditure on adjustment of wine-growing potential. At all events, up to 1999/2000 expenditure should not exceed current levels and a downturn should appear as the market approaches balance.

#### IV. CONCLUSION

This paper has set out the reflections of the Commission prompted by its analysis of wine-sector policy. The Commission hopes that the ideas sketched herein will be fully and widely discussed in the Community. The Commission will present the necessary detailed proposals at the appropriate time.

The Commission wishes to stress that the only option that appears to it to be ruled out is continuing with the status quo. If present policy is not rapidly changed the market situation for wine will rapidly become untenable and the regional wine economies will continue to weaken.

On the other hand, an in-depth reform of the present mechanisms offers real future prospects to a sector at present in great difficulty.

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6 OJ No L 202, 14.7.1989, p. 32.

LIST OF ANNEXES

Annex I

Simplified supply balances for wine and wine alcohol, ignoring stocks

These cover the period to 1999/2000 on the basis of continuation of the recent trends for grubbing, yield and consumption.

Annex II

Calculation of average historic production figures

SIMPLIFIED WINE SUPPLY BALANCE (Ignoring STOCKS)  
( '000 000 hl )

	AVERAGE 86/87-90/91	1992/1993	ESTIMATE FOR 1999/2000 MO unchanged
AREA ( '000 ha )	3845	3512	3199
YIELD ( hl/ha )	48,9	54,9	55,6
PRODUCTION	188,3	192,7	178,0
IMPORTS	2,0	2,3	4,0
AVAILABILITY	190,3	195,0	182,0
UTILISATION			
DIRECT HUMAN CONSUMPTION	133,7	130,0	115,0
OTHER (*)	18,5	18,5	18,5
EXPORTS	10,5	9,5	9,5
SURPLUS 1	27,5	37,0	39,0
DISTILLED INTO ALCOHOL FOR ORAL CONSUMPTION	15,0	15,0	15,0
SURPLUS 2	12,6	22,1	24,0

(\*) Including cognac, vermouth, vinegar, stock variations

SIMPLIFIED WINE ALCOHOL SUPPLY BALANCE  
( '000 000 hl )

	AVERAGE 86/87-90/91	1992/1993	ESTIMATE FOR 1999/2000 MO unchanged
ALCOHOL by-product deliveries	1,8	1,8	1,8
ALCOHOL wine distillation	3,0	4,1	4,3
TOTAL ALCOHOL	4,8	5,9	6,1
UTILISATION as alcohol for oral consumption	1,6	1,6	1,6
SURPLUS	3,2	4,2	4,4

On basis of wine with an alcoholic strength of 11°

## ANNEX II

## CALCULATION OF AVERAGE HISTORIC PRODUCTION FIGURES ('000 hl)

PRODUCTION ALL WINE	ITALY	FRANCE	SPAIN	PORTUGAL	GREECE	GERMANY	LUXEMBURG	TOTAL
89/90	59727	60508	31276*	7901*	4531	14486	232	178661
90/91	54866*	65530	42231	11351	3526*	9510*	151	187165
91/92	59645	41500*	32570	10077	4021	10699	86*	158598
92/93	67700	61500	36700	9200	4061	13300	271	192732
AVERAGE	62357	62513	37167	10209	4204	12828	218	189497

The average is calculated after excluding the marketing year with the lowest production in each Member State.

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# DOCUMENTS

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