



# TOWARDS A SUSTAINABLE EUROPEAN WINE SECTOR

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## Preface



I am convinced that European wine is the best in the world.

Our wines are renowned right across the globe for their quality and their association with centuries of tradition and the beautiful landscapes which produce them. Our wine sector has a huge potential to be developed and we need to use this potential actively.

Europe is by far the biggest producer and exporter of wines. But although we have held this position for years, we cannot take it for granted that this will last forever. Despite the fantastic expertise and hard work that have brought success and recognition for European wines, all is not well with our wine sector.

While our exports are still growing, 'New World' exports are increasing much faster, even taking sizable shares of European wine markets.

In countries where an increasing number of people are discovering the pleasure of drinking wine, we are not taking a sufficiently large share of these growing markets.

At the same time, Europe is left with large quantities of wine for which there is no outlet. As a result, we spend too much money – around half a billion euros a year – on measures to dispose of, store and distil wine surpluses into alcohol.

This money could be usefully spent on improving market balance, boosting quality and promoting sales of European wines.

At the same time, European wine-growers are hamstrung by over-complex rules and confusing labelling.

For me, the challenge is clear. We need to:

1. Increase the competitiveness of the EU's wine producers, strengthen the reputation of EU quality wine as the best in the world, recover old markets and win new ones in the EU and worldwide;
2. Create a wine regime that operates through clear, simple rules – effective rules that ensure balance between supply and demand;
3. Create a wine regime that preserves the best traditions of EU wine production and reinforces the social and environmental fabric of many rural areas.

I am not advocating cutting the wine budget. But we must make more intelligent use of that budget.

We need to be bold and creative. That is why I am launching this debate on the future of our wine sector.

I call on everyone involved – growers, winemakers, retailers, exporters, importers, consumers and politicians – to contribute to the debate on how to make sure our wine sector remains the best and most successful in the world.

Only once we have had that thorough debate will I come back with legal proposals, later this year or early next year. This is a great opportunity – we must not waste it. So please read on ...

A handwritten signature in black ink, appearing to read 'Mariann Fischer Boel'.

**Mariann Fischer Boel,  
Commissioner for Agriculture  
and Rural Development**



## What options for reforming the wine sector

There is an urgent need for a profound reform of the Common Market Organisation for Wine (Wine CMO) by taking advantage of its strengths, which are considerable, and by eradicating its weaknesses which – once incidental – have now become structural.

### **The current Wine CMO: a system that has become both incoherent and inadequate**

The successive adjustments of the Wine CMO have consisted of reactions to specific urgencies without taking the time to reflect and develop a long term vision.

Whether it's the almost systematic recourse to crisis distillation, an overly cautious grubbing-up policy, exaggerated use of enrichment practices, confusing labelling rules or somewhat rigid oenological practices, a whole range of measures need to be re-examined. Not to mention a budget that, rather than being used as a lever for an effective restructuring of the sector, favours measures that have a limited and short term impact.

The current system does not provide the basis for a significant and sustainable improvement of producers' competitiveness.

### **The objectives of the reform of the Wine CMO**

They are focused on improving the sector's competitiveness and market orientation, maintaining high quality standards and taking account of consumers' expectations. That is to say:

- (1) Increase the competitiveness of the EU's wine producers, strengthen the reputation of EU quality wine as the best in the world, recover old markets and win new ones in the EU and worldwide;
- (2) Create a wine regime that operates through clear, simple rules – effective rules that ensure balance between supply and demand;

- (3) Create a wine regime that preserves the best traditions of EU wine production and reinforces the social and environmental fabric of many rural areas.

### **Four options have been studied**

To address the malfunctioning of the Wine CMO and to build a Common Market Organisation that is effective over the long term, the European Commission has developed 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

The impacts of each of these options on the stability of the market, producers' revenues, the development of vine-growing regions, budgetary cost, the environment, etc. was the object of an impact assessment published by the Commission in support of its proposals.

On this basis the European Commission arrived at the conclusion 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) do not constitute an adequate response.

### **Why options 1, 3 and 4 do not constitute an adequate response**

The Commission considers that the status quo (option 1) is entirely inadequate as it would not permit the elimination of surpluses and restore competitiveness. This position is shared by representatives of the wine industry who are broadly convinced of the need for a substantial reform.

While option 3 – the complete integration of the Wine CMO into the reformed CAP – would offer a series of advantages, it would also entail serious technical and financial difficulties:

- The main advantages would stem from the integration of vineyards into the single payment scheme, the corner stone of the reformed CAP. This system – in which EU subsidies are decoupled from production – offers a great deal of flexibility to farmers wishing to convert to other forms of agricultural production.
- This option would present the following problems: if supply is not rapidly brought under control, pressure on prices in certain regions could have drastic consequences for the market. Furthermore, given the available budget, the level of decoupled aid provided to vine-growers would be insufficient in most cases.

The total deregulation of the wine market (option 4) would have devastating effects on the wine sector with a massive disappearance of vineyards in regions where wine production is often the only means of ensuring rural employment and preservation of landscapes.

### **A marked preference for a profound reform of the Wine CMO (Option 2)**

The marked preference for this option stems from the particularly difficult state of the sector and the desire of the Commission to use the wine budget as an economic lever and not as a social remedy. The change in the budgetary approach is a key element of the ambitious reform and the pre-requisite for re-stabilising the market in the medium term.

In practice, option 2 can take one of two possible forms (version A or version B) over which the Commission and the Member States will have to debate.

#### **Version A: a one step reform**

Its main feature as compared to version B is that it envisages a rapid abolition of planting rights and a grubbing-up programme.

Under current legislation, the planting rights regime expires on 1st August 2010. Simultaneously, the grubbing-up programme would be abolished. Vine-growers would be free to proceed with grubbing-up but at their own expense. Cultivated areas would enter into the single payment scheme.

The Member States could nevertheless maintain the right to limit the areas producing wine with a Geographical Indication.

The other features of this version are similar to those of the two step version.

#### **Version B: a two step reform**

Version B comprises two steps: first, a rapid stabilisation of the market through an ambitious grubbing-up scheme, followed by a restoration of competitiveness.

To facilitate this stabilisation, the least efficient producers would be strongly encouraged to grub-up through the provision of a grubbing-up incentive more attractive than that which is currently available. To encourage an early take-up the amount offered would decrease year by year.

In light of market forecasts, the objective is to uproot 400 000 hectares over five years with a budget of €2.4 billion.

The Member States would no longer be able to limit the application of this scheme in their territory and the decision to uproot would be left to producers. The areas grubbed-up would automatically fall within the single payment scheme.

## Features common to both versions A and B

### Abolition of distillation programmes and other aid measures

The objective of the reform being to rebalance the market, all aids linked to surpluses which have not proved effective would be abolished:

- Distillations;
- Storage aids;
- Aids for the use of musts and in parallel, prohibition of chaptalisation.

### Introduction of national envelopes

A national envelope based on objective criteria would be allocated to each Member State with the aim of enabling Member States to finance the measures necessary for the modernisation of their wine sector taking account of the different needs of each region. Each Member State would be able to use this envelope on the basis of a given menu of measures. This could include, for example, a restructuring programme similar to the existing one and crisis management measures.

### Promote the use of rural development measures

The rural development programmes foresee numerous measures that could be useful for modernising the wine sector:

- Vine-growers wishing to completely cease production and to transfer their vine-growing area to another farmer could benefit from pre-retirement aid and receive up to €18 000 per year with a maximum of €180 000 over 15 years; installation aid for young farmers could also be available.
- Agri-environmental measures – a maximum amount of €900 per hectare – could be attributed over a period of 5-7 years to contribute to the preservation of the countryside and for environmental improvement.
- Vine-growers as well as businesses engaged in the transformation or sale of wine could receive investment aid to facilitate modernisation.

Quality standards, simpler and more effective labelling and oenological practices:

- The regulatory framework on wine quality would be made compatible with the horizontal rules in force in the EU (Protected Geographical Indication (PGI) and the Protected Designation of Origin (PDO)), in full compliance with the rules of the WTO;
- In this context, the Commission proposes to reform the existing classification (table wines and quality wines) to adapt it to the reality of the market. It suggests 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 oenological practices allowed at international level by the International Organisation of Vine and Wine would be allowed for EU producers after filtering by the Commission. This should guarantee a quicker update of practices and a rapid application of technical developments in this domain;
- To ensure that consumers are provided with transparent information, labelling rules would be simplified;
- Finally, the Commission wishes to allow wine producers to produce enough wine of the "New World style" to meet the demand for this type of product by authorising the mentioning on the label of the vine variety for wines without a geographical indication.

### **A better regulated enrichment**

The Commission recommends the prohibition of chaptalisation using sucrose and a stricter regulation of the use of concentrated musts for enrichment. Thus, the current aid for the use of musts would be abolished and the maximum level of enrichment would be fixed at 2% except in zone C (Spain, Portugal, Slovakia, Italy, Hungary, Slovenia, Greece, Cyprus and Malta as well as certain parts of France) where the maximum level would be limited to 1%.

Naturally, all of these options will be commented upon by representatives of the wine sector and will be the object of in depth discussions with the Council, the European Parliament and the other institutions before the Commission adopts its legislative proposal.



## A clearer, simpler and more effective wine quality policy

### Generating a balanced and competitive wine quality policy

EU legislation relating to quality wines covers **production** and **labelling**. The aim of the EU wine quality policy is to:

- Maintain a high quality standard for quality wines produced in specified regions (40% of EU wine),
- Encourage a balanced production of quality wines,
- Establish conditions of fair competition in the EU.

### Creating a simpler definition

The Community definition is:  
**“Quality wine produced in a specific region.”**

This definition reflects the different concepts of wine in the EU:

- In countries such as Germany, Austria and Hungary, the notion of “quality” is more important than origin,
- In the South of Europe (e.g. France, Spain, Italy, Portugal) the wine sector is built on geographical provenance.

### Improving the EU quality wine system

The current EU wine sector is complicated and has some shortcomings:

- It differs from the existing Community laws regarding protected designation of origin and protected geographical indication for other products than wine and spirits, leading to confusion;
- It should be updated in the light of the WTO trade-related aspects of intellectual property rights (TRIPS) agreement.

Further problems exist with the concept of “quality wine produced in specific regions” (QWpsr):

- There is no definition of “quality” at international level;
- There is no reference to the concept of “geographical indication” as defined by WTO-TRIPS in current EU legislation;
- The number of quality wines is increasing, which in turn leads to greater consumer confusion.

### Improving quality and facilitating production

To tackle these problems, the EU Commission proposes:

- (1) **A clear distinction between Industrial Property Rights (IPR) and labelling rules.** A register for geographical indications will be created based on a dual system: ‘wines with geographical indication’ and ‘wines without geographical indication’.
- (2) **An improvement of the quality control through a reinforcement of the role of sector organisations** as far as the procedures on the classification/ declassification of wine are concerned and on the wine production regulation.
- (3) **To facilitate the production of “vins de cépage”, wines composed of a single variety or of a blend of two or more varieties.** This would help to counterbalance the aggressive marketing policy for these wines developed by third countries.

### Harmonizing and simplifying labelling of European wine

**The current system suffers from “New World Wine” competition.** The EU wine labelling system presents the following characteristics:

- Labelling differs between different types of wines and between table wines, table wines with geogra-

- phical indication and quality wines produced in specified regions;
- Indications are divided into two main categories: compulsory particulars and optional particulars which constitutes a rigid system for some wine producers;
  - Labelling rules rigidly limit the information that can be indicated: for example, the vine variety and the harvest year can only be mentioned on the labels of quality wines psr or table wines with geographic indication;
  - The system is so regulated that a lot of information is not permitted on i.e. for table wine;
  - The existing legal provisions for trademarks need to be reviewed.

**This disparate system has led to serious consequences for the EU wine market:**

- The massive increase in the number of wines considered as quality wines psr or table wines with a geographical indication has weakened the value of the quality wine system and the credibility of the label;
- Third countries have in the meantime created geographical indications with the aim of using optional particulars on the EU market;
- EU production of “vin de cépage” is limited, since no blend of one variety wine of different origins is allowed. This reduces the EU’s competitiveness.

A reform of the current system of European wine labelling is imperative. The European Commission therefore suggests the following modifications:

- **Harmonise legal instruments** by referring to horizontal rules and developing the Common Market Organisation (CMO) as a unique tool for all wines.
- **Improve the EU quality wine system** in the light of the TRIPs agreement:
  - Allow the use of certain particular indications such as vine variety and vintage year for all wines;
  - Harmonise traditional terms and definitions to avoid discrepancies between Member States;
  - Not prohibit trademarks by principle;
  - Modify the linguistic regime of the wine sector.



## More versatility for wine-making practices

### Today's positive lists for wine making (oenological) practices

Wine making practices are the technical practices authorised for the production of wine from grapes. They are characterised by:

- binding rules for good technical practice and permitted treatments,
- positive lists of permitted practices.

Practices not mentioned in the positive lists or in regulation are prohibited and their use is regarded as fraud.

### Objectives and functioning of present legislation on wine making practices

Community legislation aims to:

- maintain and increase the quality of products;
- ensure the conformity of the product with legislation;
- protect consumers against deception;
- protect consumers' health.

**All wines in the EU are made by using an identical set of practices.** Member States can however apply stricter rules for quality wines and wines with a designated geographical origin.

There is a simple way of deciding if a wine making practice can be authorised:

**“Authorised oenological practices and processes may only be used for the purposes of ensuring proper vinification, proper preservation or a proper refinement of the product”.**

These rules also apply to wine made for export and wine imported from third countries with the exception of certain special derogations such as those foreseen in the bilateral agreements with the US and Australia agreed by the Council.

### Towards an adaptation to technical progress

To reflect new methods and new techniques in wine making, the Commission foresees the experimental use of unauthorised new practices for a limited period of three years. A faster acceptance of new practices would allow European producers to be more competitive with third countries.

To speed up the procedure for the acceptance of practices, the Commission proposes to transfer from the Council to the Commission the power to:

- approve new or modify existing wine making practices;
- recognise practices allowed by the International Organisation of Vine and Wine (OIV);
- filter these practices and incorporate them into EU regulations;
- abandon several limits which are not relevant for modern winemaking.

### The issue of wine enrichment

Wine enrichment is used to increase the natural alcoholic strength of the wine. Use of enrichment varies from Member State to Member State.

Wine enrichment:

- can be achieved by adding sugar (chaptalisation) before the fermentation process; this is not a recommended wine-making practice according to the rules of the OIV and is therefore banned in several wine producing third countries (Argentina, Australia, Chile, California);
- can also be achieved by adding concentrated musts;
- can raise the alcoholic strength level of a wine by 1-3%;
- is regulated according to geographical production zones.

Producers frequently use enrichment to produce greater volumes of wine. They increase the yield of wine with low alcohol content and then use enrichment to raise the alcoholic level. Part of these low quality products do not find outlets, they are stored or have to be distilled at high costs.

These measures will result in a decrease of the unchecked use of must for enrichment, restore the quality image of Community wine, increase the outlet for concentrated grape must, strengthen the reputation of Community quality wines, and simplify the rules for consumers and producers.

### **Consumer preferences**

Current research shows that consumers are demanding more low alcohol fruity wines. Many Member States have in fact conducted experiments on the partial de-alcoholisation of wines. New and young consumers do not have the notion that a higher alcohol level is needed for the production of a quality wine. This notion fits in well with the idea of lowering the level of alcohol in wines for public safety reasons.

### **Reconsidering and restricting enrichment**

Mandatory rules and conditions for enrichment should be restricted and brought into line with internationally agreed practices. These international practices do not recognise enrichment (or chaptalisation) as being a "good" i.e. legitimate wine making practice.

The rules should be drastically revised for EU wines to deal with the issue of wine surpluses and to reach their objective of competing with the so called New World Wines. Recent technological developments mean that a far better assessment of the correct ripeness of the grape for harvest is possible. This leads to a naturally higher level of sugar in the grapes.

### **Towards a rational enrichment:**

- terminating financial aid for grape must;
- prohibiting the use of sucrose (not a grape sugar);
- creating a maximum threshold for enrichment of 2% except in zone C ( Spain, Slovakia, Slovenia, Hungary, Italy, Portugal, Greece, Cyprus, and Malta and certain parts of France) where the limit is 1%.



## World trade in wine

The European wine sector is No.1 in the global market:

- leading global producer with over 45% of vines and 60% of production,
- leading consumer accounting for almost 60% of global consumption,
- leading exporter and largest import market.

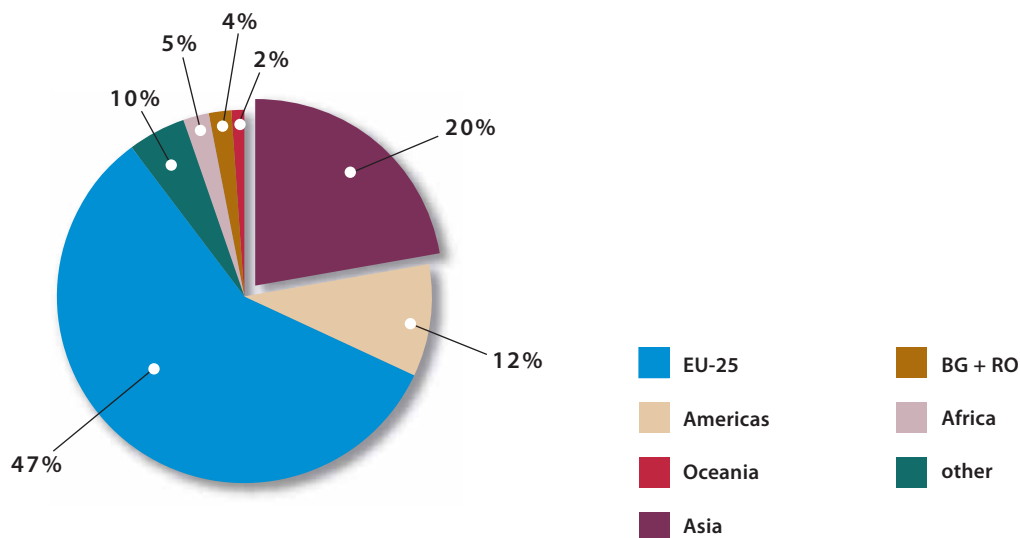
### Global wine production: the EU's competitors are gaining ground

The vine-growing can be found on all continents.

The global trend over the last 20 years has been towards a reduction of land planted with vines (11% reduction between 1986 and 2002). The global decline is accounted for by two distinct and contradictory situations: the European Union's limited but gradual drop (from 49% to 46.6%), and its main competitors staggering development of production capacity: USA: +26%, Chile: +48%, Australia: +169%, New Zealand: +240%.

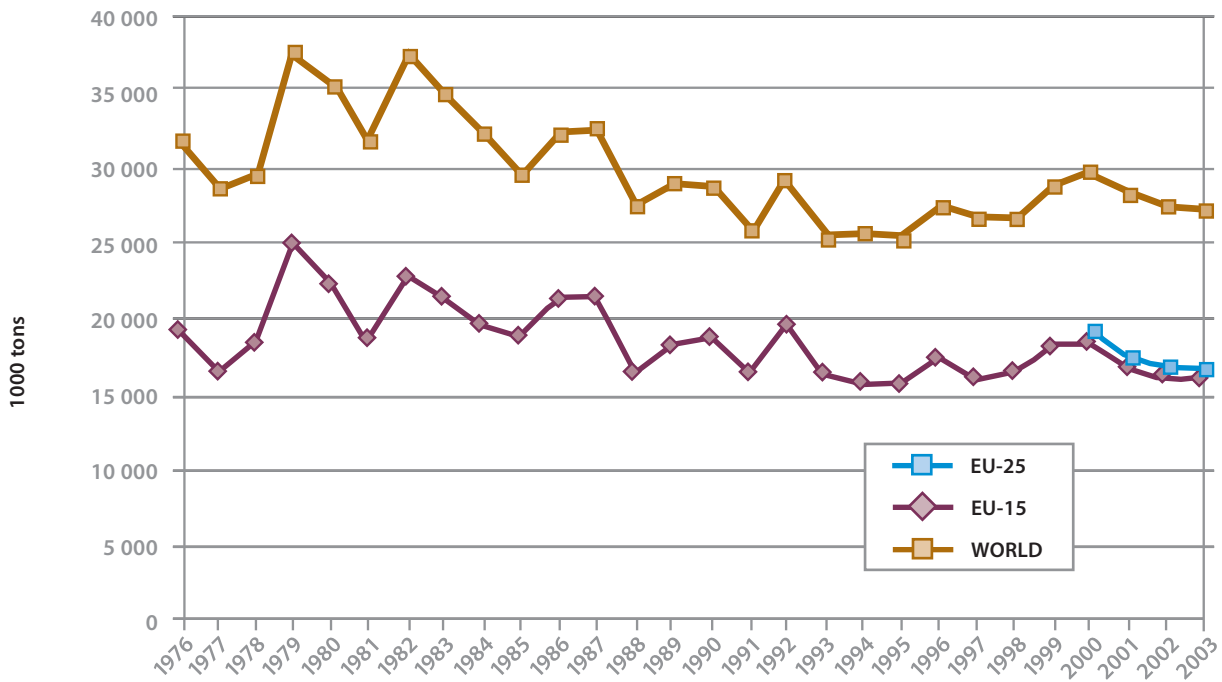
Global wine production is, depending on the year, between 260 and 295 million hectolitres with a tendency to decrease.

### World distribution of vine areas



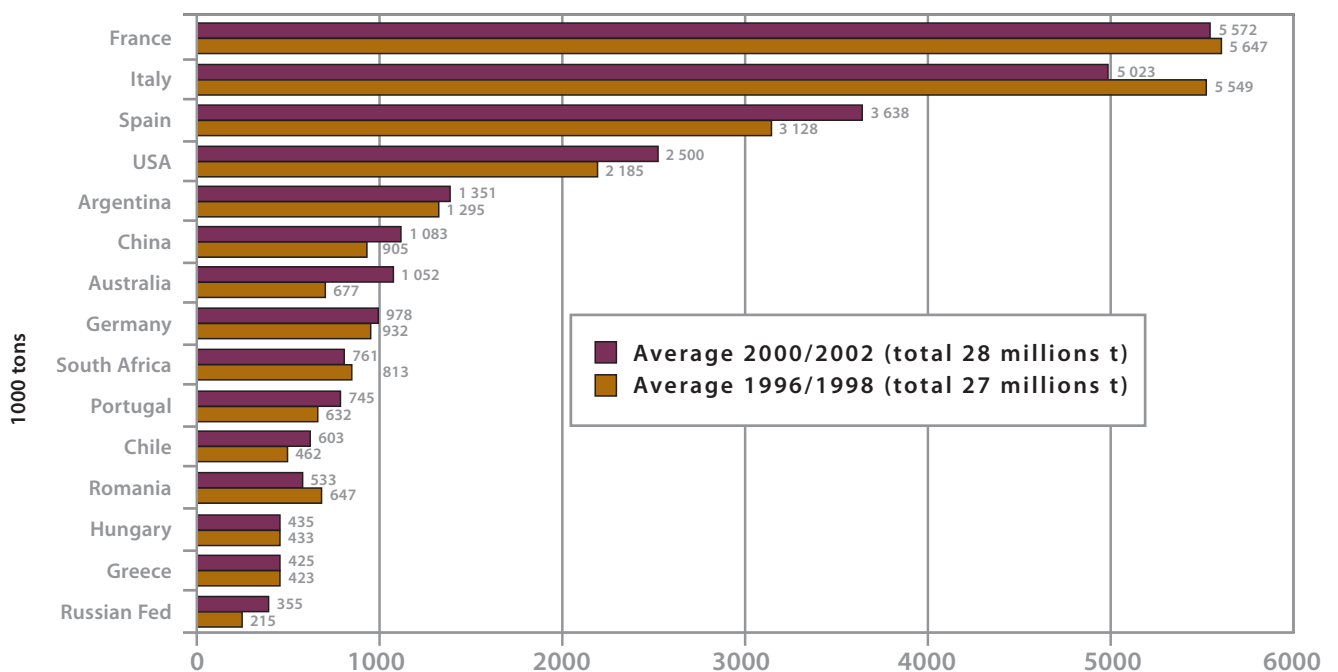
Source: OIV

## Wine production in the world and in the EU-15 then EU-25



\* EU-15 recalculated for all years

## The world's main wine-producing countries



Source: FAO

The analysis of the top 15 global producers is very interesting:

- France, Italy, and Spain maintain their predominant position (over 50% of global production between the three), with a slight drop in France and Italy over the last ten years, counterbalanced by a strong growth in Spain.
- “New World wines” have enjoyed an impressive rise, particularly in the USA, Argentina, Australia, South Africa and Chile;
- Romania’s presence in the top 15 should be noted as it will soon be a member, along with Bulgaria, of the EU, and both are important producers.

### A reduction in global consumption and worldwide surpluses, but with promising potential

The most recent International Organisation of Vine and Wine statistics estimate worldwide consumption to be at 228 million hectolitres, representing a considerable

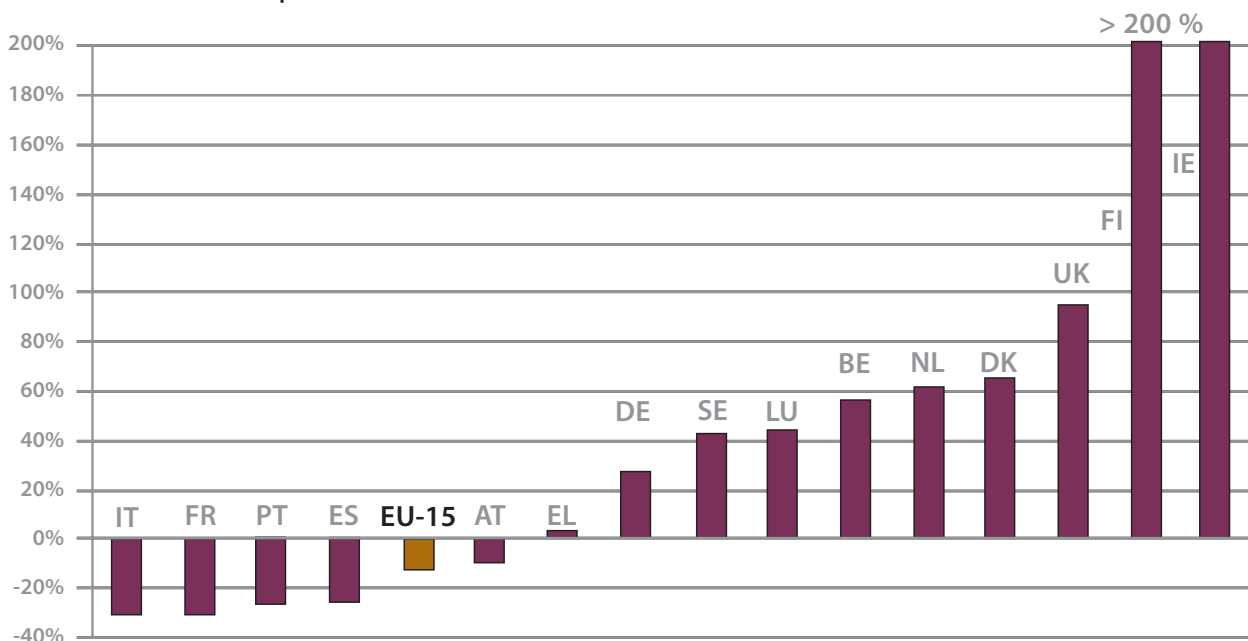
decline compared to the maximum levels reached in the 1970s.

In reality, the evolution of global consumption is highly heterogeneous. In the EU, consumption has dropped by 15 million hectolitres (11%) between 1984 and 2003, resulting from a strong drop in the South of Europe and, at the same time, compensated by the appearance of a new generation of consumers in the North and East of Europe.

In the same way, consumption is increasing in a number of countries, notably Australia, New-Zealand, Canada, USA, Russia and China. Finally, the prospects for global consumption over the next few years is that it is set to increase.

Having said this, the global wine market is currently unbalanced by structural surpluses. Over the past few years, supply has exceeded demand by +/- 30 million hectolitres (12% of production), a considerable amount, even if a part of the surplus is used to cover the needs of the liqueur industry.

Trend in wine consumption in the EU-15 between 1984 and 2003



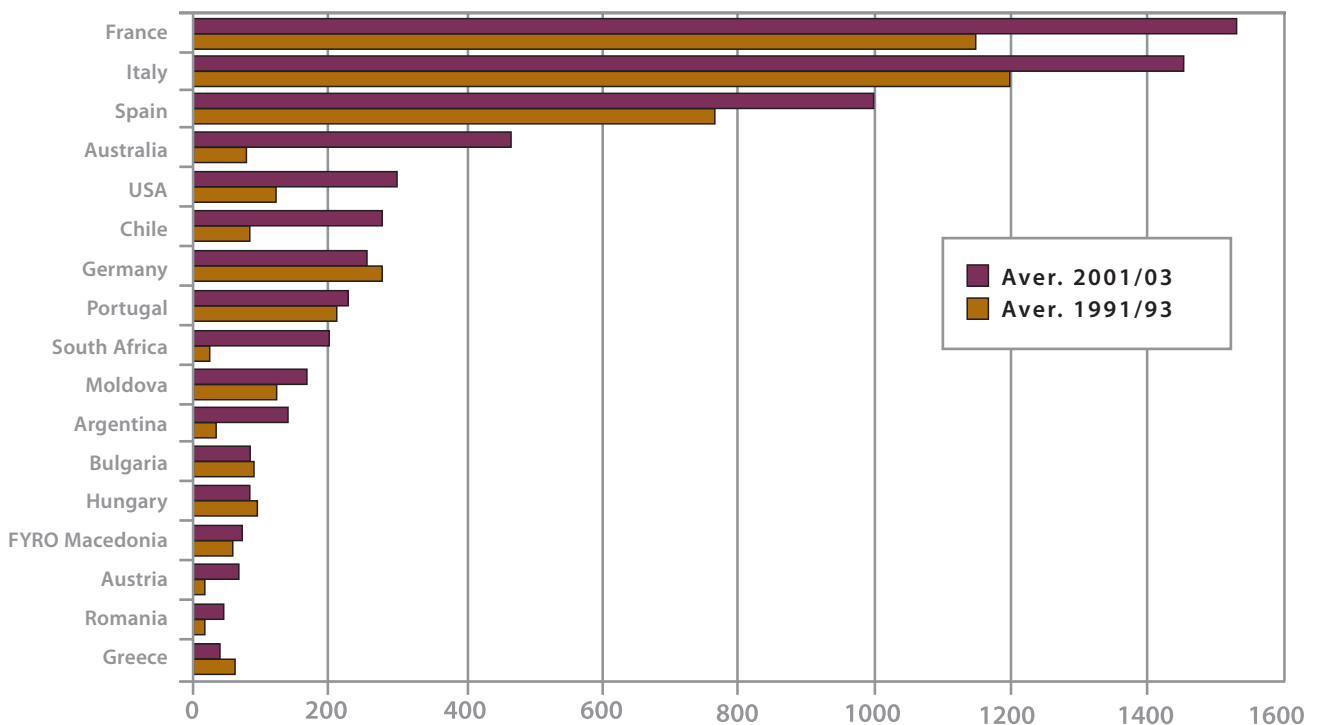
Source: European Commission

## The European Union, the leader in wine exports

With over €15 billion of exports, wine represents 3.5% of global business in agricultural products. In terms of volume (excluding intra-EU commerce), global exports are roughly +/- 33 million hl, over 10% of worldwide production.

Despite remaining the clear leader for exports, the EU is beginning to be caught up by the new world producers. The four main producers have seen their exports develop in spectacular fashion: South Africa (+770%), Australia (+500%), Chile (+270%) and the United States (+160%) between 1991/1993 and 2001/2003 as shown in the graph.

## The world's main wine exporters (1000 tonnes)



Source: FAO

### The EU as a net importer?

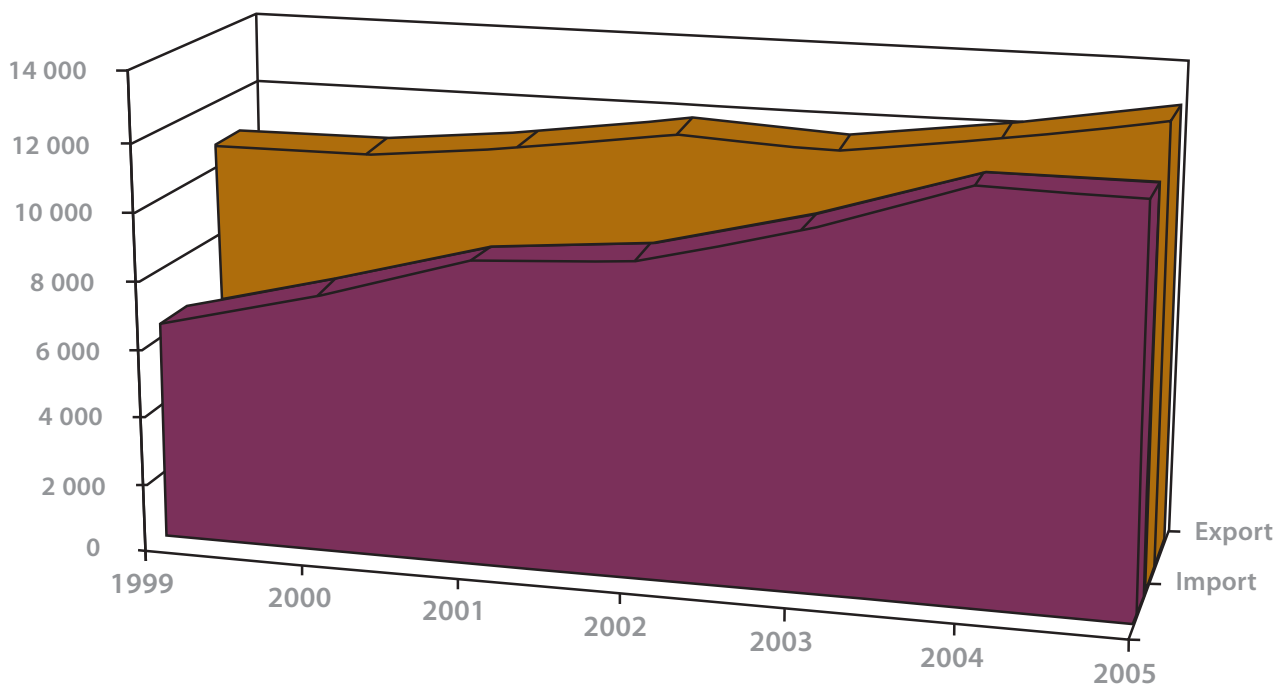
The table below speaks louder than words and illustrates the explosion of wine imports from the new world by the European Union.

Overall, not taking into consideration origin, European wine imports in 2005 reached almost 12 million hl, compared to 13 million hl of exports.

Supposing there is a continued constant penetration of new world wines, the EU – historically a net exporter – risks finding itself in the situation of being a net volume importer in the very near future.

Nonetheless, in 2005, the average price of wines exported by the EU (351 €/hl) is far greater than the average price of wine imported (207€/hl). The net commercial balance for the EU in the wine sector remains largely in surplus with a positive and relatively constant trade surplus of +/- €2 billion a year.

Imports and exports of wine between the EU-25 and third countries (1000 hl)



Source: Eurostat



## Wine production and consumption in Member States

European vine-growing varies greatly from one Member State to another in terms of the size of the vineyards, wine products and the oenological practices specific to each climate, but it is in all regions an integral part of the culture and heritage.

Globally speaking, wine constitutes one of the primary agricultural products in both the EU 15 and the EU 25, contributing 3 times as much as sugar beet, two and a half times more than olive oil and only slightly less than wheat! The importance of wine in the economy and to European values is clear.

Share (%) of wine in agricultural production (by value): EU-25 and the main producer Member States

	EU	CZ	DE	EL	ES	FR	IT	LU	HU	AT	PT	SI
<b>Wines</b>	5.3	0.6	2.7	0.5	3.1	12.9	10.7	11.3	5.1	8.9	8.6	8.1
<b>Olive Oil</b>	2.2			13.3	7.2		4.9				1.3	
<b>Wheat</b>	6.7	15.9	9.5	5.2	3.8	9.0	4.7	4.0	8.7	4.5	1.8	2.7
<b>Sugar beet</b>	1.7	4.6	3.0	0.8	0.9	1.7	0.9		1.9	2.3	0.5	0.8

Source: Eurostat 2004 – economic accounts for agriculture

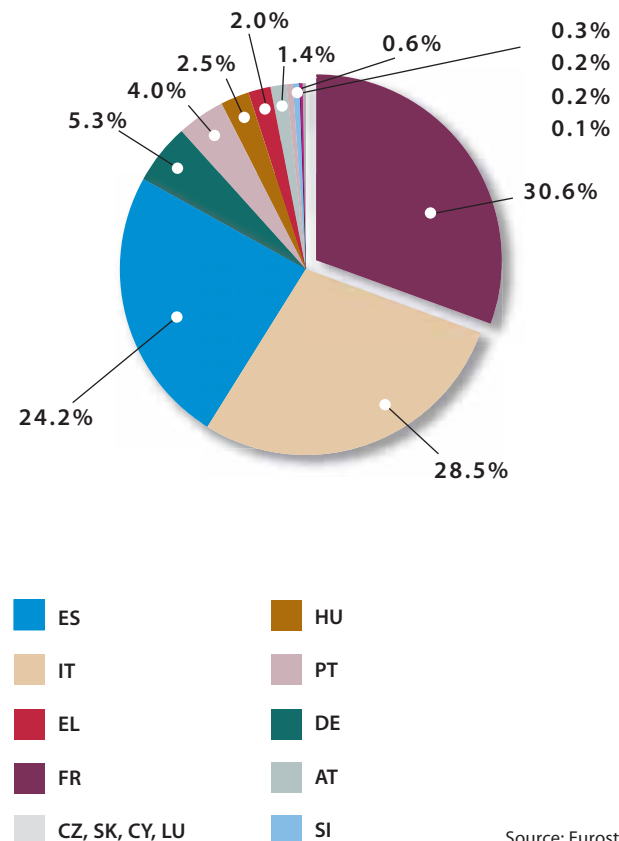
The importance of vine-growing is particularly great in the countries of southern Europe:

- The share of wine in total agricultural production exceeds 10% in France and in Italy;
- Although wine represents only 3.1% of its total agricultural production, Spain is the third largest wine producing country, accounting for over 20% of EU wine production.
- Luxembourg is among the largest producers in terms of the contribution of wine to its total agricultural production (11.3%), as is Austria (8.9%).

### Differing production statistics for volume and value

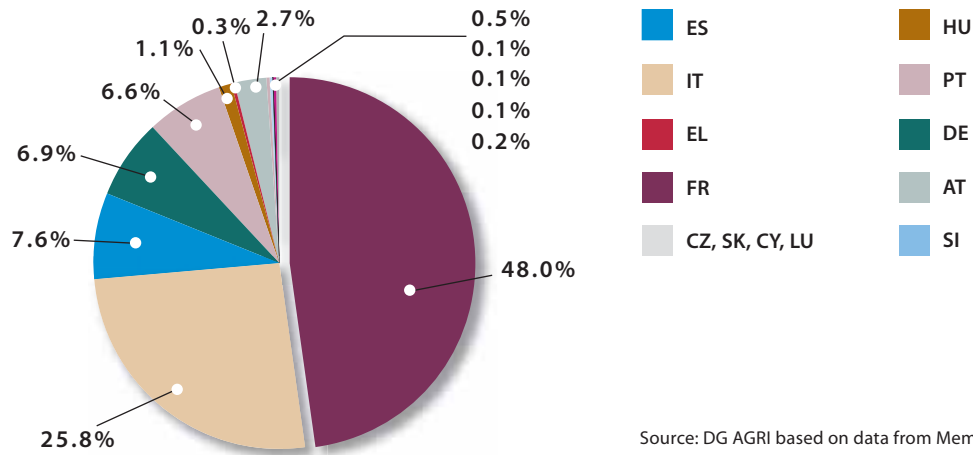
The distribution of vineyards and of production – in volume and value – among the main wine-producing Member States reveals considerable disparities:

Share of the Member States in wine production in volume (EU 25) average 2000 to 2004



Source: Eurostat

## Share of the Member States in wine production by value (EU-25) average 2000 to 2004



Source: DG AGRI based on data from Member States

## EU production figures

Member States	Number of holdings with vineyards (2003)		Wine vineyard area (2004/2005)		Wine production aver. 2000-2004		Wine value aver. 2000-2004		Wine value aver. 1999-2004
		%	1000 ha	%	1000 hl	%	Mio. €	%	€/hl
France	118 400	7	893	26.5	54 682	30.6	7 731	48.0	141
Italy	605 960	37	765	22.7	50 846	28.5	4 155	25.8	82
Spain	194 920	12	1 105	32.8	43 231	24.2	1 231	7.6	28
Germany	30 470	2	103	3.1	9 470	5.3	1 110	6.9	117
Portugal	209 180	13	237	7.0	7 180	4.0	1 058	6.6	147
Hungary	195 540	12	88	2.6	4 490	2.5	181	1.1	40
Greece	177 070	11	66	2.0	3 646	2.0	46	0.3	13
Austria	18 490	1	51	1.5	2 551	1.4	437	2.7	171
Slovenia	28 710	2	17	0.5	994	0.6	82	0.5	82
Czech Republic	5 850	0.4	12	0.4	523	0.3	21	0.1	40
Slovakia	22 090	1.4	17	0.5	438	0.2	n.a.		n.a.
Cyprus	12 920	0.8	12	0.4	425	0.2	17.0	0.1	40
Luxemburg	370	0.0	1.3	0.0	140	0.1	28.0	0.2	200
Malta	4 100	0.3	0.6	0.0	67	0.0	n.a.		n.a.
Other	320	0.0	0.7	0.0	17	0.0	n.a.		n.a.
<b>Total EU 25</b>	<b>1 624 390</b>	<b>100</b>	<b>3 369</b>	<b>100</b>	<b>178 700</b>	<b>100</b>	<b>16 097</b>	<b>100</b>	<b>90</b>

N.B. The data and the calculated averages indicated above are based on the most recent figures available.  
Source: European Commission DG AGRI, Eurostat and communications from Member States.

Over the past 5 years, average production in the EU 25 amounted to 178 million hectolitres for a value of €16.1 billion. With the accession of Romania and Bulgaria, production will increase by roughly 7 million hl.

- France is the largest producing country with an average of 55 million hl, representing 30.6% of the EU total. Thanks to its high quality wines, it alone – with €7.7 billion – accounts for half the production of the EU 25 in terms of value.
- Italy follows France with roughly 51 million hl (28.5% of the EU) with a value of €4.2 billion (25.8% of the European total).
- Spain, the third largest European producer, has an annual production of 43 million hl (23.2%), but generates a relatively low value (1.2 billion Euros, or 7.6%).
- Germany’s production in terms of value nearly equals that of Spain (1.1 billion Euros) despite a considerably lower production volume (roughly 10 million hl).
- Portugal produces roughly 7.2 Million hl of wine for a value close to 1 billion Euros, thanks to high value wines such as Porto.
- Next come Hungary (4.5 Mio hl for €181 million), Greece (3.6 Mio hl for €46 million) and Austria (2.5 Mio hl for €437 million).
- Finally there are other small producers such as Slovenia (1 Million hl), the Czech Republic (520 000 hl), Slovakia (440 000 hl), Cyprus (425 000 hl), Luxembourg (140 000 hl) and Malta (67 000 hl).

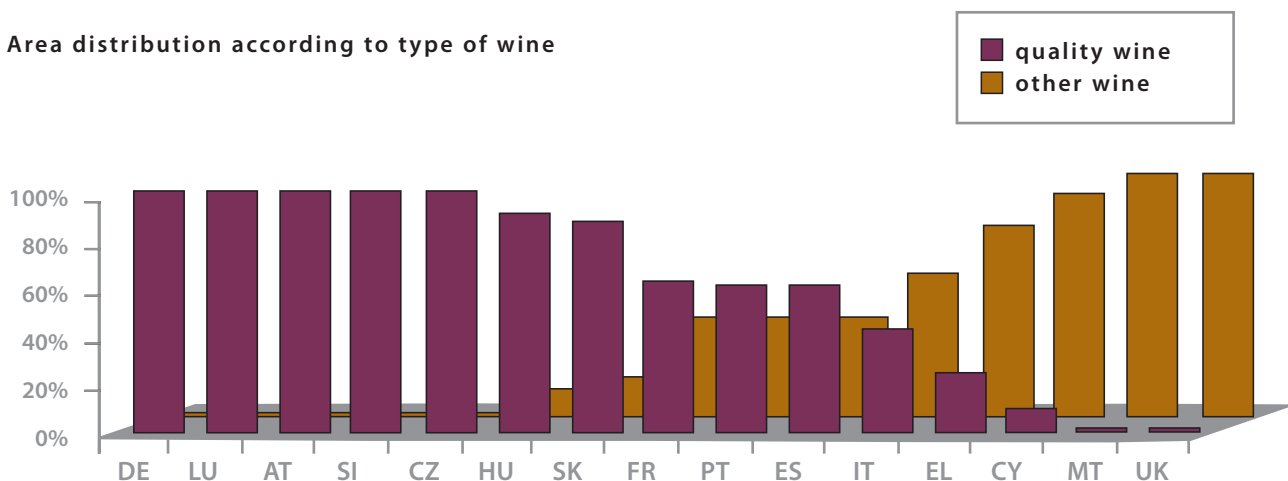
### More than 1.5 million vineyards in the European Union!

With 1.6 million vineyards, vines occupy roughly 3.4 million hectares in the EU 25. The average size of the vineyards is therefore roughly two hectares, although the majority of growers actually work on less than one hectare of vines.

### “Quality wines” and “Table wines”

The wines of the European Union can be divided into two principal categories according to the type of wine. Roughly 40% of the land is dedicated to “table wines” and 60% to “quality wines produced in specific regions”. This distribution varies enormously between the Member States, notably based on the wine classification system adopted at national level. Certain Member States consider almost the entirety of their production as quality wines.

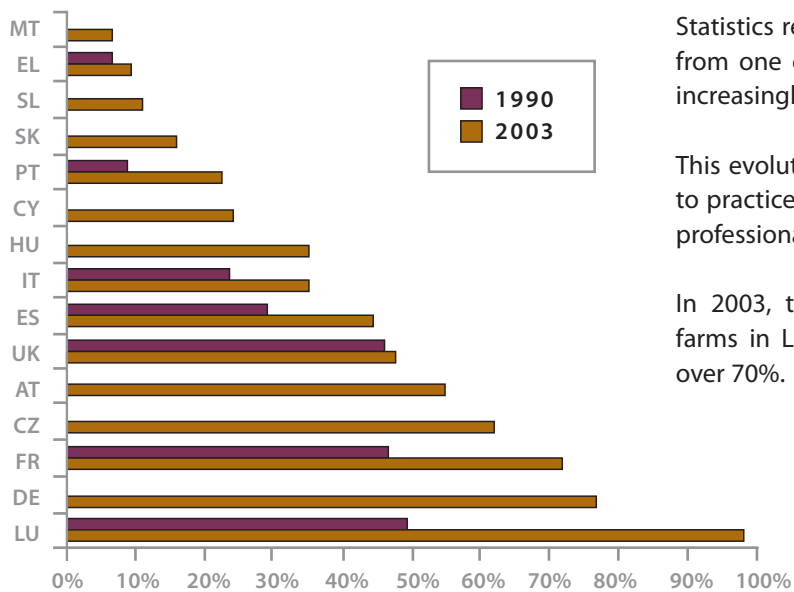
Area distribution according to type of wine



Source: Eurostat

## A pronounced specialisation of wine producers

Share of vine-growing farms exclusively producing wine 1990 and 2003(%)



Source: Eurostat

Statistics reveal a highly varied degree of specialization from one country to another, but the phenomenon is increasingly apparent in all Member States.

This evolution demonstrates the need for vine-growers to practice their profession with an increased degree of professionalism.

In 2003, the percentage of specialized vine-growing farms in Luxembourg, in France and in Germany was over 70%.

## A considerable source of stable employment

Compared to other crops, vine is highly labour intensive. On average, in the EU, the number of Annual Labour Units (ALU) per wine producing hectare is more than twice that observed on farms as a whole (0.12 vs. 0.05).

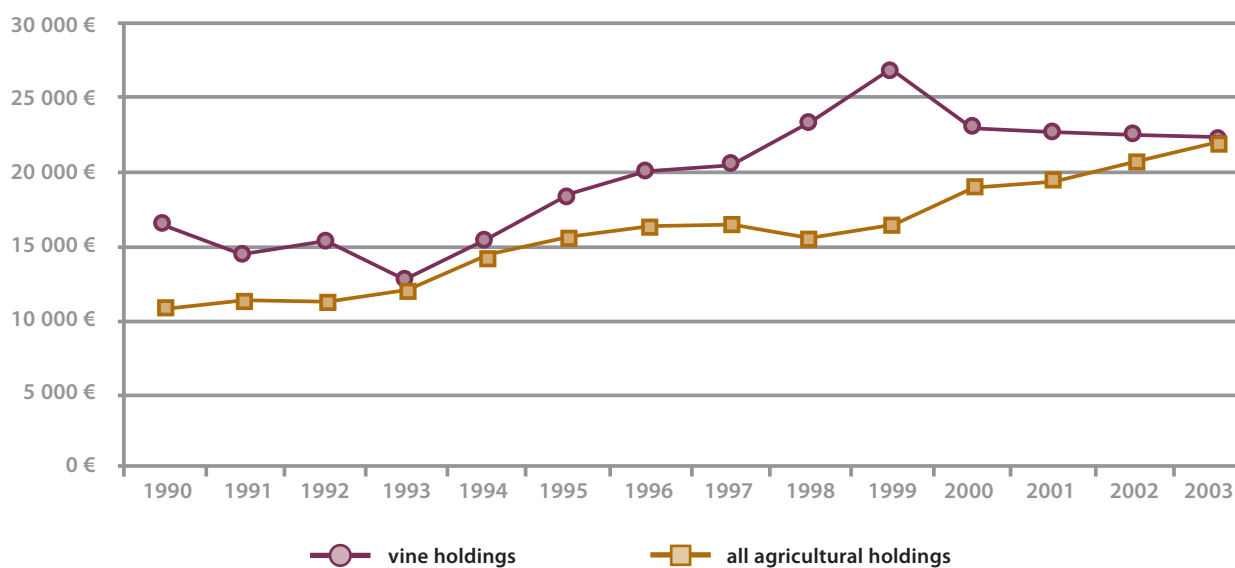
Family labour dominates (77% of the total workforce), although paid labour also plays an important role in France, in the Czech Republic and in Slovakia, where it represents more than 40% of employment in the sector.

In total, vine-growing farms employ more than 1,500,000 people full time. When the other actors in the production chain are added, the total employment generated by vine-growing is considerably higher.

The figure of 1 500 000 people corresponds to roughly 15% of the total Annual Labour Units for agriculture. Italy employs the highest number of workers: 500 000 producers, or 32% of the European total, followed by Portugal (227 000 workers – 18%). Together, these two Member States represent half of the labour force employed in vineyards. France and Spain account for 13% and 10% of European workers respectively.

## Significant disparities in revenue

### Evolution of revenues per farm



Source: DG AGRI – RICA

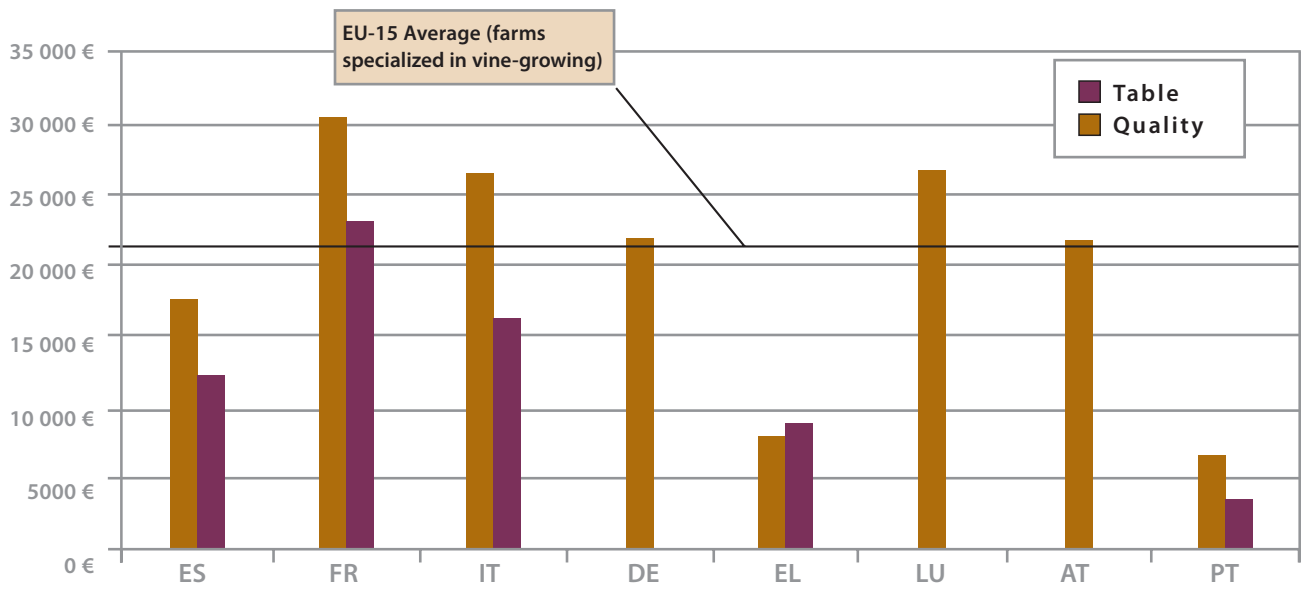
In the EU, specialised vine-growing farms have always had higher revenues than the average farm since 1990. On average, the evolution of revenues made steady progress between 1990 and 1999. However, this positive trend has brutally reversed, with average revenue per farm having declined by 12% between 1999 and 2003.

- Large differences in revenue exist between producers of quality wines and table wines, the former having economic results that are systematically (except for Greece) superior to those of the latter.

Based on the situation observed in 2003, revenues in the vine-growing sector show a considerable disparity between regions and according to wine products:

- French and Luxembourgish producers enjoy average revenues that are largely superior to the EU average, while in Spain, and even more so in Greece and Portugal, producers' revenues are very low;

### Average revenues of European vine-growers according to type of wine in 2003



Source: DG AGRI - RICA



## Questions and answers about reforming the European wine sector

### Is the CMO for wine in urgent need of reform?

According to all the evidence; yes. Many indicators are now flashing red: decrease in consumption, strong increase in imports – so much so that the EU could soon be a net importer of wine-, structural surpluses, systematic distillation, and loss of revenues. If the Common Market Organisation for wine (wine CMO) is not rapidly and profoundly modified, the system could enter an irreversible crisis.

The sector must be given the means to play its full role in the global wine market and win back European consumers. To do this we must make things simpler for our consumers taking fully into account their legitimate demand for transparency of information.

The next enlargement of the Union to include Bulgaria and Romania, two countries with strong production, reinforces the urgency for reform.

### What are the strengths of the EU wine sector?

The European Union is the uncontested global leader: largest producer, largest consumer, biggest exporter and biggest importer.

An objective analysis of the wine sector reveals both strengths and weaknesses.

Among the strengths: centuries of tradition and know-how guarantee high quality products, over one and a half million farms provide numerous jobs in rural areas, and beautiful landscapes of the producing areas. The assets of the wine sector are considerable as long as we can overcome its weaknesses.

### And its main weaknesses?

Firstly, a structurally unbalanced market with too many wines without a market generating a drastic loss of revenue for producers and requiring storage and destruction through distillation. This structural surplus is explained by some producers' lack of adaptation to a wine market in rapid evolution. Even if many producers, using the newest techniques and listening to the consumers, are very competitive, on a global scale European wines are consistently losing competitiveness to the "new world wines". These are perceived as more consistent and clearly better adapted to taste by a section of consumers, both in Europe and around the world.

### What concrete action is the Commission proposing?

To rapidly resolve the problems facing the sector and in order to arm it with the tools necessary to reinforce its place as the global leader, the Commission proposes to fundamentally modify the system of support for European wine growing. To do this, we must go further with the measures that have shown themselves to be effective, introduce new measures, simplify other measures, and get rid of those that have proved ineffective.

The measures that must be maintained and strengthened are aid for restructuring and measures for rural development. To better take account of the differing local situations, national envelopes will be proposed allowing Member States to use the funds in the way that suits them best. All the regulatory measures (wine making practices, classification of wines, labelling) need simplifying, modernising, and clarifying to respond more effectively to consumer needs.

Market measures (distillation, private storage and aid for the use of musts) have, until now, used a substantial part of the budget allocated to the sector. This, however, has

not allowed the sector to make the necessary quantitative or qualitative adjustments.

Finally, with the objective of increasing the competitiveness of our wines, constraints on production that do not exist among our competitors must be eliminated as soon as possible: the regime concerning the planting rights and the ban on new plantations. The Commission proposes the option of temporarily maintaining this regime. This will allow an ambitious voluntary grubbing-up programme which will in turn allow an indispensable structural adjustment in the sector to take place.

#### **How to best respond to the needs of different wine regions?**

The Commission recommends the allocation of national budgetary envelopes to reinforce subsidiarity and provide better resources 'on the ground'. Each Member State will be able to develop a programme adapted to its needs, within the new framework created by the Wine CMO. These budget lines are earmarked primarily for the management of crisis situations or climatic factors. Furthermore, aid for reconstruction will make up part of the plans adopted by each Member State.

#### **What improvements for wine making practices?**

To put EU producers on a level playing field with producers from third countries, the internationally accepted wine making practices of the International Organisation of Wine and Vine should be applied to EU producers; with possible restrictions for wines of quality to preserve their specificity and authenticity. It is proposed that the authorisation process for wine making practices is the exclusive competence of the Commission in order to guarantee a quicker update of practices and a rapid application of technical developments in this domain.

#### **Will the adding of sugar (Chaptalisation) or other methods of enriching wine disappear?**

Chaptalisation, (the enrichment with beet sugar) and enrichment through the addition of grape concentrated musts both have the aim of increasing the alcohol level in the wine. As the latter of these options, used in the south of Europe, is more expensive than chaptalisation, the Community budget subsidises the use of musts. The result? Three perverse effects: significant budgetary expenditure, an inappropriate use of this practice in regions where it was not previously used, and an incentive to increase yield.

The measures envisaged by the Communication are very simple: suppression of aid for the use of musts coupled with a ban on sugar based enrichment. This will put the brakes on an excessive use of enrichment and will allow a better response to consumer demand for less alcoholic wine.

#### **Is the reform dictated by external factors?**

No, as many efforts have already been made to bring our regime into line with international obligations. Having said this, the protection of geographical indications and certain labelling rules need to be revised so that they conform better to WTO rules.

#### **Is it indispensable to include wine in the CAP reform?**

The Commission believes that it is necessary to reform the wine CMO bearing in mind the general objectives of the 2003-2005 CAP reform, especially the requirement to have a better market orientation. Nonetheless it is not necessary to apply every single instrument of CAP reform to the wine reform.

The main innovation of the CAP reform is the principle of a regime of single decoupled payments, in other words independent of production, which combines the double advantage of total flexibility in the choice of production along with conformity to WTO rules (green box).

Such a system would be very hard to establish for the wine sector. Nonetheless, certain other features of the reformed CAP could be maintained such as the obligation to have greater respect for the environment and the need to take more account of the rural development needs of wine growing regions.

### **What measures are currently financed by the EU budget for the wine sector?**

2005 expenditure amounted to €1 269 million, distributed as follows:

- 35% represented expenditure on the restructuring programme in place since 2000 (€446 million in 2005).
- 63% have been used for market intervention measures: 40% represented the direct and indirect costs of the various forms of distillation and public storage of alcohol (€506 million), aid for musts used to enrich wine which accounted for 16% (€198 million), aid for private storage of wines and musts (5%, equivalent to €70 million) and export refunds (1%, or €17 million).
- The premium for the definitive grubbing-up of vineyards only amounted to €31 million (in 1993, the figure was in excess of €400 million), less than 2% of the total EU budget for the wine sector.

### **Will the wine budget increase or decrease?**

The Commission does not want to save money but spend the available budget more intelligently.

The reform of the wine CMO will be neutral in budgetary terms. The use of funds will be, however, radically modified: suppression of budgets allocated for distillation and use of musts, concentrating the aid on restructuring of the sector that will act as a lever to modernise it.

Currently, depending on the years, the budget dedicated to the wine sector represent between 2.5% and 5.5% of the total budget for all agricultural producers and all of their products. The wine CMO budget for 2005 is €1.2 billion, of which 35% is for the restructuring programme, and 65% is for all other measures of intervention such as distillation, storage, subsidies for enrichment.

### **Has the Commission consulted interested parties?**

Yes. During a seminar on the 16th February 2006, the Commission consulted interested parties, not just producers, wholesalers and distributors, but also consumers, health and environmental specialists, elected officials from wine growing regions etc. The Commission's services simultaneously developed a dialogue with the main professional associations involved: members of the wine and vine consultation committee, COPA-COGECA and the European committee for wine enterprises, along with a number of other European and national organisations.

### **What is the calendar for adoption of the new wine regime?**

The adoption of the wine CMO is foreseen in the Commission's 2006 work programme: following the presentation of its Communication to the Council and the Parliament (22 June 2006), and the subsequent discussions, the Commission will put forward its legislative proposal at the very end of 2006.

### **Who will decide the reform of the wine CMO?**

The reform of the wine CMO will be adopted by the consultation procedure. This procedure gives the decision making power to the Council while the Parliament has a role of consultation. The Economic and Social Committee and the Committee of the Regions will also be consulted.

The Council of Ministers needs a triple majority to adopt the text: a majority of votes (232 of 321) plus a majority of Member States (at least 13 of 25) corresponding to at least 62% of the European population. It follows that an agreement will not be reached without the support of the large wine growing countries.

### **Are we really heading towards simpler legislation?**

The Commission has undertaken to simplify wherever this is possible. Nonetheless, this should not be to the detriment of the efficiency of the system. What is proposed, notably concerning production, wine making practices and labelling, will allow without doubt a simpler and more coherent policy to be put in place.