

Newsletter on the common agricultural policy

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THE BACKGROUND TO THE COMMON ORGANIZATION
OF THE MARKET IN WINE

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THE COMMON MARKET IN WINE TAKES SHAPEI. INTRODUCTION

On 7 February 1970 the Council reached agreement on the Commission's proposal for a resolution dealing with the common organization of the market in wine. This is the first success that the extremely arduous negotiations on wine have yielded. The adoption of this resolution is a milestone on the road to the final drafting of a Council regulation containing additional provisions for the common wine market. The courageous political decision taken by the Ministers has given the experts a clear guideline for their discussions, which have been wearisome, often profitless, and largely dominated by the clash of national interests in a relatively narrow field. There is now every hope that the relevant Council committees will be able to comply with the Council's express wish and submit the basic regulation on the common organization of the wine market - on which work began as long ago as 1967 - for approval within the next few weeks.

A brief look at some aspects of the Member States' approach to viticultural policy and the common market organization will show quite clearly that the adoption of this Council resolution represents an enormous step forward. For Italy the promotion of wine-growing is one way of helping to develop areas which are socially and economically underprivileged. It advocates a highly protectionist attitude to imports from non-member countries and is decidedly optimistic in its assessment of the absorption capacity of the European market. Its own experience with market regulation has convinced France that the key to the common market organization lies in the assessment of availabilities and prospective demand. It is an even more ardent supporter of restrictions on imports from non-member countries than Italy. Controls on new plantings, which were advocated by France until quite recently, are no longer being emphasized so strongly. Germany has consistently advocated systematic control of new plantings and because of its own intensive external trade has favoured a liberal approach to imports from non-Community countries. An important demand made by Germany and Luxembourg is that the Community should fix adequate upper limits for increasing the alcoholic strength of musts made from grapes which are not quite ripe. Since they have no wine industry of their own, Belgium and the Netherlands are mainly interested in retaining access to cheap supplies in non-member countries.

Given these different interests, often diametrically opposed, a single approach to the wine market problem was only possible because all sides made considerable concessions. Growers in Italy, France and Germany are bitterly critical of the Council's resolution: they all feel that their own Government has given too much ground. It might be said indeed that everyone is equally dissatisfied, which proves that the agreement reached by the Ministers is a genuine compromise.

II. GUIDING THE COMMUNITY'S WINE POLICY

When it came to working out proposals for a common organization of the market in wine, the Commission ignored the policies followed by the Member States and preferred to develop an entirely new, independent approach of its own. The Commission's policy is based on the liberalization of intra-Community trade and adequate protection at the Community's external frontier. Its main features are as follows:

- (a) it will help to balance supply and demand;
- (b) it will channel wine production towards the better qualities;
- (c) it will provide prompt measures to counteract unwelcome price fluctuations for specified types of wine;
- (d) it will guarantee adequate incomes to those employed in wine growing; and
- (e) it will provide consumers with a wide range of reasonably priced wines.

The first logical steps towards these objectives were marked by the adoption of provisions on the preparation of an annual forward estimate of the wine situation and the compilation of a vineyard register to be brought up to date at regular intervals. With these instruments it would have been possible at least to get an overall picture of the supply and demand situation and to assess the future development of production potential by ~~keeping~~ a close watch on areas planted and the different varieties grown. However, one Member State has fallen very far behind with work on its vineyard register, and this has led to the institution of proceedings for an infringement of the provisions of Regulation No. 24.

The Community's wine market is extraordinarily complex. Natural conditions vary widely from one wine-producing area to another. Furthermore, since agriculture has hitherto been a purely national affair, vine growing and wine making developed along very different lines in the past. For decades wine legislation has been drawn up purely in terms of technical and economic objectives serving national interests. It is not surprising therefore that wines from different areas of the Community often have very little in common as regards distinctive features, price, or markets. On the other hand, these differences can sometimes be very striking within a single Member State but less marked in adjoining wine-growing areas of different Member States. The light, red table wines from Italy and France, for instance, are very similar in character and price, while the differences between top-quality wines and ordinary table wines are so enormous within each of the four producer countries that the common wine market could virtually be divided into submarkets without reference to national frontiers.

Given the complexity of the wine market, it is obvious that the Community's legislative provisions on wine have to be worked out on a regional basis and, to the extent that this is compatible with the

common wine market, adapted to the different types of wine and regional submarkets when implemented. The Council therefore approved the Commission's suggestion that the Community should be divided into a number of wine-growing areas, each with different provisions on wine making. In the same way, any intervention which might be needed to stabilize prices is to be directed specifically to the type of wine concerned in any given case. It is clear from this that the competent Community institutions, faced with the rapidly integrating common wine market, are prepared to make allowances for the different patterns of wine growing which have developed over the years.

The first essential for the changeover to a common wine market, with wines from all Community countries competing freely with each other, is the provision of a legislative framework which will make free competition possible. It is completely impracticable to do what has been suggested on occasion - namely, to introduce mutual recognition of existing legislation in the several Member States. Member States with a wine industry of their own assess imported wines, whether from other member countries or not, by standards which hinder free movement of goods in many respects. Consequently, if trade were to be liberalized without changing existing national legislation, only some wines (those complying with regulations in both the exporting and the importing country) could be traded freely. Another point is that some member countries intervene regularly to support their own wine market whereas others do not. Autonomous action of this kind by individual Member States would be rather fruitless once trade was liberalized as required by the Treaty of Rome. Supposing, for example, that one Member State were to support prices by holding back some of its own wine harvest from the market, as has been common practice hitherto; if there were no Community provisions, wines from other member countries would then come in across its frontiers, thus frustrating its aim of relieving pressure on the market. Pressure on prices would in fact be even worse than before because of increased imports. It is obvious, therefore, that a free common market in wine with normal conditions of competition will be possible only if Community rules are applied in all Member States. And it is here that the entirely legitimate attempts to have Community provisions adjusted to regional production come up against a stone wall, because if variations are too great they will distort competition.

III. THE COUNCIL'S RESOLUTION

If we are to appreciate all the implications of the resolution approved by the Council, we must take a brief look at its main provisions.

Definitions and oenological practices

Experience in the Member States has shown the advisability of extending the wine regulation to cover all vine products. This calls for clear-cut definitions of things like fresh grapes, must,

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wine, table wine, quality wine, sparkling wine, liqueur wine and so on, which will be binding on all Member States under the Community provisions. The most interesting of these definitions are those for table wines and quality wines because of the economic importance of these products.

The definition of table wine is particularly significant in view of the proposed intervention arrangements for various types of table wine under the common market organization. The Council has therefore immediately approved a firm definition of table wine. The requirement that table wine can only be produced from officially recommended or approved vine varieties should help to maintain a certain standard, and the consumer will naturally benefit. The provisions on minimum and maximum alcoholic strength tend in the same direction, but their main purpose is to serve as a line of demarcation between table and other types of wine. There are separate Community provisions on the manufacture and tax treatment of other wines, as has been the case under national legislation so far. The minimum alcoholic strength of 8.5° will cause difficulties in certain Member States initially but seems to be entirely justified by the facts.

The Commission has submitted a proposal for a regulation on quality wines from specified areas to the Council. But, intervention arrangements apart, these wines are covered by the provisions of the future common market organization. Under a Community regulation on quality wines from specified areas it will be possible to vary provisions on the production of quality wines on a regional basis, though there should be no question of watering down the terms of the Council resolution.

The debate on the principles behind enrichment - increasing the alcoholic strength - was long and hard. In the face of heavy criticism from its own growers, jealous of their competitive position, Italy found it extremely difficult to reconcile itself to the fact that other Member States were not prepared to abandon the practice of sugaring wine. The concept of a minimum natural alcoholic strength (in other words a minimum natural must content) is at present unknown to French and German legislation, except for quality wines. It is, however, entirely in keeping with a logical wine policy consistently aimed at improving quality, and in the end it was unanimously agreed to by the Council.

A new wine law in Germany has meant that the industry there is not as free as it used to be to increase the alcoholic strength of its wines. The further restrictions flowing from the Council's resolution will mean additional hardship for German growers. This new rule on increasing the alcoholic strength of wine will be extremely useful in the years ahead, despite difficulties of adaptation that should not be underestimated, in maintaining scrupulous quality standards for wines from the Community's northern vineyards. It was recognized quite early on in these areas that specialization within the common market would force growers to shift more and more towards the production of quality wines. In view of this the Council's decision on enrichment, while admittedly severe, is logical and to the point.

Control of new plantings

Another hotly debated issue was the control of new plantings. In France, Germany and Luxembourg growers must obtain official permission before planting vines. There are no controls on planting in Italy. Controls allow governments to influence the trend of production potential both from the point of view of quantity - by regulating the area under cultivation - and quality - by refusing permission to plant in unsuitable areas and limiting the choice of varieties. The opponents of planting control argue that the Community's agricultural policy has so far imposed no restrictions on production, except in the case of sugar. Since the Community is short of wine and is forced to import considerable quantities from non-member countries, they maintain that there are no grounds for making another exception here. The other side counters this argument by pointing to the structural surpluses which would certainly build up if certain Member States were to produce more wine. France was originally an ardent supporter of Community control of new plantings. However, it recognized that as long as neighbouring countries continued to allow uncontrolled planting the introduction of strict planting controls in France would impose unnecessary restrictions on the freedom of action of its own growers with free movement of goods on the way, and this may have persuaded France to abandon its original position. Tactics undoubtedly played a part here too.

The compromise painfully worked out in the end recognizes the status quo on planting control in the Member States but paves the way for the subsequent introduction of Community controls, by means of a special Council decision, should the trend of production potential show that this is desirable. This passage in the Council resolution has come under fire from both champions and opponents of planting control, but it is the only feasible line for the Community to take at the present time. It may also be pointed out that Community controls should be viewed with extreme reserve unless each Member State compiles a vineyard register and keeps it up to date.

Intervention

As initially proposed by the Commission, the Council agreed to two types of intervention to support falling prices for table wines:

- (i) subsidies for short- and long-term storage;
- (ii) payments to encourage the distilling of surplus wine.

Guide prices will be fixed for each representative type of Community wine for each marketing year. A point at which the intervention machinery can be activated will also be fixed in relation to these guide prices. Recourse to the intervention machinery is voluntary. Neither type of intervention need be implemented for all table wines: the machinery is selective and can be directed towards those that are in need of support. Intervention will take

place only where this seems absolutely necessary, and care has been taken to ensure that the cost of intervention is kept within reasonable limits.

The distilling of table wines which are overloading the market requires a Council decision. It is the Council that fixes minimum prices for wines for distilling, buying-in prices for the alcohol produced from them and the distilling premium. Distilling will be resorted to only if the payment of subsidies to encourage short- and long-term storage fails to produce the desired price stability.

The difficulty about these proposed intervention arrangements is how they will be put into practice. The interpretation of "type of table wine" is an extraordinarily tricky business, as is the fixing of the guide prices and the points at which intervention can be activated. A great deal will be demanded of the solidarity of the Member States. However, if previous experience in Community administration is any guide, there is little doubt that the Six will rise to the occasion: in meeting and talking together the delegates from the individual countries constantly increase their understanding of each other's difficulties. If they are to share responsibility for joint decisions they must get to grips with their partners' problems.

Trade with non-member countries

To ensure that Community wines can compete favourably with wines imported from non-member countries, adequate protection must be provided at the Community's external frontier. In this connection an analysis of the forward estimate of the wine situation to be drawn up each year is just as significant as the level of table-wine prices in the Community. Should the Council ultimately decide to take steps to control plantings because of a dangerous increase in the Community's production potential, stricter frontier controls to keep imports down will be needed.

On import arrangements, the Council's resolution agrees that wines imported from non-member countries are to be charged a levy over and above the normal CCT duties. This levy is essential because some of the Community's major suppliers offer their wines at extraordinarily low prices or, like the state-trading countries, for instance, fix their prices well below the cost of production as a matter of overall trade policy.

Nor should it be forgotten that some important wine-growing countries are already, or are in the process of becoming, associated with the Community. This means that there are considerable tariff concessions in the wine sector. The charging of a levy in these cases will at least maintain a minimum of protection. Should a particularly serious market crisis be sparked off by massive imports from non-member countries, the safeguard clause may be invoked.

It proved extremely difficult to reconcile the opposing interests of the Member States who have traditionally followed a liberal import policy for wines and those with a strong wine industry

of their own. The Six found it very hard to agree on the principles to be used in calculating the amount of the levy because of current foreign policy and foreign trade considerations in certain Member States. Those countries who wished to maintain and encourage traditional trade flows came into conflict with those who wanted to restrict imports to the level needed to cover the Community's deficit. Since there is no question of introducing quotas for imports from non-member countries, the way in which the levy is calculated is of key importance. However, there is every hope that with growing experience of Community co-operation a workable solution will be found for each marketing year and that it will be possible to adjust rapidly to changing situations should this prove necessary.

IV. CONCLUSIONS

The favourable negotiating climate created by the Hague summit conference, combined with the need for agreement if wine is to be integrated in general agricultural policy, enabled the Council to end in a matter of weeks the deadlock their discussions on the wine market had reached. They succeeded in reaching agreement on a resolution which will serve to guide forthcoming negotiations. A deadline for the introduction of the common organization of the market in wine has been fixed. The mists which have been shrouding the Community's vineyards have parted, and all the opportunities and risks entailed by the common wine market are now clearly visible.

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