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WINE

Common Market Organisation

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This report is based on the data available on December 2005. The figures given for 2004 and 2005 are generally provisional or estimated. This report in no way prejudices proposals that may be put forward to address issues highlighted in this analysis.

Note: the meaning of the words followed by an * is available by using the hypelink in the glossary at the end of the report.

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Preface

With a history going back thousands of years, the wine market has long been the subject of regulation and legislative frameworks. If we look at the archaeological record¹, we discover that:

- Even in the first known legal text, the Code of Hammurabi of Mesopotamia, dating from 1760 BC and inscribed on a basalt stele, provision is made, next to the law of retaliation, for commercial regulations governing drinking establishments.
- Later, in order to protect their market, the Romans prohibited the planting of vines in conquered territories and the import of wine to the Italian peninsula. Coupled to this policy of protectionism was the aggressive export policy pursued by Julius Caesar.
- In the Middle Ages, with the development of wine production, resulting particularly from the rise of the monasteries, the wine trade in Europe intensified. Competition was fierce, with everyone seeking to make use of their own competitive advantage. The town of Bordeaux, advantaged by its port, gave priority to its own wine in order to take advantage of higher prices when the harvest was poor and dispose of stocks before the market collapsed in times of strong harvest. In the latter case, after eight or ten years in storage, the wines of those particular vintages were sold off cheap or thrown away in order to free up the quays and storehouses.
- The combination of increased production and its resulting effect on prices and the demographic and industrial boom of the nineteenth century transformed wine from a drink consumed during celebrations and by the elite into the object of mass consumption. During that period, wine served as a consolation for the trials of factory working, alienation and poverty.

Planting regulations, disposal of production surpluses, trade restrictions, changes in consumption habits - this selection of historical references is indicative of the long regulatory history of vine cultivation and vine products, of which the European Union's common organisation of the wine market is the latest example.

The aim of this report is to present in detail the current state of the common organisation of the wine market, to form the basis for planning the next stage in its development.

¹ Historical events taken from the book: "Le vin, une histoire de goût" by A. Rowley and J-C. Ribaut, ed. Gallimard.

1. SUMMARY

The common organisation of the wine market is one of the largest and most complex common market organisations in the common agricultural policy. This is because it covers not only the issues that all market organisations deal with, such as price, intervention and trade, but also issues specific to the wine industry (provisions concerning the production, movement and processing for home use of wine products and oenological processes), as well as the interactions between the different issues.

Community regulation divides wines into two major categories: “**quality wine produced in specified regions**”, also known as “quality wine psr”, and “**table wines**”. However, it is the responsibility of the Member States to recognise and monitor quality wine psr, which has resulted in different approaches to classifying wines among the different Member States: Germany, Luxembourg, and to a certain extent the United Kingdom and Austria have opted to classify almost all manufactured wines as quality wine psr, whereas the other Member States have a much stricter approach. This classification does not necessarily reflect the quality of the wines, particularly as some table wines, such as those with a geographical indication (vins de pays, indicazione geografica tipica, Landwein, etc.) can rival top class wines in terms of price and quality, whereas some quality wines psr face disposal difficulties and are consequently sold at lower prices on the market. The majority of the market measures provided for by the common organisation of the wine market concern table wines. For instance, quality wine psr does not benefit from any export refund. On the other hand, quality wine psr is protected by registered designation of origin (at least inside the EU).

Measures taken by the market organisation can be grouped in three major categories:

- Measures concerning grape-growing potential
- “Classic” intervention measures (disposal and storage) and measures concerning trade
- Regulatory measures

The **limitation of grape-growing potential** is essentially achieved using two types of measure:

- **Prohibition on new plantations** (apart from newly created planting rights) and time restrictions on replanting rights (eight years); this measure has been the subject of much criticism, both from a legal and an economic point of view. Some producers favour greater liberalisation of planting, particularly as producers in third countries are not subject to such restrictions. Moreover, many irregularities have been observed and monitoring the application of the restrictions is fairly difficult.
- A premium system for the definitive abandonment of wine-growing areas. **This system has made it possible to grub up approximately 500 000 hectares of vineyards since the 1988/89 marketing year.** This measure has achieved a substantial reduction in the wine-growing potential of the Union. However, this reduction was limited by the measures adopted in 1996 and by new rights granted under the 1999 reform. Since 1996, the impact of this measure has diminished considerably following a change in the Regulation decided by the Council, allowing the Member States to exclude part or all of their territory from the system. In recent years, less than 2 000 hectares per year have been definitively grubbed up, whereas at the peak of the system, close to 56 000 hectares per year were affected.
- Moreover, under the 1999 reform **51 000 hectares of new planting rights** were granted.

“Classic” intervention measures (disposal and storage) and measures concerning trade

Within the framework of the common organisation of the wine market, **distillation** is the preferred instrument of **intervention**. The aim of distillation is to withdraw production surpluses from the market at a guaranteed minimum price. The wine is then processed into alcohol, which is intended partly for the potable alcohol market, with the remainder intended for the fuel market. Since the 1999 reform, Community legislation makes provision for four different forms of distillation, of which two are **obligatory** for producers and two **voluntary**. The purchase price of wine for distillation varies from one type of distillation to the other.

- A specific distillation concerns wines with a so-called **“dual purpose”**, mainly Charentes wine, which beyond a certain quantity must be distilled.
- A distillation (obligatory) concerns **“by-products** of wine-making” and aims to ensure the quality of the wines by avoiding the overpressing of grape marc and wine lees (this is why the by-products of wine-making sent for distillation must have a minimum alcohol content).

- A distillation, known as **crisis-distillation** (optional for producers), is decided when there is a serious disturbance of the market.
- The **potable alcohol distillation** aims to support the market in wines intended for this type of traditional processing.

Alcohol produced by distillation of the by-products of wine making, of wines with dual classification and of crisis-distillation enters Community public stocks and is disposed of for industrial use. For a long time it was exported for use as fuel. In December 2005, there were 2.3 million hl of alcohol in public storage, of which 42% was in Italy and 36% in France.

Despite the changes introduced by the 1999 reform, the state of application of the various forms of distillation is far from satisfactory. Admittedly, the system has proved effective to some extent in supporting market prices. Nevertheless, as is often the case with price support, the system has prevented production from adapting to the fall in the demand and thus contributed to the creation of surpluses.

Other intervention makes provision for a **private storage** system for wine, aid for the **use of concentrated musts and the production of grape juices**.

Measures concerning trade:

The entry into force on 1 July 1995 of the **Uruguay Round agreement** radically changed the wine trade with third countries. Before this date, border protection was ensured by the obligation to respect a minimum price on imports ("reference price") and by the collection at the border of a customs duty and possibly also a countervailing charge. Since the entry into force of the Uruguay Round agreement, the reference price has been abolished as a means of border protection, and customs duties have been reduced by 20% over five years. This means that the **Community wine market** can no longer be considered to be isolated from the rest of the world. In fact it has become **highly permeable to imports from third countries**. Another important consequence of the agreement's entry into force is the following: in an open market, as is currently the case of the EU wine market, it is more difficult to improve market conditions and support prices by withdrawing surplus quantities. In such circumstances, additional quantities are attracted from outside the Union, and prices cannot increase markedly above the price of the imported products.

These concern all **oenological processes**, provisions for the **names of geographical indications and quality, and the rules on labelling**.

Among the oenological practices, enrichment intends to increase the natural rate of wine in alcohol. It is carried out using either **sucrose** or **vine-based products (musts)**.

- In the case of enrichment using sucrose we also use the term "**chaptalisation (sugaring in the dry)**". Enrichment using sucrose is a traditional technique in a large number of **wine-growing regions of the north-central region of the Community**. One degree of alcohol produced from sucrose costs approximately one third of the cost of one degree of alcohol from the grape.
- To prevent southern producers from being penalised by this practice, **in 1982 aid for the use of concentrated musts and rectified concentrated musts to increase the alcoholic strength of wine was introduced**.

The availability of one degree of alcohol at a lower cost than from the grape has resulted, apart from a direct cost for the EAGGF, in a wholly artificial expansion in the use of enrichment (including in regions where the practice had never been used), a reduction in the natural alcoholic strength necessary to obtain wine and consequently in an increase in yields and production throughout the Community.

Budgetary expenditure for the common organisation of the wine market mainly concerns table wine. Expenditure varies markedly from year to year due to changes in production conditions and represents between 2.5% and 5.5% of the total expenditure of the EAGGF Guarantee Section. 2004 expenditure amounted to €1 092 million, while budget appropriations¹ cover an overall budget of €1 228 million, distributed as follows:

- **42%** represents the direct and indirect costs of the various forms of distillation, with **distillation proper (€323 million)** first, and then **the cost of alcohol in public stocks** of three of the four forms of distillation (€189 million).
- **37%** represents expected expenditure on the **restructuring programme** in place since 2000 (**€450 million**),
- Support of enrichment by means of **aid for musts** accounts for **13%** of needs (**€156 million**).
- The remainder is divided between private storage of wines and musts (5%, equivalent to €67 million), refunds (2%, or €26 million) and the definitive grubbing up of vineyards (a measure up to now used less and less by the Member States), which should only cost €18 million (in 1993 the figure

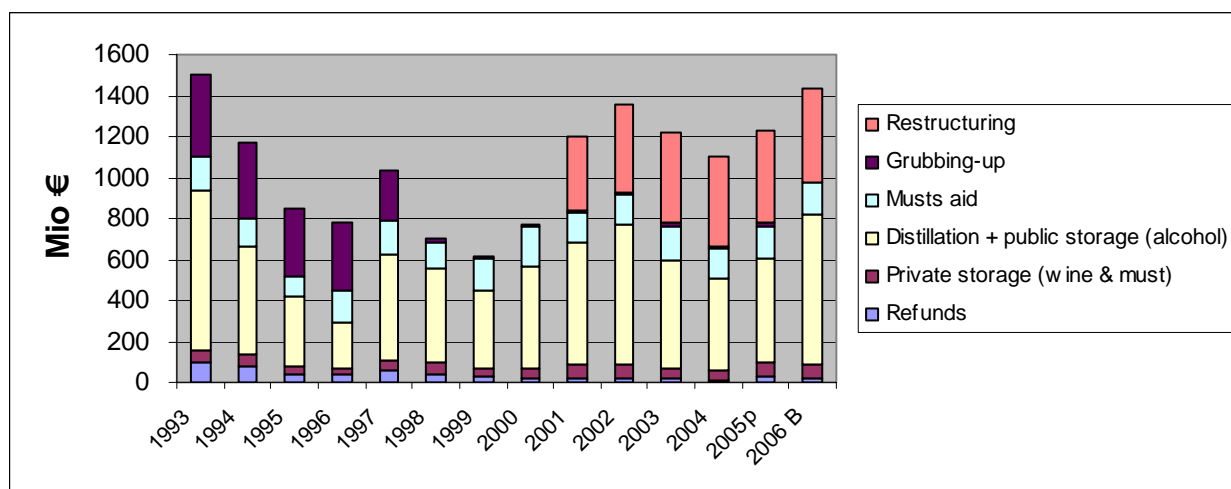
¹ 2005 budget after budgetary reduction in the appropriations calculated by the Commission decided by the Council. The strong 2004 harvest and crisis/distillations adopted in 2005 should lead to additional expenditure, which will be borne by the 2006 budget.

was in excess of €400 million), less than 2% of the market organisation's expenditure.

The **budget for 2006** makes provision for **€1 494 million**, a figure composed of significant expenditure on crisis/distillation decided in 2005 after the strong 2004 harvest, to which the distillations planned for the 2005 harvest must be added.

The following graph shows the evolution of expenditure by the different measures since 1993. It clearly shows the substantial share devoted to the new restructuring programme since the 1999 reform:

Figure 1: Evolution and breakdown of expenditure of the common organisation of the wine market (€millions)



Source: EAGGF Guarantee Section Annual reports, 2005 Budget and 2006 draft Budget

In addition, it must be recalled that like the other manufacturing sectors, the wine industry benefits from agri-environmental measures and other structural measures provided for under rural development.

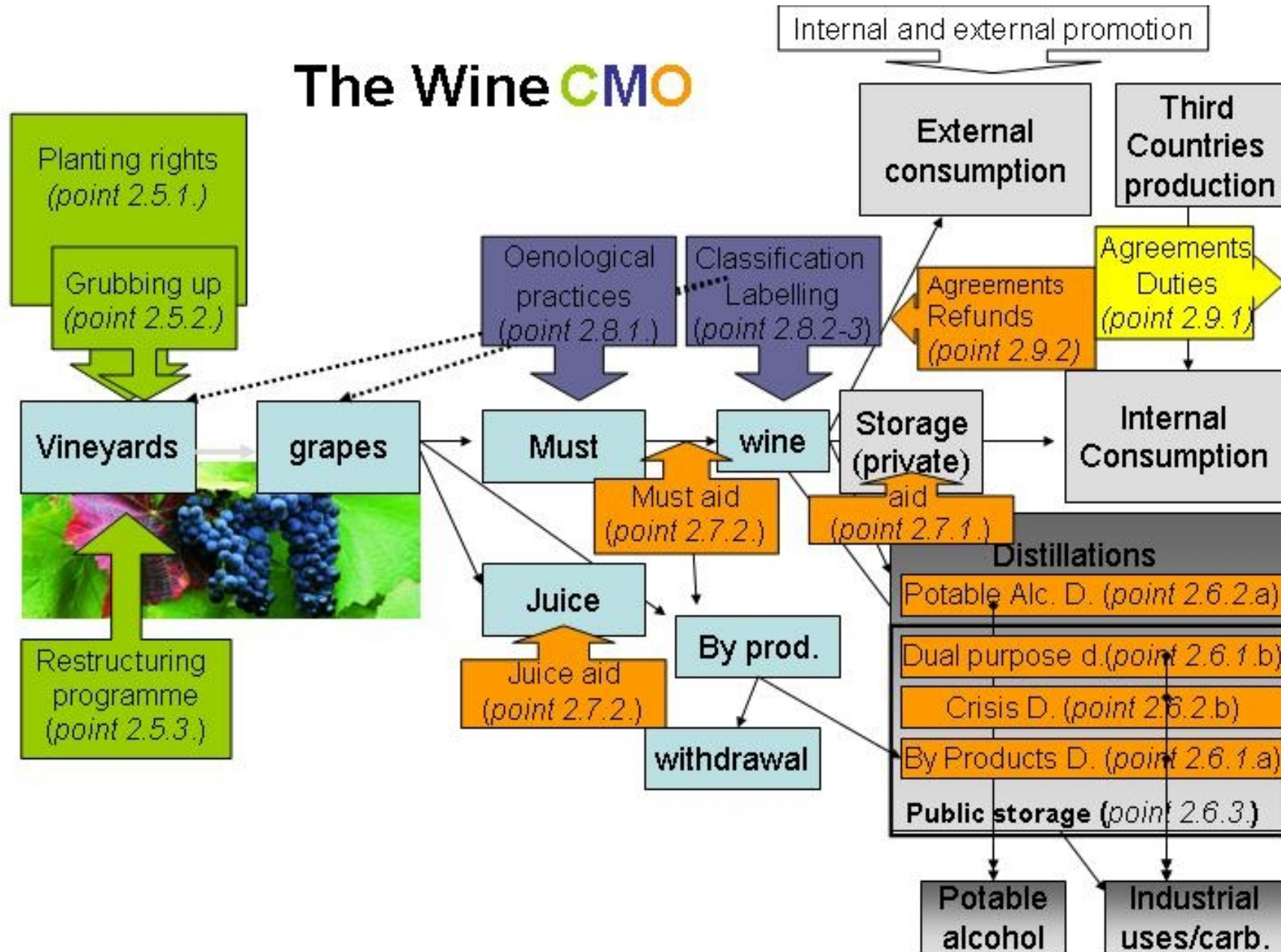
In the past, Community intervention in the wine industry focused primarily on **reducing production potential** (by grubbing up and restricting new plantations) and **market stabilisation** (by distillation). Since the 1999 reform and the introduction of the restructuring programme, efforts have been made to improve the competitiveness of Community production on both the internal and international markets. **The continuing difficulties balancing supply and demand and the ever fiercer competition from imported wines demonstrate the need for this effort on competitiveness to be maintained.**

This presupposes not only the continuation of efforts to match supply with demand, the acceleration of the rate of renewal of vineyards and rationalisation of production structures, but also the modernisation of the wine industry at all levels, from bottling to sale and marketing, as well as the adaptation of cellars,

the organisation of producers and the promotion of products, especially on certain external markets that show potential.

Lastly, in regions where wine-growing plays an essential role in **socio-economic development**, often without any viable economic alternative, abandonment of wine-growing could be problematic, even if it is difficult to prevent some relocation of production towards areas where wine-growing is more profitable. Moreover, maintaining wine-growing in many regions with a tradition in this sector is essential not only for the conservation of the landscape, but also to limit soil erosion. However, wine-growing can also create harmful effects, in particular where intensive use is made of plant health products and fertilizers. This is why we need to integrate vine cultivation into both **the eco-conditionality framework** and **the agri-environmental programmes**, which aim to encourage the introduction or the preservation of production methods compatible with environmental protection requirements and the preservation of the countryside.

The Wine CMO



2. DESCRIPTION AND ANALYSIS OF MARKET ORGANISATION MECHANISMS

2.1 Introduction

The common organisation of the market in wine was first set up in **1962** and has developed progressively ever since. It has given rise to some of the most **complex** and **far-reaching** the rules under the common agricultural policy. These have been revised several times, most recently undergoing significant amendment in the shape of Council Regulation (EC) No 1493/1999³, **which reformed the operation of the common organisation of the market from 1 August 2000**. It made a special effort to eliminate a number of regulations by consolidating all the provisions applicable following the reform into a single text. Following this regrouping exercise it is notable that this Regulation fills 84 pages of the *Official Journal of the European Communities*, not to mention the additions made since.

This is largely due to the fact that, unlike other production sectors in which the common organisation of the market is essentially limited to a pricing system and rules on intervention and the system for trade with third countries, in the wine sector it was considered necessary to regulate other, more technical, aspects also. These include: controlling the development of wine-growing potential, wine production, oenological practices and processes, rules on designation and presentation, rules governing the movement and release for consumption of wine products, protection of designations of origin, etc.

The main reasons for this situation are as follows:

- the common organisation of the market in wine primarily covers **a product – wine - which has already been processed and is very distinctive**, rather than primary agricultural production;
- the need to take account of the diversity of **European wine-growing and its historical legacy** (for instance, a radical difference between the Italian and French situation when the market organisation was first set up, and the highly specific nature of German wine-growing). For sometimes extremely long-standing reasons, each Member State had very detailed legislation in this area which was often an obstacle to the free movement of viticulture products;
- concerns about the quality of the products marketed, high taxation and the risks of fraud led the Community legislator to lay down **provisions making it possible to follow wine products from the vine to the end of the marketing chain**.

Many of these considerations still apply today. This does not, however, stop us wondering about the advisability of leaving the job of regulating some more of these aspects to national legislators, or even to the market.

³ OJ L 179, 14.7.1999.

2.2 Original political agreement

To understand the common organisation of the market in wine properly, we have to go back to the diversity of oenological practices and wine traditions in the Europe of the Six.

The French wanted Community recognition of the principles on which they based their own national wine market organisation, which had worked well up to then and treated products differently depending on whether they were classed as ‘quality wines’ or ‘table wines’. Other Member States, in particular Germany and Luxembourg, did not want any barriers to the development of their wine-growing industry, which was geared towards the production of wines with a readily available outlet.

A second split divided European wine growing: the issue of chaptalisation, or the enrichment of wine by adding sugar. This was a traditional practice in some Member States (Germany and Luxembourg) and some parts of France, but was foreign to wine-growing practice and culture in other French regions and in Italy, which prohibited it.

Lastly, Italy, banking on the competitiveness of its wine industry, supported freedom of plantation, while France strictly regulated its wine production.

Under these conditions, **the political agreement at the basis of the common organisation of the market in wine** was built on the following delicate balance:

- **maintaining traditional practices** in the regions concerned;
- **making a distinction in the legislation between ‘quality wines’ and ‘table wines’, leaving wide scope at national level vis-à-vis classifying wines** in each of these two categories;
- **freedom of plantation**, but with **specific treatment for ‘quality wines’** excluding them from classic market management mechanisms, such as distillation or storage, while requiring **stricter discipline for the production and control** of these wines.

This agreement allowed the development of wine-growing in the central and northern parts of the Europe of the Six, respected the broad outlines of French national legislation and was acceptable to Italy.

Some of these guiding principles and the measures which were adopted as a result (traditional practices and distinguishing between categories of wines) continue to apply without any fundamental changes. However, the original principles of freedom of plantation and non-application of intervention measures to quality wines have gradually been amended in line with market trends. First there was **a ban on new plantings**, and, more recently, with the last **substantive amendment which entered into force on 1 August 2000**, the possibility of **distillation of quality wines** and the introduction of a major **restructuring programme** armed with substantial budgetary resources (EUR 450 million per year).

2.3 The 1999 reform and current market organisation measures

The reform⁴, applied since 1 August 2000⁵, is based on two main principles.

- The first is **simplification of the market mechanisms, in particular rationalisation of the different types of distillation**. It increased transparency, reduced the number of imponderables and, given the regional diversity which characterises the market in wine, introduced more subsidiarity.
- The second involves the **introduction of a new instrument**, equipped with significant budgetary resources (now at EUR 450 million) to help **finance the restructuring and conversion** of vineyards so that production can be geared towards more lucrative outlets.

The common organisation of the market in wine aims to respond to the new situation that evolved in the European wine sector between the 1980s and the late 1990s when the market experienced fewer production surpluses than before.

However, the risk of surplus is not eliminated entirely.

- **In some regions, production has failed to adapt** to consumer demand for less table wine. Vineyard restructuring measures are needed for these regions in particular to help them find outlets for their production.
- The implementation of the Uruguay Round has led to a reduction of subsidised exports and **increased access possibilities for third country wines** to the Community market.

The result is a more open Community market on which it is no longer possible to control volumes and prices. As a result, the new market organisation has focused on intervention measures so as to avoid creating artificial outlets while maintaining traditional ones.

With the old measures and the new mechanisms, the arrangements in the wine sector currently comprise four main elements, themselves made up of several measures:

- **structural measures** concerning **wine-growing potential** which comprise the following.
 - Measures relating to the **management of wine-growing potential** through a **new system for managing planting rights** that aims to improve the circulation of rights while maintaining the ban on new planting. **Additional planting rights** have been granted to the Member States and a **procedure set up to regularise rights**. An **inventory of production potential** has been introduced as a reporting and control tool. The inventory is a prerequisite for the restructuring measures.
 - **Aid for grubbing up** vines for final abandonment.
 - A new programme of **restructuring and conversion** of vineyards.

⁴ Council Regulation (EC) No 1493/1999.

⁵ The wine year runs from 1 August to 31 July.

- Market **intervention** through:
 - **private storage** of wines and musts,
 - **4 distillation mechanisms**, 2 of which are compulsory and 2 optional for producers,
 - **public storage of alcohol from compulsory distillation** and managing the disposal of such alcohol,
 - aid for the **use of grape Musts*** (for enrichment or fruit juices).
- The particularly technical **regulatory measures** in this sector, which are numerous and detailed:
 - specific rules on **oenological processes**,
 - specific rules on **quality wines** and **geographical indications**,
 - specific rules on the **designation and presentation (labelling)** of wines,
 - specific **management** and **control** rules, in particular the vineyard register,
 - guidelines for **producer organisations** and sectoral organisations.
- **Trade mechanisms**: **customs duties** on imports and export **refunds**.

The old institutional price fixing mechanism has been abolished.

2.4 Products covered and wine classification

The common organisation of market in the wine sector **essentially covers wine**, i.e. the product obtained exclusively from the total or partial alcoholic fermentation of fresh grapes, whether or not crushed, or of grape must.

It also covers a number of **other products**, in particular:

- **grape juice and must**, with or without added sugar,
- **fresh grapes** (wine grapes, as table grapes are basically covered by the common organisation of the markets in fruit and vegetables),
- wine **vinegar**,
- other products, such as piquette, wine lees and grape marc.

Community legislation distinguishes between two main categories of wine:

- **quality wines produced in specified regions**, also called “quality wines psr”, and
- **table wines**.

2.4.1 Quality wines psr

Community legislation does not explicitly define which wines fall into this category. Community legislators were anxious to ensure respect for the traditions in the various Member States and so decided in 1970 to leave **responsibility for the recognition and control of quality wines psr** to the Member States while laying down a precise common framework, and ensuring Community protection of the quality wines psr recognised in the Member States. Thus Community rules provide a framework for the production and control of quality wines psr which Member States are required to comply with.

Member States were asked to lay down specific provisions on the following aspects likely to affect the **quality** of those products:

- a precise demarcation of the **production regions**, according to natural criteria,
- a list of the vine varieties suitable for the production of each quality wine psr (**vine varieties**),
- details of the **wine-growing methods** required to ensure the best possible quality for such wines,
- the establishment of **wine-making methods**, within the framework of the oenological practices allowed in the Community, in particular as regards enrichment and sweetening processes,
- fixing a minimum natural **Alcoholic strength***
- a **maximum yield** by hectare to be fixed by the Member State,
- a requirement to subject the wines to **analysis** and to the assessment of organoleptic characteristics,
- grape production, wine making and development to be carried out **within the specified region**,
- the circumstances and cases in which a quality wine psr could be downgraded into a table wine.

The practical provisions relating to these issues will be discussed in point 2.8.2.

The Member States essentially took **two different approaches** to classifying wines.

- In the first, favoured first by **Germany** and **Luxembourg** and then by the **United Kingdom** and **Austria**, **all of the country's wine-growing areas are considered suitable for producing quality wines psr, and a relatively high yield is set.**

Each year a decision based on chemical analyses and organoleptic tests is taken as to whether a wine can be classed as a quality wine psr that year. In practice, 90- 95% of wines in Germany and Luxembourg are classed as quality wines psr each year, with a lower percentage in Austria and the United Kingdom, where the system was introduced at a later date.

This reflects the idea that consumers, rather than legislators, drive the quality of the wine. Indeed, generally speaking, these wines do not seem to experience any major problems in finding outlets, except when the harvest has been

exceptionally large. **Almost all the new Member States, except Hungary, have adopted this approach.**

- The second method, followed by the other Member States, aims rather to develop objective criteria for quality and to **limit production to areas considered** suitable for producing quality wines **in order to obtain a higher price and to reinforce the link with the region** for the wines concerned. Only wines produced in those regions which have been subject to chemical analyses and organoleptic tests may be classified as quality wines psr.

The Commission has tried, several times, to lay down a Community framework for the recognition of quality wines psr.

In total, over **10 000 geographic indications (quality wines psr and table wines with GI)** have been recognised as such in the various Member States, the great majority in Germany and Austria. Each Member State has its own system for the recognition and classification of quality wines psr.

France, for instance, divides quality wines psr into “A.O.C.” (“*Vins d’Appellation d’Origine Contrôlée*”, or wines with a registered designation of origin) and “V.D.Q.S.” (“*Vins de Qualité Supérieure*”, or superior quality wine). Italy classes them as “*Denominazione d’Origine Controllata*” (registered designation of origin) and “*Denominazione d’origine Controllata e Garantita*” (registered and guaranteed designation of origin). Similar systems apply in the other Member States.

2.4.2 Table wines

Under Community legislation, *table wines* are wines other than quality wines psr, produced exclusively from **vine varieties permitted or recommended** for the wine-growing area, for which the wine grapes were produced in the Community, with an **alcoholic strength by volume** between 8.5 and 15% and a minimum **acidity**. Community wine cannot be made from imported grapes. Nor can it be blended with imported wines.

For market management purposes, and to ensure the free movement of all wines in the Community, a very detailed distinction has been made between **various types of table wine**, both red and white. The box on the following page gives a precise overview of the characteristics of each type of wine and their economic importance on the market.

Classifying a wine as a quality wine psr or a table wine has **two main consequences**:

- first, it determines which of the various mechanisms and measures in force under the market organisation **apply**. For instance, most of the provisions on intervention apply only to table wines;
- second, it determines the **presentation and labelling** rules and impacts on the wine’s consumer image.

However, it must be stressed that this **distinction is only a partial reflection of today’s reality**. Some table wines can now rival top-class wines in terms of price and quality, while some quality wines psr, despite being classed as such, obtain relatively low prices on the market. Moreover, even quality wines are no longer safe from the marketing difficulties which used to be confined to table wines. This is the reason for

the difficulty producers have in choosing the niche in which they wish to produce, knowing the constraints which may be imposed on them.

This partly explains the emergence in some countries of **new categories of personalised table wines** which, from the commercial point of view, promote the idea of a hierarchy to which consumers can relate their choice. These include **table wines with a geographical indication** (*Indicazione geografica tipica, Landwein, Vin de pays*, etc.), and the development in table wines of new concepts already present in the quality wines psr segment and used to particular effect by competitors in third countries: **Varietal wine*** and **Brand wines***. The latter two categories are also found in the quality wines psr segment (vin d'Alsace and champagnes are examples of this), which clearly shows how far, within a Community framework, supply has become diversified and segmented. This trend may enhance the value of certain table wines, but it can also lead to confusion for consumers.

2.5 Controlling wine-growing potential: planting, replanting and grubbing up

2.5.1 Ban on planting new vines and limitation of replanting rights

One of the oldest measures used to maintain market equilibrium in the wine sector is the ban on planting new vines. **This dates back to 1976**. Introduced initially for a two-year period, it was then **extended** on several occasions. The last occasion was during the 1999 reform, when it was decided to extend the deadline for ten years until **31 July 2010⁶**.

The ban on planting new vines has always been accompanied by a range of **exemptions**.

- The Council has, therefore, been able to authorise new plantings intended for the production of wines for which demand outstrips current supply. For instance, following the '**1996/97 prices package**', the Council distributed **10 000 new hectares** to the Member States in the 1996/97 and 1997/98 marketing years.
- Member States can also grant exemptions, without explicit restrictions, for **special cases** such as areas intended for graft nurseries, research, land consolidation or family consumption.
- Moreover, in the context of **socio-structural policy**, Member States have been able to authorise plantings within the framework of "development programmes". Thus, in the period 1988-98, France granted 9 218 new hectares in total, Spain granted 700 hectares between 1990 and 1997, and the Piedmont region was granted approval for a structural programme for planting 2 500 hectares (as a comparison, under the 1996/97 prices package the Council authorised just 2 442 hectares for the whole of Italy, including 225 hectares in Piedmont).

⁶ The legal basis of this ban has been contested several times. The most well-known case is Case 44/79 (Hauer v Land Rheinland-Pfalz). At the time (1979) both the Council and the Commission defended the prohibition on planting new vines while pointing out that this restriction was for a limited period and was justified by the crisis in the wine market.

- Lastly, the **1999 reform** provided for **68 000 hectares** (just less than 2% of the area under vines at the time) of “newly created planting rights”: 17 000 hectares were placed in a Community reserve, and the rest was distributed between Member States. These can be used to develop high-quality vineyards, with guaranteed outlets, to regularise illicit planting, or under the restructuring programme. These rights had to be allocated before 31 July 2003, failing which they reverted to the Community reserve. Almost all of these rights were allocated by that date.
- As part of the **accession** process, newly created planting rights were also allocated to the Czech Republic (2% of the area on 1 May 2004), and 1 000 hectares of new planting rights were allocated to Malta.

Since 1976, **replanting** has only been permitted if the wine-grower has applied for *replanting rights*. These can be obtained by grubbing up an equivalent area on the same estate or by transfer from another vineyard. Replanting rights are valid for eight marketing years following that of grubbing up.

There are two opposing ideas on this issue.

Supporters of **total liberalisation** of planting put forward the following arguments.

- The fact that third countries which produce wine are not subject to these restrictions and that it therefore **distorts competition**.
- Its **real impact on reducing** production potential has probably been **over-estimated**. Technological advances can even increase the yield per hectare. In line with market needs, growing methods can double yield if necessary. Is it, then, reasonable to focus on a single factor of production, the area under vines, while it is practically impossible to control other factors?
- The legal framework of the wine market has changed. The Community market is now opened to the world market. There have been major changes in demand, not just quantitative but qualitative too. Under these conditions, the producers who have adapted to the new market realities are not necessarily those who were adapted to the old situation. The ban on planting new vines thus introduces a certain **rigidity which makes adjustment more difficult**.
- Finally, managing this ban involves **a heavy administrative workload and is very difficult to check**, as the problem of **irregular planting** shows.

Lifting the ban would, therefore, only be possible if market guarantees were significantly reduced. The experience of third countries which are open to the world market shows that market dynamics can push both towards new plantings (e.g. Australia) and towards grubbing-up (Chile).

The **defenders of this ban** put forward the following main arguments.

- Despite a considerable reduction, the area under vines in the Community is extremely large, as is the possibility of **variation in yield**. It therefore seems **premature** to dispense with the ban on planting new vines forthwith.
- New planting could **shift wine production** from traditional producers, often located in regions with few possible alternatives, towards regions of fertile plain which often prove very profitable.
- The ban is a **necessary corollary** to market support mechanisms, such as distillation and Community premiums for the permanent abandonment of areas under vines.
- Without a ban, the cumulated effect of technical improvements, oenological processes and new plantings would have **intensified market surpluses**. The European Union's experience has effectively shown that in a regime allowing freedom of plantation, the wine sector is characterised by endemic surplus. Excess production can be controlled better with a system prohibiting the planting of new vines. This is because of the large amount of investment required in wine-growing and the length of time over which such investment is required: without a ban, therefore, if a new hectare were to be planted the old would also be kept for a very long time.

For these reasons it was considered necessary, in the 1999 reform, to retain the ban until 2010. It was also felt sufficient to create new rights and to introduce greater scope for flexibility into Community legislation allowing better use of the existing replanting rights. It was decided to set up a national reserve and/or regional reserves of rights to facilitate transfers and allow the automatic and systematic recovery of unused rights at the end of a maximum 8-year period.

However, the problem of irregular planting persists.

To enforce the ban on planting vines laid down in 1976, a penalty was introduced in 1987, requiring producers to distil the production from illegal vines at their own expense.

Since this measure proved difficult to implement and control, the 1999 reform provided for:

- the **grubbing up of any new vines planted illegally**. Recent inspections under the clearance of accounts procedures found some illegal vines which will have to be grubbed up;
- a **procedure to regularise vines planted illegally before 1998**. This procedure should originally have been finalised by 31 July 2002, a period which was extended to 31 July 2005. However, difficulties in legal interpretation, in particular in Spain and in Italy, slowed down this procedure, leading the Commission to decide a new extension of this period until the end of 2007.

Table 1: The situation of illegal plantings:

Area (ha)	Regularised*	Rejected	Under examination	Total
FR	128	-	7	135
DE	2	2	3	7
EL	6 575	-	5 681	12 256
IT	753	6	51 845	52 604
PT	9	-	8	17
ES	36 525	10 058	7 347	53 930
Total	43 992	10 067	64 981	118 950

Source: Communication from the Commission on managing planting (2004) Table 11 page 20 update AGRIC3

*To the satisfaction of the Member States but not necessary of the Commission

2.5.2 Premiums for the permanent abandonment of vine-growing⁷

The second measure of the policy to control wine potential in the European Union is promoting the permanent abandonment of areas under vines. The option of permanent abandonment, i.e. grubbing up, is open to almost all areas under vines. Based on eligibility criteria (regions, vines, age of vines, etc.) to be decided by the Member State, the **wine-grower can grub up his vineyard in exchange for a premium, in which case he forfeits their planting rights.**

The communitary premium is fixed by Member States, taking into account technical production criteria and below certain ceilings fixed at Community level. It can be limited to certain regions.

The ceilings vary between EUR 1 450/ha for an average yield below 20hl/ha and EUR 12 300/ha for a yield above 160 hl/ha, the average being around EUR 6 300/ha (for a yield of 50 to 80hl/ha).

Member States can supplement the premium from national funds.

A budget of **EUR 18 million** is provided for this premium under the 2005 budget (i.e. 1.5 % of the budget for the wine market organisation).

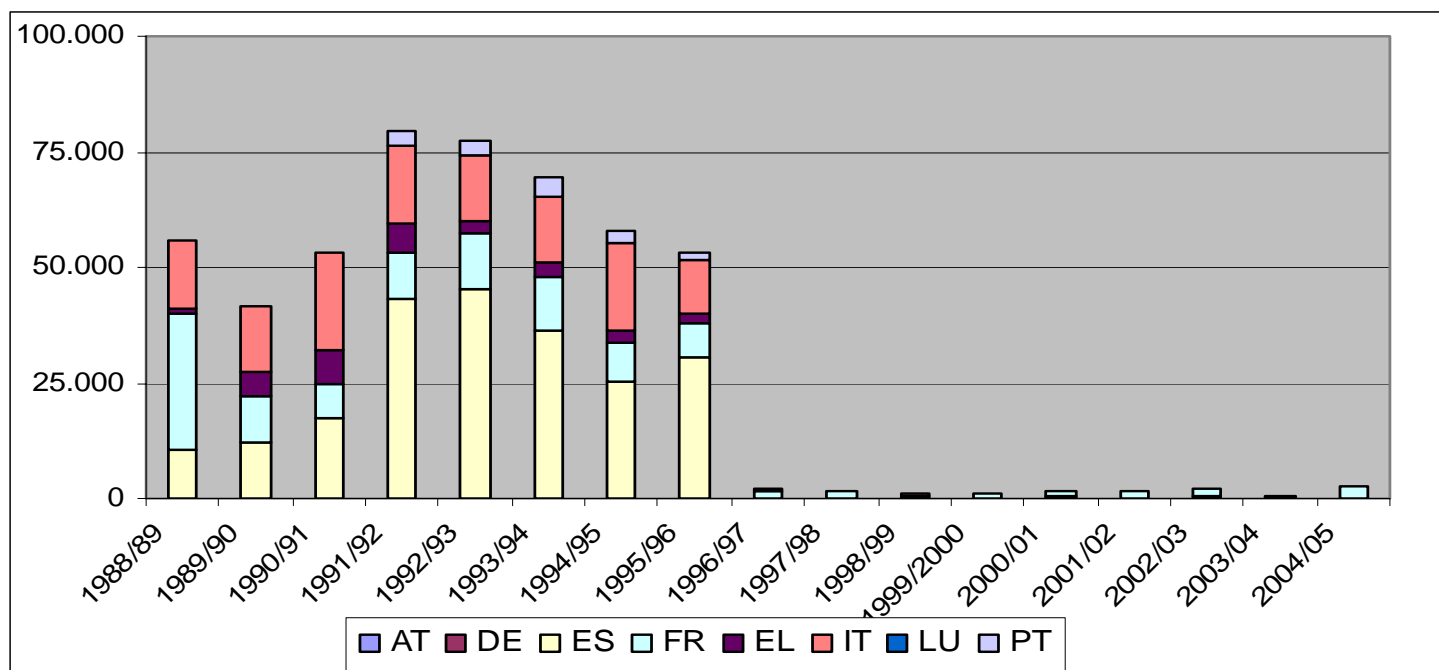
Table 2 shows the areas grubbed up under this scheme. In total, **over 15 years around 500 000 hectares of vineyards have been grubbed up**, primarily in Spain (44%), Italy (25%) and France (21%).

As the table and the following graph show, while the average area grubbed up was over **50 000 hectares a year up until 1995/96**, with a peak of almost 80 000

⁷ Article 8(1) of Council Regulation (EC) No 1493/1999 on the common organisation of the market in wine.

hectares in 1991/92, it is now almost insignificant (around 2 000 hectares a year according to the latest available figures). This measure is now used almost exclusively in France. The grubbed-up areas could increase significantly in 2005/2006.

Figure 2: Evolution of areas grubbed up by Member State (ha)



Source: DG AGRI.

This almost **complete halt on subsidised grubbing up** is the result of an amendment adopted by the Council in 1996 which introduced a clause allowing Member States to exclude part or all of their territory from the scheme. Thus, while the decision whether or not to participate in the programme was entirely down to the producer before 1996, from the 1996/97 marketing year this option was severely restricted by provisions adopted at national level. A renewed recent interest in this measure has however been noted in some Member (particularly in France) due to the successive good harvests and ensuing problems selling the wine.

Nevertheless the fact remains that when full use was made of this measure it considerably reduced the area under vines in the European Union (by 13% compared to 1988).

However, the effectiveness of this measure in terms of controlling the production potential was restricted by:

- the share of vines grubbed up at the end of their productive life, which would have been grubbed up in any event without Community aid;
- the fact that the hectares grubbed up are often those with the lowest yield. The real impact on productive potential is therefore probably not proportionate to the total area grubbed up.

Grubbing up also led to the fragmentation of some vineyards, with a negative impact on the environment⁸, and weakened some processing plants which no longer received an adequate supply.

⁸ Issue discussed in the working paper on “The wine market: situation and outlook”.

Table 2: Areas grubbed up financed by the EAGGF (ha)

MS	1988/89	1989/90	1990/91	1991/92	1992/93	1993/94	1994/95	1995/96	1996/97	1997/98	1998/99	1999/ 2000	2000/01	2001/02	2002/03	2003/04	2004/05	Total	%
										(1)	(1)	(1)							
AT													57	37	17	20		131	0.0%
DE	126	96	136	116	117	152	152	150		34		209	651		317	236		2492	0.5%
ES	10362	12245	17361	42817	45244	36132	25309	30313	145	174	21							220123	43.9%
FR	29401	9995	7411	10162	11963	11773	8231	7609	1546	1418	663	895	682	1379	1535	338	2470	107471	21.4%
EL	1281	4984	7229	6467	2440	3112	2543	1702										29758	5.9%
IT	14740	14312	20987	16600	14581	13875	19035	11783	300	209	290							126712	25.3%
LU	1	2	1	1	2	3	7	22					4			2		45	0.0%
PT	-	-	-	3229	3225	4579	2448	1398										14879	3.0%
Total	55911	41634	53125	79392	77572	69626	57725	52977	1991	1835	974	1104	1394	1416	1869	596	2470	501611	100.0%
of which wine grapes	50025	33658	42948	68759	68769	60801	48677	45440	1064	1835	974	1104	1394	1416	1869	596	2470		
of which others	5886	7976	10177	10633	8803	8829	9048	7537	927										

(1) As the rules do not provide for any notifications by the Member States during this restructuring programme, and in the absence of specific enquiries, these are estimates based on EAGGF expenditure

2.5.3 Restructuring programme¹

This is a new measure introduced by the 1999 reform. The aim is to **accelerate structural improvement and strengthen competitiveness** by replacing low-quality vines with better quality vineyards and/or with a greater training ability.

Support takes the following forms:

- **compensation for producers for the losses of income suffered** in implementing the plan, which can take the form of authorising the **coexistence of the old and new vines** for a given period not exceeding three years **or of an allowance financed** by the Community, and,
- **a contribution to the costs of restructuring and conversion** not exceeding 50% of these costs (75% in the regions falling within Objective 1).

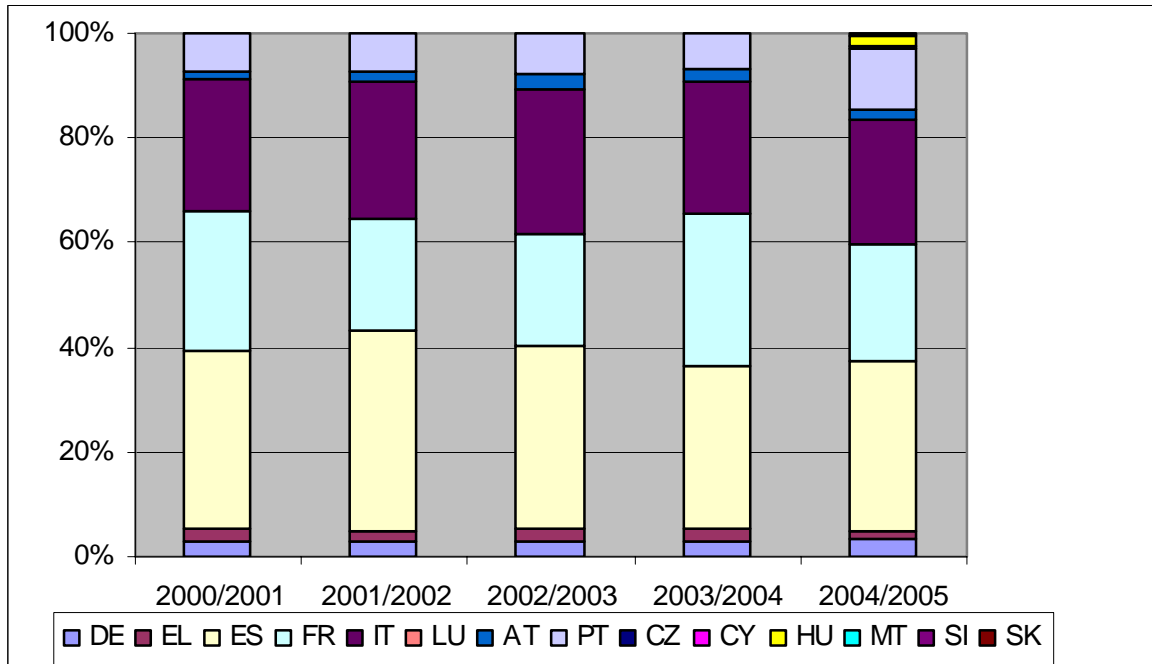
The granting of support for restructuring and conversion is conditional on the communication to the Commission by each Member State of its production potential and a restructuring plan. **The Commission grants initial allocations to the Member States** each year on the basis of objective criteria (taking into account above all the share of the Community vine area in the Member State concerned). This is then adjusted in line with revised expenditure forecasts communicated by the Member States. Member States may then benefit from additional amounts if some do not use their full allocation. Member States can **distribute the amount allocated among a larger number of hectares**. They can **use national funds** to supplement the reduced amount per hectare in order to reach the original ceiling per hectare of the Community allocation. So far none of the Member States has provided supplements from national funds.

The annual cost to the budget is around **EUR 450 million (33%** of the total wine budget). **Average aid per hectare financed by the Community budget** varies widely: the average is **around EUR 7 300, but it can range from EUR 3 600/ha to EUR 17 000/ha**.

Since this is a recent measure, and in the absence of precise indicators communicated by the Member States, it is still difficult to give an opinion on the long-term impact of this measure. Some Member States (in particular Spain, which benefited most from this measure) used the funding quickly and were able to benefit from the delays by others, as shown in graph 3. In terms of total area under wine grapes in each Member State, Greece has made least use of this measure (2.3%) and Austria most (14.3%).

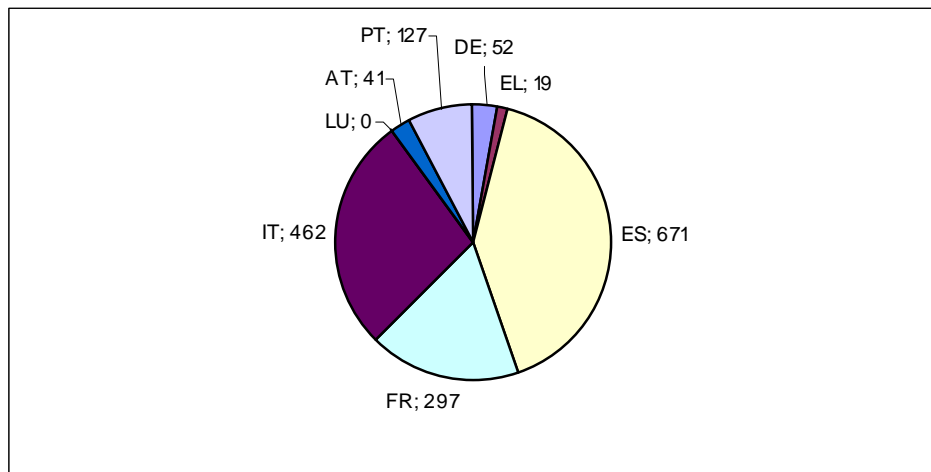
¹ Article 11(1) of Council Regulation (EC) No 1493/1999 on the common organisation of the market in wine.

Figure 3: Share of each Member State in the restructuring programme (%)



Source: DG AGRI based on communications from the Member States (2000/01-2001/02 initial allocations and 2002/03-2004/05 final allocations)¹

Figure 4: Distribution of expenditure by Member States in EUR million
(Total 2000/01 to 2003/04: EUR 1 669 million)



Source: DG AGRI, EAGGF financial reports

¹ The final allocations for the period 2000/01 to 2001/02 cannot be given because of the way the data transmitted by the Member States was presented for this period.

While this measure, which **made it possible to restructure almost 5%** of the area under vines in the EU (EU-15), meets a particular need in some Member States, it remains expensive in relation to the area covered. Audit reports in a number of Member States reveal that it is **not always used to achieve a significant improvement in production quality**. It could also result in an increase in the quantities produced, and risk overloading the quality wine market.

2.5.4 Control provisions: vineyard register, accompanying documents and register.

The accompanying documents and registers kept by operators are a means of **guaranteeing product traceability** in the wine sector. This documentation can also serve as a **basis for production and stock declarations** (see Commission Regulation (EC) No 1282/2001).

The use of the accompanying documents and registers to be kept in the wine sector is governed by Article 70 of Council Regulation (EC) No 1493/1999 and by Commission Regulation (EC) No 884/2001.

All products covered by the market organisation must be accompanied by an officially checked accompanying document when put into circulation within the Community. The document referred to in the wine legislation is used when the documents required under the tax laws are not applied (see Council Directive 92/12/EEC and Commission Regulations (EEC) Nos 2719/92 and 3649/92).

The accompanying document contains details on **the consignor, the recipient and the product transported**. It must be drawn up by operators in the Community who transport a wine product or cause a wine product to be transported. However, there are numerous **exemptions** for specific products, distances, owners of the products concerned, etc.

Each accompanying document is used for **one transport operation only**.

The accompanying document can **serve as a certificate of designation of origin** for quality wines **psr or the designation of provenance of table wines entitled to a geographical indication**.

If the wine products are subject to **excise duty, tax documents must be used**. These must of necessity be paperless documents, and hence **all operators** in the sector, including producers of wine products and merchants, will **have to connect to the Excise Movement and Control System (EMCS)**. This raises the question whether a similar computerised system should be applied for the transport of wine products in the Community.

Operators who hold products covered by the market organisation in the exercise of their trade, are obliged to **keep inwards and outwards registers** in respect of those products.

For each entry and exit the registers note the **identification, quality and quantity of products** concerned. **Treatment** such as increasing the alcoholic strength, acidification and deacidification, etc. also **have to be indicated on the registers**.

Once a year, on a date which may be fixed by the Member States, the records of entry and withdrawal of products must be **closed (annual balance sheet)**. An inventory of stocks must be made in the context of the annual balance sheet. The keeping of registers or of individual accounts does not exempt producers from making declarations.

2.5.5 Provisions on producer groups and the organisation of the sector

One of the objectives of the last reform was to formalise the role of producer groups and sectoral organisations by giving them a legal framework.

Producer groups

The role of producer groups is to help achieve the objectives of the common organisation of the market in wine. Member States recognise these groups, which **are formed on a voluntary basis**. Groups have to prove the usefulness, importance and efficiency of the services they offer to their members and must have a minimum number of members and cover a minimum volume of marketable production.

The aim of producer groups is primarily **to help bring production into line with demand**, to facilitate and promote the placing of products on the market, to help reduce production costs and to ensure that cultivation and production methods are environmentally sound.

These groups may impose appropriate penalties on their members for infringement of their obligations.

The regulation rules that the Commission checks compliance with the conditions laid down by Regulation (EC) No 1493/1999 and can, where appropriate, call on Member States to withdraw recognition.

Sectoral organisations

Sectoral organisations aim to **improve the operation of the market** for quality wines psr and table wines with geographical indication and to help improve market regulation. These bodies can help improve knowledge of production and marketing, draw up standard contracts, provide guidance on gearing production towards market needs, seek more environmentally sound methods and promote organic farming, [AOC](#) , **registered designations of origin*** and geographical indications.

In practical terms, sectoral organisations should be the facilitators of technical and economic innovations in the wine sector, always taking consumer interests into account.

The decisions taken by sectoral organisations are then implemented by the Member States. The regulation rules that the Commission ensures that such decisions comply with Community law, in particular the rules on free movement, competition and non-discrimination.

The rules laid down by the Member States must be brought to the attention of operators in an official publication.

This collaboration between the national authorities and the sectoral organisations helps enforce compliance with decisions taken at national or Community level.

However, in reality, the range of activities carried out by producer groups and sectoral organisations represents only a fraction of what they could actually be responsible for under the terms of Regulation (EC) No 1493/1999.

Their main problem is that they do not have specific operational instruments, such as in the fruit and vegetable sector, where sectoral organisations actually manage resources. This is because wine is not a standard product like fruit and vegetables.

Moreover, some Member States lack interest in the activity of sectoral organisations and do not promote links with them. A number of attempts to take stock of the situation by existing groups in each Member State have failed, which proves the rather marginal role of these groups and organisations in terms of coordination and providing assistance in production and marketing.

2.6 Intervening on the market via the distillation of wine

Distillation is the main instrument used for market intervention under the common organisation of the market in wine. Depending on its technical characteristics, alcohol produced through distillation either takes the form of raw alcohol¹¹ and spirits obtained from grape wine or grape marc which are sold for the manufacture of potable alcohol, or takes the form of raw or neutral alcohol¹² which is taken into public intervention storage for later use in chemical or carburation processes.

The successive distillation schemes applied over the years may be classified as follows:

Until the 1999/2000 marketing year	Since the 2000/01 marketing year
Support distillation	
Voluntary preventive distillation	Distillation for potable alcohol (optional)
Compulsory distillation of table wines	Crisis distillation (optional, all wines)
Compulsory distillation of wines other than table wines	Distillation of wine from dual-purpose grapes (compulsory)
Compulsory distillation of by-products	Compulsory distillation of by-products

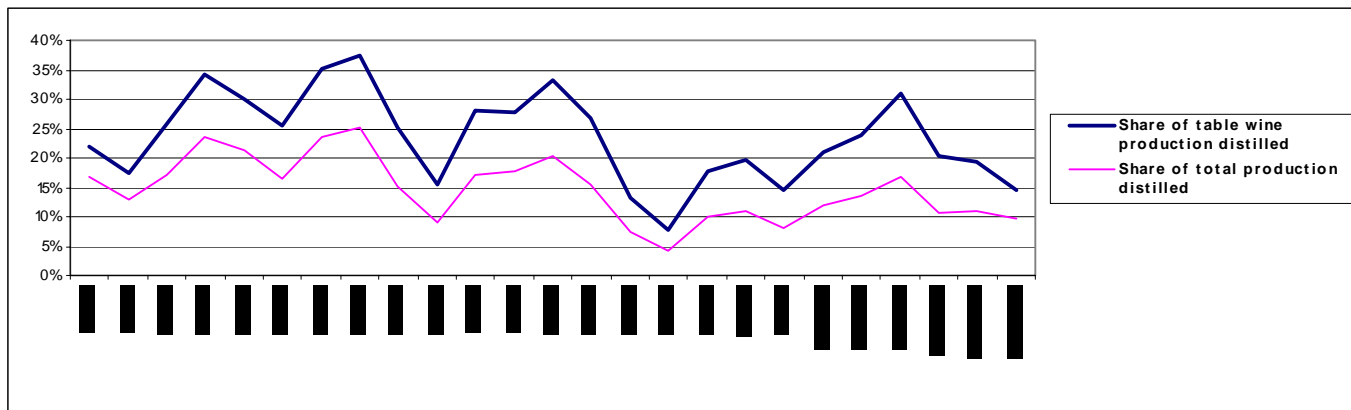
The objective of wine distillation is to withdraw production **surpluses** from the market at a guaranteed **minimum producer price**. The yield from this distillation supplies the potable alcohol sector with around 10 million hectolitres and the remainder is disposed of outside this sector. Since the 1999 reform, Community legislation has provided for four different types of distillation, two of which are compulsory for producers while the other two are voluntary.

Over the last 25 years an average **amount** of 26 million hectolitres of wine, i.e. 15% of **production**, has been **distilled** each year. However, the percentage has varied considerably in recent decades, reaching a high (25%) in the 1980s and a low (5%) in 1995/96. **Since 2000, it has fluctuated around 10%.**

¹¹ Alcoholic strength by volume of more than 52%.

¹² Alcoholic strength by volume of more than 96%.

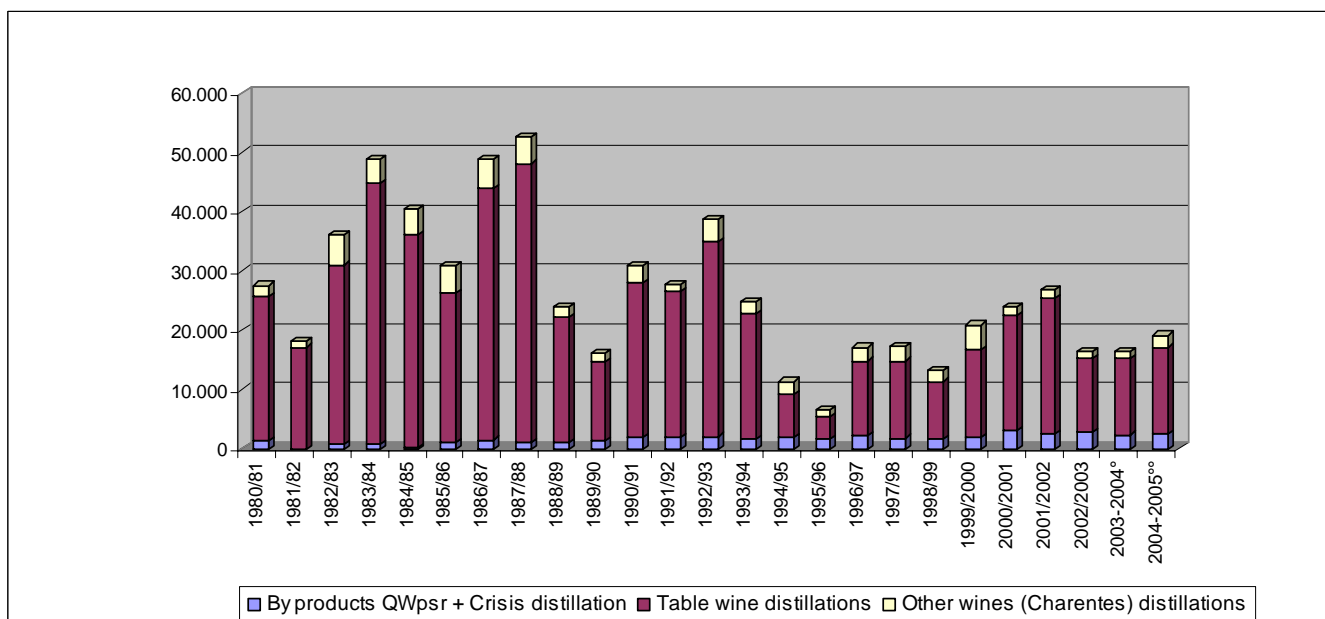
Figure 5: Percentage of production distilled¹³



Source : DG AGRI

However, since distillation almost exclusively involved table wines, the average distillation percentage is in the order of 30% if table wine production alone is taken as a basis.

Figure 6: Distillation by type ('000 hl)



Source: DG AGRI

¹³ Including potable alcohol but excluding spirits.

2.6.1 Compulsory distillation

a) Distillation of by-products¹⁴ of winemaking:

The objective is to **dispose of all the by-products of winemaking**, i.e. the marc and lees, in order to **guarantee the quality of wines by avoiding overpressing**. To this end, all winemakers must deliver for distillation all by-products of winemaking. In order to prevent the by-products delivered for distillation from being over-exploited, they must contain a minimum amount of alcohol. If the amount specified is not attained, then wine must be delivered.

This type of distillation involves around 1.3 million hectolitres of alcohol a year. It comprises two parts:

- aid to **distillers** to compensate for the **minimum price paid to producers** (€0.995 per % vol./hl) for the delivery of marc and lees: this aid to distillers represents around **€60 per hectolitre of pure alcohol** or **€6 per hectolitre of wine**;
- in the case of alcohol taken over into public storage, the financial loss borne by the Commission for **storing and disposing of this alcohol**: these costs represent about **€90 per hectolitre of pure alcohol** or **€9 per hectolitre of wine**.

This makes a total indicative cost of **€15 per hectolitre of wine**.

The overall cost of this measure (distillation aid + cost of public storage) varies between **€200 and €30 million**¹⁵ (i.e. around 15% of the budget for the wine sector), including between €80 and €90 million by way of aid to distillers.

As in the case of the distillation of dual-purpose wines and crisis distillation, and except where there is an inadequate amount of wine alcohol to produce potable alcohol obtained in particular by distilling potable alcohol, **intervention alcohol resulting from the distillation of by-products must be disposed of outside the potable alcohol market**.

This is **compulsory distillation** and all producers of both table wines and quality wines produced in specified regions (quality wines psr) should be included in the scheme. However, certain producers **are exempt from the obligation to distil (in Germany, Luxembourg, Austria, the Czech Republic, Slovakia, Slovenia and small producers in Hungary)**. In those countries, producers must **withdraw by-products under supervision and without payment**; the by-products must then be denatured to make their use in winemaking impossible and they must be assigned to other purposes, e.g. as fertiliser. The environmental impact of each of those techniques is under discussion and will have to be thoroughly assessed.

¹⁴ Article 27(3) of Council Regulation (EC) No 1493/1999 on the common organisation of the market in wine.

¹⁵ The budget figures cited represent annual average EAGGF expenditure for 2000-04.

b) **Distillation of dual-purpose grape varieties (dual classification)¹⁶.**

This concerns wines obtained from "dual-purpose" grape varieties, which can yield table wine or wine for use as a base for distillation into certain types of alcohol.

They are almost all **wines from the Charentes region, the normal purpose of which is distillation into Cognac**, but the **structural surplus produced in relation to market outlets is liable to threaten and destabilise the white wine market.**

This measure, like the distillation of by-products, comprises two parts:

- **aid to distillers** to compensate for the minimum price paid to producers (€1.34 per % vol./hl) for the delivery of marc and lees: this aid to distillers represents around **€65 per hectolitre of pure alcohol or €6 per hl of wine.**
- in the case of alcohol taken over into public storage, the **financial loss** borne by the Commission for **disposing of** this alcohol: these costs represent about **€90 per hectolitre of pure alcohol or €8 per hectolitre of wine.**

This makes a cost of **€14 per hectolitre of wine.**

This distillation involves between **1 and 2 million hectolitres** of wine, or more in the event of an large vintage, entailing a total cost of between **€15 and 30 million per year.**

In practice, therefore, this is an obligation to dispose of the amounts which regularly exceed by 25% the quantity traditionally absorbed by Cognac production, i.e. the outlet for which these varieties were planted.

Despite being in force for a long time, **the measures implemented under the common organisation of the market** (preventive distillation followed by the current specific distillation) **and those implemented by France have not so far encouraged producers to reduce substantially either the surface area planted or the very high yields** (120 hl/ha, i.e. double the average yield of other French wines). This measure thus appears to be a permanent outlet and there is reason to fear that this problem will persist.

As in the case of the distillation of by-products and crisis distillation, and except where there is an inadequate amount of wine alcohol to produce potable alcohol obtained in particular by distilling potable alcohol, **alcohol resulting from the distillation of dual-purpose wine must be disposed of outside the potable alcohol market.**

¹⁶ Article 28(1) of Council Regulation (EC) No 1493/1999 on the common organisation of the market in wine.

2.6.2 Non-compulsory distillation

a) Distillation for potable alcohol¹⁷

The aims are manifold:

- **to withdraw the expected surplus from the market at the beginning of the marketing year** in order to exert a positive impact on prices (and, consequently, on producers' incomes);
- **to improve the quality** of the wines sold by withdrawing poorer quality wines from the market;
- **to supply the potable alcohol market**, by making available to the spirits industry and to producers of brandy and liqueur wines raw material (wine alcohol) from the Community at a price rendered competitive through aid.

This market, which was in the region of 14 to 15 millions hectolitres of wine up to the end of the 1990s, currently ranges between **10 and 12 million hectolitres**.

The potable alcohol market is thus subsidised and, by way of compensation, there is an obligation to pay a minimum price for the raw material (wine).

This measure comprises **two types of aid to distillers** but, contrary to compulsory distillations, the alcohol is not taken over:

- **primary aid** paid to distillers **to compensate for the average minimum purchase price** paid to producers for the wine to be distilled (€2.488 per % vol./hl): this represents around **€175 per hectolitre of pure alcohol or €20 per hectolitre of wine**;
- **secondary aid** paid to distillers to cover **part of the cost of private storage of the alcohol**: this represents around **€12 per hectolitre of pure alcohol or €1.3 per hectolitre of wine**.

This makes a total cost in the region of **€21.5 hectolitres of wine**, resulting in a around **€250 million per year** (i.e. **20%** of the budget of the common organisation of the market) being paid to distillers.

If such aid were not paid, two risks would arise:

- alcohol made from Community wine could face fierce competition from wine alcohol imported from third countries as a base for manufacturing spirits;
- spirits made from wine alcohol could face fierce competition from spirits made from alcohol from other sources (cereals, etc.).

¹⁷ Article 29(1) of Council Regulation (EC) No 1493/1999 on the common organisation of the market in wine.

b) **Crisis distillation**¹⁸.

The aim of the measure is to:

- eliminate **specific pockets of surplus**;
- guarantee continuity of supply from one vintage to another.

This type of distillation has existed for a long time in the common organisation of the market, but since the 1999 reform **two substantial amendments have been introduced**:

- its application is subject to acceptance of the Member State's request but is **voluntary on the part of producers** and may be restricted to certain categories of wine or certain production areas. It may be applied to quality wine psr only at the request of the Member State concerned;
- it may affect not only table wines, but also **quality wines**.

One of the criteria for introducing the measure is **a demonstrable deterioration, over time, in the market price** for a specific category of wine or for wine from certain production areas.

It too comprises two parts, namely aid to distillers and, as in the case of compulsory distillation, the taking-over of alcohol:

- **aid to distillers** to compensate for the **minimum price paid to producers**: this represents around **€12 per hectolitre of pure alcohol or €12 per hectolitre of wine**, which varies according to the minimum price set by the Commission;
- as regards the obligation to take over alcohol, the **storage costs** and the financial loss borne by the Commission for **disposing of the alcohol** resulting from such distillation and placed in public storage: this represents a net amount of around **€90 per hectolitre of pure alcohol or €10 per hectolitre of wine**.

This makes a cost of around **€22 per hectolitre of wine**.

Since it was introduced by the 1999 reform, crisis distillation has been used in **2000/01, 2001/02 and 2004/05**. The quantity of alcohol concerned was 650 000 hectolitres of pure alcohol in 2000/01, 700 000 hl in 2001/02 (around **7 million hectolitres of wine**) and, following the very large harvest in 2004, it was decided in 2005 that this distillation measure had to be opened to **8 million hectolitres of wine** (the subscription amounted 1.1 million hectolitres of quality wine in France, 4 million hectolitres of table wine in Spain, 2 million hectolitres of table wine in Italy, 340 000 hectolitres of table wine and 40 000 hectolitres of quality wine psr in Greece, and 400 000 hectolitres of table wine and 100 000 hectolitres of quality wine psr in Hungary).

¹⁸ Article 30(1) of Council Regulation (EC) No 1493/1999 on the common organisation of the market in wine.

The total cost varies considerably from year to year, depending on the quantity distilled and the minimum price to be paid to producers. For example, **€180 million**, comprising **aid of €100 million to distillers and public storage costs of €80**, will be required to distil the 8 million hectolitres decided on in 2005.

An important variable which has to be fixed when a crisis distillation is launched is the **minimum price to be paid to producers**. If it is set too low, it will fail to act as an incentive to the producers, who will not use the measure requested by the Member State; if, on the other hand, it is set too high, it will lead to the distillation of quantities for which a market outlet could have been found. Account must, therefore, be taken of the market prices for wine, which explains why, for example, under the crisis distillation decided on in 2005, the actual minimum price to be paid to producers of quality wines psr was set at €3.350 per % vol./hl in France and at €2.3/%°vol/hl in Greece. For crisis distillation of table wines in Spain, Greece and Italy, the minimum price was set at €1.914 per % vol./hl.

If the Community uses this measure for three years in succession for a particular type of wine (in a particular area), the Commission draws up a report to the European Parliament and the Council on the persistent crisis including, if appropriate, proposals.

As in the case of the distillation of by-products and dual-purpose wines, and except where there is an inadequate amount of wine alcohol to produce potable alcohol obtained in particular by distilling potable alcohol, **alcohol resulting from a crisis distillation must be disposed of outside the potable alcohol market**.

2.6.3 *Disposal measures*

Wine alcohol produced as a result of certain distillation measures (crisis distillation and, in part, distillation of the by-products of winemaking and wine obtained from dual-purpose grapes) is **delivered for intervention and placed in public storage**.

These stocks of wine alcohol may be disposed of through a **tendering scheme**, **but this must not disrupt the food sector** and, in particular, the potable alcohol market.

Community legislation provides for alcohol to be disposed of in the following areas:

➤ **New industrial uses**

Sales of alcohol in this sector are conducted by tender and are subject to an annual limit of 400 000 hectolitres. **The Commission sets a minimum tendering price**, but it is not obliged to accept all tenders above that price.

The largest outlet in this sector is the production of baker's yeast, while requests for other uses (heating of greenhouses, training courses for fire-fighters, production of chemicals or yeasts for penicillin or eau-de-Cologne) exist but are quite sporadic.

Disposal for new industrial uses is considered **relatively marginal** in view of the small quantities which the market is able to absorb (only half of the maximum amount has been used) and, in particular, the **low selling price** of alcohol (currently around €10/hl).

➤ **Fuel sector in third countries**

This type of sale is based on a **tendering procedure with a minimum price set by the Commission in accordance with the same principle** as for new industrial uses.

Sales to third countries, which went mainly to certain Caribbean countries (Jamaica, El Salvador and Costa Rica) and Brazil, represented the largest outlet in terms of quantity up to 2002, despite the modest selling price of alcohol, but they were **completely stopped in 2003 on account of high risks of fraud**.

➤ **Use as bio-ethanol in the Community**

This outlet was created under the 1999 reform of the common market organisation in order to stimulate the **development of bio-fuel projects** in Europe.

At the outset, alcohol was disposed of via a system of public sales, in which only a very limited number of approved undertakings could participate. Those limited competitive conditions resulted in rather modest selling prices (€9/hl).

More recently, following the rapid growth of the bio-fuel sector entailed by the Community initiative on bio-fuels and the sharp rise in oil prices, traders' interest in and demand for wine alcohol have increased considerably. In order to take this into account as well as to insure fair competition, **the public sales system was replaced with a tendering procedure in 2005**.

2.6.4 Some general reflections on the distillation system

The wine distillation system, as described above, is undoubtedly endowed with an internal logic as regards the targeting of its objectives. It comprises not only permanent measures aimed at **improving quality** (distillation of the by-products of winemaking) or preventing undesirable wines from being placed on the market (distillation of wines obtained from dual-purpose grapes), but also economic measures aimed at maintaining the **equilibrium of the market** (crisis distillation) or decongesting the market before the start of the marketing year (potable alcohol distillation).

If, in addition to developments in the quantities distilled (graph 56), one examines the share of production which has undergone distillation it will be noted that this has varied considerably and that the current trend is not favourable. While the annual average percentage of output distilled fell from 22% in the period 1986-93 to 13% in 1993-99, an **annual average of 16% has been registered since 2000** (and is likely to rise further with the high levels of distillation in 2005). This phenomenon is most **marked in Spain, Portugal** and to a lesser extent, in Germany and Italy.

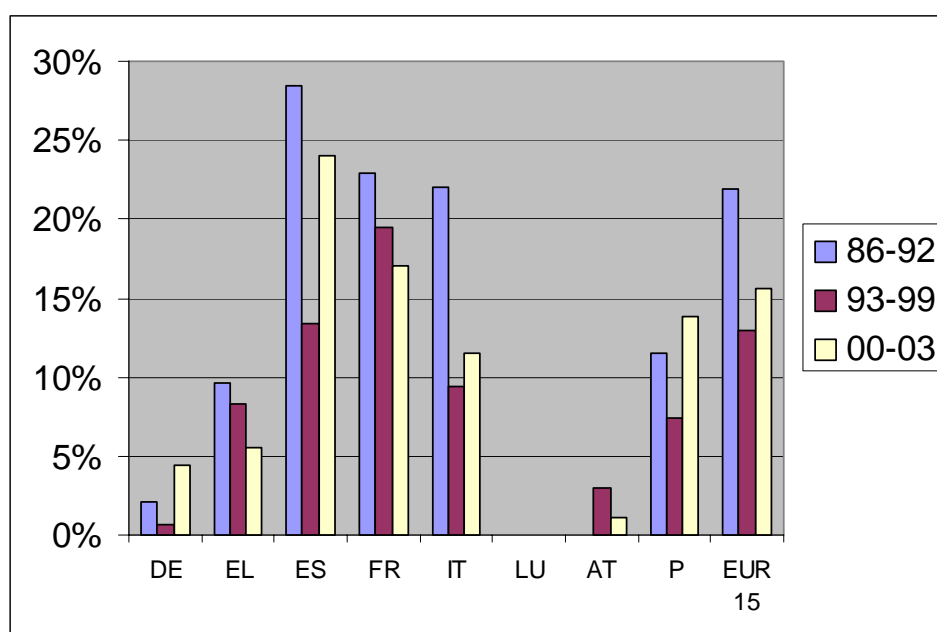
Table 3: Average annual distillation by Member State (1000 hl)

	Wine production			Volume distilled			% of annual production		
	1986/87-1992/93	1993/94-1999/00	2000/01-2003/04	1986/87-1992/93	1993/94-1999/00	2000/01-2003/04	1986/87-1992/93	1993/94-1999/00	2000/01-2003/04
DE	11 253	9 819	9 276	238	79	411	2%	1%	4%
EL	4 183	3 699	3 484	413	305	193	10%	8%	6%
ES	33 301	28 211	36 619	10 027	4014	8 753	28%	13%	24%
FR	61 052	54 885	51 910	14 264	10 672	8 868	23%	19%	17%
IT	64 723	56 949	48 768	14 809	5 462	5 758	22%	9%	11%
LU	169	149	136	0	0	0	0%	0%	0%
AT		2 329	2 478		69	26		3%	1%
PT	8 575	6 585	7 111	1096	493	992	11%	7%	14%
TOTAL*	183 273	161 978	159 798	40 847	21 074	25 000	22%	13%	16%

* including BE and UK

Source : DG AGRI

Figure 7: Average annual share of total production distilled, by Member State¹⁹



Source : DG AGRI

The system can certainly be considered to have been quite effective in achieving the objective of **supporting market prices and producers' income**, as recently demonstrated by the 2004 evaluation²⁰. However, as is often the case with disposal measures, the system has contributed towards **maintaining**

¹⁹ Including potable alcohol but excluding spirits.

²⁰ http://europa.eu.int/comm/agriculture/eval/reports/wine/index_en.htm

certain surpluses. In short, the results of the application of the different forms of distillation are not entirely satisfactory:

- Whereas in the past, preventive distillation had an immediate positive impact on the market, the ensuing **distillation of potable alcohol** appears to have had less effect. It has however retained some degree of effectiveness in Spain, where prices of white table wines are still below the price guaranteed by the distillation of potable alcohol. This could be explained by either an excessively high purchase price or by the fact that the distillation of potable alcohol, which has decreased in recent years, has not removed the quantity required to establish an equilibrium on the market and to raise prices above the guaranteed price.
- Furthermore, preventive distillation and the **current distillation of wines obtained from dual-purpose grapes** have not made it possible to solve the problem of serious over-production in the Charentes region of France.
- In the case of **crisis distillation**, the quantity to be distilled is based on projected results drawn up on the basis of data supplied by the Member States, which often contain inconsistencies and errors. In addition, the fact that it is **no longer compulsory** may lead to a build-up in stock from one year to the next. It has in fact been noted that, contrary to the former compulsory distillation, which left the producer with no alternative, **despite the substantial complementary national aid sometimes granted, the amounts actually distilled were appreciably lower than those authorised** under the crisis distillation measure. Generally speaking, producers who can, or hope to, find an outlet for all their production at higher prices do not hand over part of their output for distillation. This situation now appears to be changing: the **strong demand for distillation** from most producing Member States **in 2005** and the high rate of response from producers constitute a significant sign of the deterioration of the market.
- Although overall, distillation has made it possible to absorb part of the production surplus in the wine sector through support for the potable alcohol market or disposal for chemical/carburation purposes, the suitability of this type of disposal is open to question. It allows recovery of only a very small fraction of the cost of the product on account of the low selling price of alcohol intended for use as fuel (which is none the less showing a notable increase) and competition from alcohol from other plant sources. It is true that the bulk of this alcohol is derived not from the distillation of wine, but from the **distillation of the by-products of winemaking**. The question which may be asked in this connection is as follows: is it really essential to distil those by-products in order to produce alcohol which is not actually required and would it not be advisable **to find a cheaper use** for them? A detailed examination should also be carried out to establish the environmental impact of this measure and the possible consequences of abolishing it.

It is also necessary to underline the fact that the abolition of the reference price as a result of the entry into force of the Uruguay Round agreements means that there is no longer a minimum price below which the market price cannot fall. Any attempt to boost wine prices by withdrawing quantities from the market in order to reduce supply is in fact bound to fail because those same wines can be imported freely from third countries. The floor price is now set at the level of the CIF (Cost, Insurance and Freight) price, plus customs duty, of third-country wines which have themselves been the subject of a reduction.

This means that, in an open market like the current EU wine market, unless prices of imported wines increase substantially, it is not possible to stabilise this market and to support prices through a mechanism aimed at withdrawing surplus quantities, in view of the fact that additional amounts are attracted from outside the EU and market prices cannot rise markedly higher than the price of imported products.

2.7 Other types of market intervention

2.7.1 Aid for the private storage of table wines and grape musts²¹

The aim of private storage aid is to **encourage wine producers to use storage** to freeze surplus supplies on the market for a certain period. It thus enables marketing of the vintage to be staggered.

The aid comprises a **daily flat-rate amount, fixed according to the product** (wine or must), for the duration of the storage period, the earliest and latest possible dates of which are laid down in the legislation.

Depending on the year, the quantity stored represents between **12% and 18% of table wine production**, i.e. around **10 to 12 million hectolitres**.

The budgetary cost is **€60 million, or 5%** of the wine budget.

The systematic recourse made to this measure means that it is a **permanent withdrawal instrument that is partially independent of the level of production of table wine**.

2.7.2 Aid for the use of grape musts²²

This aid is intended to **improve the competitive position** of musts produced in the European Union. There are three types of aid:

²¹ Article 24(1) of Council Regulation (EC) No 1493/1999 on the common organisation of the market in wine.

²² Article 34(1) of Council Regulation (EC) No 1493/1999 on the common organisation of the market in wine.

- aid for the use of **Concentrated must** (CM)* and **Rectified concentrated must** (RCM)* produced in the European Union and intended for enrichment (increasing the alcoholic strength of wines);
- aid for the use of grapes, musts and concentrated musts used in the manufacture of **grape juice**.
- Marginally, aid for the use of grapes and concentrated grape musts produced in the European Union and used in the manufacture of **British, Irish and "home-made" wines**. The amount of the aid cannot be greater than the amount allocated for distilling potable alcohol.

The rationale underlying this aid rests on the following two objectives:

- **to compensate for the economic disadvantage of enriching** with vine products **rather than sugar**;
- **to find an additional outlet** for surplus wine production. This argument is strongly supported by those in favour of banning chaptalisation, who consider that the European wine market would be in equilibrium without this practice.

The aid is paid to table- or quality-wine producers in certain production areas who use these musts (i.e. mainly those in the southern part of the EU who do not enrich with beet sugar) and it varies, according to the vine-growing area, from **€1.446 per % vol./hl to €1.699 per % vol./hl** for concentrated grape musts and from **€1.955 per % vol./hl to €2.206 per % vol./hl** for rectified concentrated grape musts to be used under the conditions laid down in Annex V (points C and D) of Regulation (EC) No 1493/1999.

This aid represents an approximate average cost of **€5 to €6 per hectolitre of enriched wine**.

The overall cost is in the region of **€150 million (13% of the wine budget)**, including €120 million for aid for the use of musts, €30 million for the manufacture of fruit juice and just under €1 million for British wines.

The aid goes towards enriching **20-25 million hectolitres of wine per year**, mainly in Italy and France. The use of concentrated must has diminished (in Italy, Portugal, Greece and France) and the use of **rectified concentrated must** has increased (**in Italy, Portugal and Germany**) or remained stable (in France and Greece). Those changes are mainly due to changes in the enrichment techniques used (switching from concentrated must to rectified concentrated must and from sucrose to rectified concentrated must).

While it is true that this aid has opened up a new outlet for vine products, it has also contributed to an increase in Community production by encouraging enrichment and bringing about intensification in certain vineyards.

2.8 Legislative measures regarding oenological practices, quality and labelling

As already indicated, the common organisation of the market in wine has already dealt with a number of technical and commercial questions which generally do not fall within the scope of Community legislation in the other common market organisations. The individual arrangements, which are the outcome of **difficult compromises** taking account of long-standing practices and sometimes conflicting interests, must be analysed against the relevant background and in the light of the **general equilibrium** achieved.

Most of the legislative measures (apart from aid for the use of concentrated must and rectified concentrated must, see point 2.6.2.) have no direct impact on the EU budget and have a budgetary impact on the Member States only as regards the management and monitoring of their application

The conditions governing the operation of those many measures are too detailed and too technical to summarise in this context.

The objectives are very specific to each measure:

- objective targeting quality and control of production as regards the provisions on **oenological practices and the system of quality wines**;
- objective targeting consumer protection and designations as regards the provisions on **oenological practices, the system of quality wines and the rules on labelling**;
- objective targeting the rationalisation of the industry as regards the provisions on producer **organisations**.

2.8.1 Provisions on oenological practices

A specific feature of wine production is the existence of **precise production rules** with legal force, such as those on oenological practices. The **OIV*** (International Organisation of Vine and Wine) is the authority in this area. Authorised good practices and oenological processes are established in almost all wine-producing countries. This specific feature is also due to the large number and wide variety of definitions of the different wine-sector products, which are set out in Annex I to Regulation (EC) No 1493/1999. This instrument took over with little amendment the provisions which had existed since 1987 – and, in the case of the most important definitions, since 1979 - but it groups all the rules under three Articles (mainly Article 42) and in Annexes V and VI. Article 42 of this Regulation very clearly describes the scope and legislative requirements of authorised oenological practices and processes. All the authorised practices are indicated in Annexes IV and V of the Regulation. Annex IV contains a list of authorised practices and conditions of use, apart from enrichment, acidification and sweetening operations, which are defined more precisely in Annex V.

- The criteria for accepting an oenological practice are very general and are limited to one sentence: "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." On a technical level, oenological practices have many aims: **to improve the quality of the wine produced**, while optimising the processing of the grape must into wine (fermentation) and ensuring that the product keeps and improves during storage (ageing), **to guarantee better monitoring of those processing operations**, and, **where necessary, to remedy shortcomings in the raw material** (the grape) or **manufacturing mishaps** which would make the wine produced unsuitable for marketing if no action were taken.
- All the practices described are to be used by all producers in the EU for the purposes of producing wine, without further restriction or clarification.
- For the production of **quality wines psr** and **table wines described by a geographical indication** (as well as sparkling wines and liqueur wines), however, **Member States may impose stricter conditions** on the use of oenological practices.

To complete this framework, details of the application of those rules, conditions of use and certain limits are specified in a Commission implementing instrument, Regulation (EC) No 1622/2000.

These Community limits and implementing arrangements are aimed at **protecting consumer health** and **safeguarding against deception** (concerning the essential characteristics of the wine), and at **preventing distortions of competition among producers**.

The system is also intended to guarantee compliance with the product definitions given in the Regulation and a certain quality standard for the wine products placed on the market (which is even more marked in the case of quality wines psr, for which oenological practices may be stricter).

The principle of a **positive list of authorised techniques, accompanied by strict regulatory limits and quality standards** for the resulting products also has the **effect of limiting the yield from processing grapes** into wine and, therefore, the quantity of goods placed on the market (e.g. ban on the use of wine lees and grape marc and on the addition of water or alcohol, establishment of the minimum natural alcoholic strength of grapes for winemaking and the restrictions on coupage laid down in Articles 42 to 44).

Authorised oenological practices and processes concerning the **enrichment, acidification, deacidification** and **sweetening** of musts and wines are the subject of specific detailed provisions set out in Annex V to the Regulation.

Some information should be given concerning **enrichment**, which plays an important role as regards quantity.

- The purpose of this practice is **to increase the natural alcoholic strength of the wine**. It is, therefore, aimed at remedying a alcohol deficiency in the grapes, which would not otherwise be suitable for marketing. This deficiency may ensue from worse than normal weather conditions, but also from yields on a scale that is incompatible with obtaining an adequate natural alcohol level. The increase is usually achieved by adding a product containing sugar, but concentration of musts is also permitted. It may involve the **addition of grape sugar** contained in concentrated grape musts or rectified concentrated musts (method assisted under the common organisation of the market) or the **addition of beet or cane sugar (sucrose)**. The latter process is known as "chaptalisation".
- Enrichment by means of sucrose is an oenological technique **traditionally used in the wine-growing areas in the Centre-North and East of the Community**. In view of the fact that the natural conditions in Mediterranean wine-growing areas are more propitious for producing wines directly suitable for consumption, wine-growers in those areas should not, in principle, need to boost the alcoholic strength of the wine, although limited "corrections" may be required to preserve the typical nature of the product or to remedy particularly unfavourable weather conditions. The Regulation endorsed this traditional use of sucrose, but only for wine-growing areas in the North and Centre of the EU, and prohibits it in Mediterranean wine-growing areas (Portugal, Spain, South of France, Italy, Greece and Cyprus).
- **One degree of alcohol from sucrose represents around a third of the cost of one degree of alcohol from grapes**. In order to guarantee equal competitive conditions between those two practices, aid was introduced in 1982 for concentrated musts and rectified concentrated musts used to increase the alcoholic strength of wine. This aid has not been reassessed since 1995.
- Enrichment has a **direct impact on the level** of output of the wine-growing areas in which it is practised: on several accounts it makes it possible to **increase per hectare output** by making up in volume for what is lost in natural alcoholic strength and increasing the amounts of must which may be processed into wine (without this technique, such must could not be made into wine).
- Consideration should also be given to the fact that **since concentrated and rectified musts come from Community vineyards**, they represent quantities of must which are **subtracted** from the overall Community production potential. The average annual amount of musts used from 1989 to 2002 was 5 million hectolitres, corresponding to a total of 1.1 million hectolitres of concentrated musts and rectified concentrated musts.

The arrangements in force have abolished discrimination between sugar and musts, but have boosted the quantities of wine enriched, which rose from around 15 million hectolitres in 1970 (EU-6) to around 55 million in 2004

(EU-15) (comprising an estimated 30 million hectolitres by means of sucrose and 25 million hectolitres by means of musts).

The rules on enrichment, that is to say the maximum limits for increasing alcoholic strength, are established precisely on the basis of the climate areas (see table in Annex 1 and map in Annex 2), with possible higher increases in regions situated in Northern and Central Europe (areas A and B), and the minimum natural alcoholic strength (natural sugar content) considered acceptable for winemaking. Those minimum strengths are very (indeed excessively) low for zones A and B: 5%/6%, which is 3.5 percentage points below the minimum strength for marketable wines (8.5%).

The permissible limits for acidification (and deacidification), which are different for the North and the South, **also have an influence on the quantities of wine placed on the market**, the minimum acidity level for wines having been reduced by 1 gram per litre (i.e. 1/5) in 1999, which made it possible to market wines with a low acidity content (expressed as tartaric acid, minimum of 3.5 grams per litre).

2.8.2 Provisions on quality

Quality is governed by Title VI of and Annex VI to Council Regulation (EC) No 1493/1999 and by Commission Regulation (EC) No 1607/2000. Certain specific aspects of wine labelling are dealt with in Annexes VII and VIII to the Council Regulation (see point 3.8.4).

These rules concern the production and labelling of **quality wines produced in specified regions** (quality wines psr) (see point 2.4.1).

As regards production, they target the following:

- definition of the specified region,
 - vine varieties,
 - wine-growing methods,
 - processing areas,
 - minimum natural alcoholic strength by volume,
 - vinification and manufacturing methods,
 - acidification, deacidification and sweetening processes,
 - yields per hectare,
 - analytical and organoleptic tests,
- and
- special provisions for sparkling wines and liqueur wines.

The labelling rules are explained in point 2.8.3.

The concept of *quality* was linked to quality wines psr from the time when the common organisation of the market in wine was first set up. Table wines with a geographical indication (a sort of intermediate category) have in the meantime been created between quality wines psr and table wines in the strict sense of the term, which are also subject to quality criteria. As already indicated (see point 2.4.1.), this concept differs between the northern and southern parts of Europe. Countries such as Germany in fact set less store by geographical indications (concept of soil and climate), but more by the concept of quality. By definition and by nature, therefore, German wines are all quality wines psr. In southern countries, greater importance is attached to the concept of soil (designation of origin) and, therefore, geographical indication. A French, Italian or Spanish wine will not, therefore, acquire the status of a quality wine psr until it is officially approved.

There are in fact table wines (with or without a geographical indication) of excellent quality.

The criterion of "quality" does not exist at international level (TRIPS Agreement on geographical indications) and is therefore difficult to defend in the light of the WTO Agreements.

It should also be noted that, in Community legislation, the concept of geographical indication is linked only with the category of table wine with a geographical indication and to imported wines (NB: as regards imported wines, reference is made to the TRIPS Agreement in Article 50 of Council Regulation (EC) No 1493/1999; Article 51 mentions table wines with a geographical indication, but makes no reference to the TRIPS Agreement). Quality wines psr are linked with specified regions, subregions, etc.

Under the bilateral agreements, geographical wine names not compulsorily recognised as geographical indications at Community level are recognised and protected as "geographical indications" under the TRIPS Agreement.

The relevance of the current categories and, in particular, of the quality wines psr category, is also open to discussion. An alternative to the present situation would be to restructure the wine categories on the basis of international law (TRIPS Agreement): **wines without a geographical indication** and **wines with a geographical indication** through the setting-up of an **autonomous Community recognition and protection system**, including a register open to third countries.

2.8.3 *Provisions on labelling*

The legal framework for labelling is set out in the Council Regulation (Annex VII for still wines and Annex VIII for sparkling wines). Some particulars are compulsory, while others are optional. The principles can also differ between still wines and sparkling wines, which can generate confusion on the part of the consumer.

Commission Regulation (EC) No 753/2002, as amended, merely provides details and explanations regarding the principles set out in the Council Regulation.

The labelling rules differ according to the different categories of wine: still wines and sparkling wines and, among still wines, table wines with a geographical indication and quality wines psr (quality wines produced in a specified region).

The **compulsory particulars** are:

- designation of the product,
- nominal volume,
- alcoholic strength,
- bottler, consignor or importer (for imported wines),
- lot number (except for imported wines),
- name of the country of origin (for imported wines),
- indication of sulphite level.

The following additional particulars are required for sparkling wines:

- type of product,
- winemaker.

The **optional particulars** are:

1) for all categories of still wines:

- the name(s), title(s) and address(es) of the person(s) that took part in marketing,
- type of product,
- particular colour.

Only for table wines with a geographical indication and quality wines psr:

- vintage year,
- name of one or more vine varieties,
- award, medal or competition,
- indications concerning the means used to obtain or method used to manufacture the product,
- other traditional terms,

- name of a vineyard,
- a term indicating where the wine was bottled.

2) for sparkling wines:

- any particulars which are not misleading, some of which are, however, prescribed by the Council Regulation (superior quality, vintage year, *crémant*, fermentation in bottle, etc.).

Lastly, there are **free particulars**, which are not regulated at Community level. This embraces all other particulars which are not mentioned above and which may be freely used provided that they do not mislead the public.

The heterogeneous nature of the legal instruments used for labelling should be noted. Sparkling wines are governed by the Council Regulation and still wines by the Commission Regulation. The justification for this difference is questionable.

Different rules may apply to the same particular, according to whether a still wine or a sparkling wine is involved (e.g. type of product), which can cause the consumer a certain amount of confusion.

The legislation is very obscure for consumers because it depends on the different categories of wine, which are also badly understood by the public.

Third countries have strongly criticised Commission Regulation (EC) No 753/2002. They regard the new policy on the protection of **traditional terms** as a technical barrier to trade. In addition, only wines with a geographical indication can mention optional particulars, such as the **vine variety** and the **year**, on the label. Third countries have aimed at simple labels with simple particulars which mean something to the average consumer. This criticism led the Commission to change its rules in 2004 and to negotiate bilateral agreements with certain third countries.

This restriction on the use of the vine variety and the year has led to an increase in the number of geographical indications at Member State level (around 10 000), the relevance of which is questionable. This has had the effect of deflecting the geographical indication system away from its purpose. The same is true of third countries which, in order to gain access to the Community market, have created large geographical indications ("South Eastern Australia" represents 95% of Australian territory). What value can be attributed to those GIs when most are unknown to the average consumer? In addition, this limits the capacity within the Community for creating **varietal wine(s)** and, to a lesser extent, **brand names** since only wines with GIs may use those particulars. The geographical areas covered are too small to permit coupage between those varietal wines and reach large enough volumes capable of maintaining the same quality standard from one year to another.

These complex rules appear to be directed at protecting the interests of producers in a given area or producers of a given category of wine rather than informing consumers. We may also wonder whether our labelling rules

are not paradoxaly one of the reasons behind the success enjoyed by third-country wines producers using wisely the regulation with labels which are much simpler (mention of the vine variety and year) for the average consumer.

2.9 Trade with third countries

The entry into force on 1 July 1995 of the **Uruguay Round agreement** radically changed the wine trade with third countries.

2.9.1 Imports

Before this date, border protection was ensured by the obligation to respect a minimum price for imports ("reference price") and by the collection at the border of a customs duty and possibly also a countervailing charge. This system was designed to prevent the prices of imports from third countries disrupting the European market, which meant the Community preference scheme played a central role.

At the time of the Uruguay Round negotiations, the sector faced two alternatives for aligning EU wine trade mechanisms with the new GATT rules:

- either to set a reference price, i.e. convert all border protection mechanisms into fixed customs duties, apply a 20% reduction and accept the clause granting "minimum access" to third country wines equivalent to 5% of domestic consumption;
- or to **completely abolish the reference price** as a means of border protection, which removes the obligation to grant minimum access. However, this also involves a **20% reduction in customs duties** over a five-year period. The EU eventually opted for this second alternative.

Current duties vary according to the type of packaging, from €13.1/hl for bottled red wine (5% of Ad Valorem Equivalent, AVE) to €9.9/hl for table wines in bulk (10% of AVE).

This option avoided the need to set the minimum access for wine products at about 7 million hectolitres by 2000 but considerably lowered border protection and the stability of the internal market in wine.

The EU market in wine has become more permeable to imports since the Uruguay Round agreement entered into force.

This limits the effectiveness of current supply control mechanisms designed to restore market balance.

Experience in implementing the Uruguay Round agreement shows that these changes have had a major impact: **imports of wine have increased substantially** (3 % a year since 1999). However, the new market access conditions are not the only cause of the rise in EU imports. Producing third countries have developed their vineyards, improved quality, adapted well to new market needs and have run successful marketing campaigns.

Quotas have been set for imports, as summarised below:

Main EU-15 suppliers in 2004	Imports (1 000 hl)	%	Preferential duties	Quota* 1 000 hl)	(x
Australia	2 911	25%	No	No	
Chile	2 367	20%	0%	No	
USA	2 122	18%	No	No	
South Africa	2 121	18%	0%	458 (84% take up)	
Argentina	452	4%	No	No	
Eastern Europe	641	6%	0%	1 244 (52% take up)	
Mediterranean countries	172	2%	0%	847 (20% take up)	
SPGA	578	5%	0%	No	
Lome Agreements	2	0%	0%	No	
Others	274	2%	No	No	
TOTAL	11 640	100 %	-	2 549 (48% take up)	

* Preferential duties and quotas may be limited to certain categories of wine (bulk, bottles, etc)

2.9.2 Exports

Export **refunds** can be used, where necessary, to cover the difference between world trade prices and EU prices to allow wine products (except piquette, wine lees and grape marc) to be exported. Refunds are granted only for exporting **table wine**.

Unlike other agricultural products, there are no world prices set for wine. Refunds are set in the light of the situation and prospects on the world market and in the Community, marketing and transport costs and the goals of the common market organisation. Moreover, the EU committed itself under the **Uruguay Round agreement** to:

- reduce the **volume** of subsidised exports of wine products **from 2.9 million hectolitres before 1995 to 2.3 million hectolitres in 2000**,
- **reduce export refunds by 36%** over the same period from ECU/EUR 61.2 million before 1995 to ECU/EUR 39.2 million in 2000.

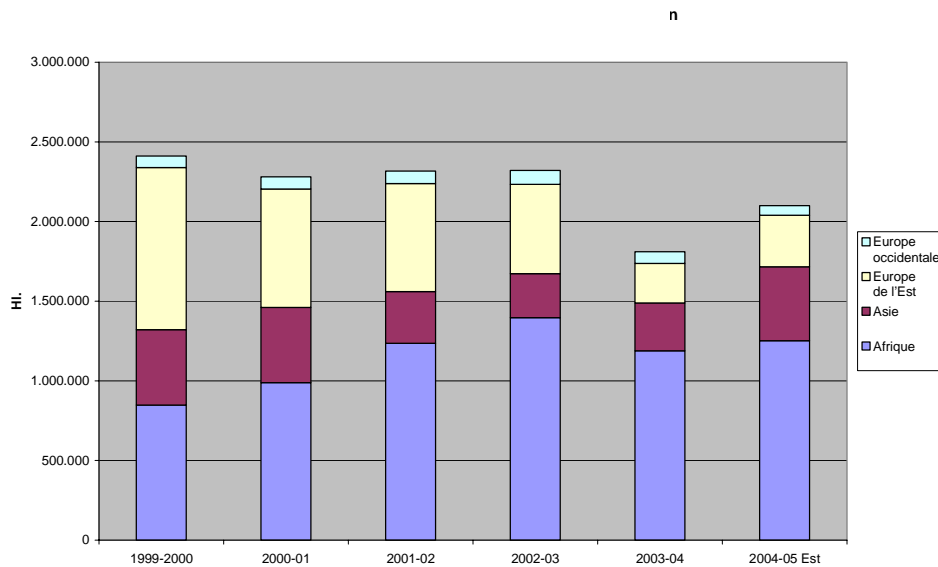
The level of refunds was therefore tapered over time. The current level of refunds, which varies according to wine type, colour and alcohol strength by volume and particularly according to destination, range from **€3.394/hl for white wine (AII-AIII) to €7.958/hl for red wine (13-15° vol.)**, i.e. approximately **23% of the value of wine exported with refunds**. Refunds are also granted for musts and liqueur wines.

Refunds currently account for less than **2.3 million hl**, mainly red wine between 9 and 13° volume.

Quotas are set by destination category and are managed by the issuance of licences. A considerable proportion (60%) of exports with refunds are sent to

Africa, with the remainder mainly sent to Asia and Eastern Europe (declining rapidly since 2003/04 following enlargement). Exports are sent to some countries without refunds.

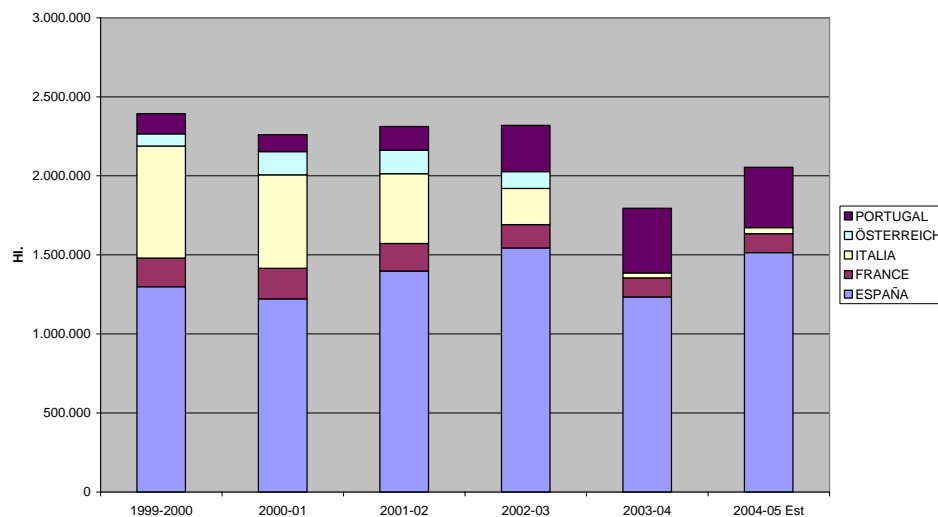
Figure 8: breakdown of export licences issued by destination (hl)



Source: DG AGRI.

The main Member States that export with refunds are Spain (70%) and Portugal (20%).

Figure 9: breakdown of export licences issued by Member State of origin (hl)



Source: DG AGRI.

The GATT commitments therefore had a clear impact on refunds. By now, **most wine is exported without refunds.**

- Quality wines psr do not qualify for export refunds.

- Of the wine eligible for refunds, 60% concerns eligible destinations but applications for refunds are received only for 40%.

Thus the budget allocated to this measure is gradually decreasing, recently totalling around **€20 million** (or 2% of the budget for the COM in wine), substantially less than the budget ceiling set during the GATT agreements. This represents approximately **4% of the value of all wine exported to eligible areas.**

2.9.3 *International agreements*

The European Union has concluded a number of bilateral agreements with third countries:

- **Australia** in 1994,
- the **European Economic Area** (primarily Liechtenstein) in 2001,
- **Switzerland** in 1999,
- **South Africa** in 2001,
- **Chile** in 2002,
- **Canada** in 2003,
- the **USA** in 2005

and

- **Australia** (a new agreement replacing the former), currently at the final stages of negotiation.

These trade agreements concern several aspects of the wine industry (recognition of oenological processes, protection of geographical indications, certification, labelling, etc.). Countries may be granted certain concessions depending upon the type of negotiation (free trade agreement, defensive or offensive agreement, agreements on wine or wine and spirits).

The various aspects covered by these agreements are summarised in the table below.

Table 4: Summary of bilateral agreements

Country		Australia 1994 ²³	Canada 2003 ²⁴	Chile 2002 ²⁵	South Africa 2001 ²⁶	Switzerland 1999	USA. 2005 ²⁷	Bulgaria/ Romania / Albania
Oenological Practices	Current	X	X	X	X	+/-	X	-
	New	X	X	X	X	+/-	+/-	-
	Procedure	X	X	X	X	+/-	+/-	-
Geographi cal indications	Protection	X	X	X	X	X	+/-	X
	Semi- generic	X	X	X	X	-	+/-	-
	Brand names	X	X	X	+/-	X	-	X
Labelling:	Traditional indications	X	-	X	-	X	+/-	X
	Presentation	X	X	-	-	X	X	-
Certification		X	-	-	-	-	X	-
Customs duties applied		-	-	-	X	-	-	X
Assistance and cooperation		X	X	X	X	X	X	X

These concessions have affected European producers who are not eligible for the same advantages and also vis a vis WTO rules, (MFN clause, ROCK). In particular, South Africa, Australia, Canada, Chile and the USA are affected by the rules on oenological practices, Switzerland and the USA by certification and the USA by labelling.

In an increasingly competitive world and given the extent of imports from third countries, it is worth questioning the justification for reverse discrimination.

²³ OJ L 86, 31.3.1994, p. 3. + new agreement: currently being renegotiated

²⁴ OJ L 35, 6.2.2004, p. 3.

²⁵ OJ L 352, 30.12.2002, p. 1083.

²⁶ OJ L 28, 30.1.2002, p. 4.

²⁷ Exchange of Letters: OJ EC L 301, 18.11.2005, p. 14. (Agreement: not approved yet)

Therefore, the question is whether European producers should be granted the same advantages.

Commission Regulation (EC) No 883/2001 sets out a number of administrative formalities for imports, in particular the requirement of an **import licence** and **accompanying document** (VI 1) including an analysis report and certificate issued by an official body. Simplified accompanying documents also exist, used by Australia and the USA.

2.10 Budget expenditure

Budgetary expenditure in this sector varies appreciably from one year to the next due to production risks, typically accounting for **between 2.5 and 5.5% of the total EAGGF - Guarantee Section**.

Table 5 shows how expenditure in the wine sector has changed since 1993. **Average total expenditure in the wine sector over that period is slightly over €1 billion**, with €740 million allocated to market measures and approximately €300 million to structural measures (permanent abandonment of wine-growing areas in the 1990s, then restructuring since 2000).

2004 expenditure totalled **€1 092 million** and the **2005 budget appropriations**¹ are €1 228 million, allocated as follows:

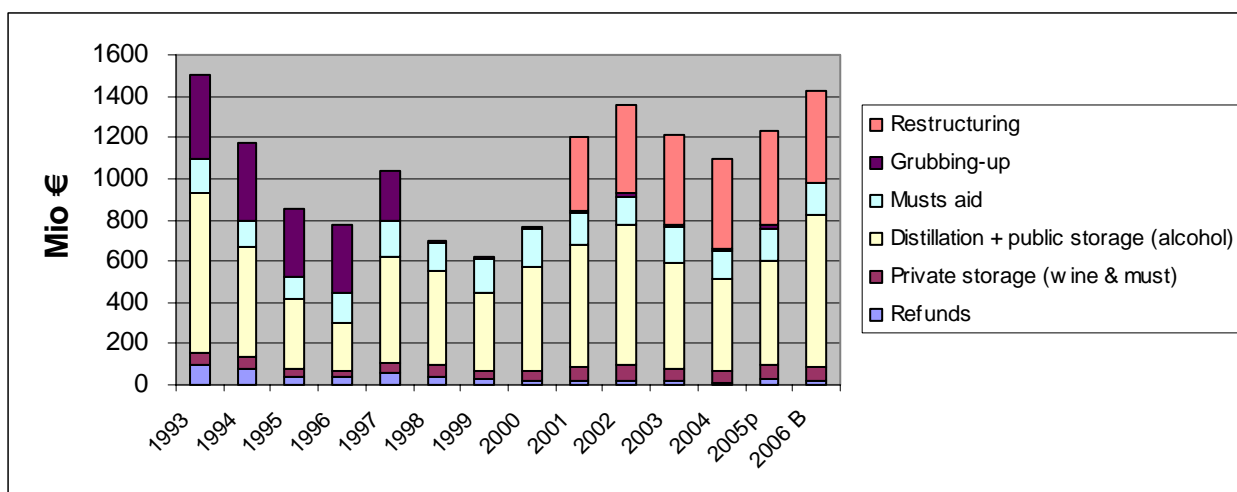
- **42%** represents the direct and indirect costs of the various forms of distillation, with **distillation proper (€323 million)** first, and then **the cost of alcohol in public stocks** of three of the four forms of distillation (**€189 million**). This will not be enough to cover the costs of the distillation crisis, which will be covered by the 2006 budget, as agreed in 2005.
- **37%** represents the envisaged expenditure represented by the **restructuring programme** in place since 2000 (**€450 million**),
- Support for enrichment by **aid for musts** accounts for **13%** of requirements (**€156 million**).
- The remainder is split between private storage of wine and musts (5%, equivalent to €67 million), refunds (2%, or €26 million) and permanent grubbing up of vineyards (a measure used less and less by the Member States up to now), which should only cost €18 million (in 1993 the figure was in excess of €400 million), less than 2% of the market organisation's expenditure.

The **budget for 2006** makes provision for **€1 494 million**, a figure composed most notably of significant expenditure on crisis distillation decided in 2005 after the strong 2004 harvest, to which distillation planned for the 2005 harvest must be added.

¹ The strong harvest in 2004 and crisis distillation adopted in 2005 is expected to give rise to additional expenditure to be allocated to the 2006 Budget

Graph 10 illustrates expenditure on measures since 1993, showing changes before and after the 1999 reform. Expenditure almost dried up entirely for permanent abandonment (grubbing up, sharp fall in export refunds and new costs ensuing from the restructuring programme). Distillation expenditure remained high after the reform due to a succession of strong harvests. Expenditure on public storage of alcohol also remained high since disposal difficulties meant that stock accumulated. The development of biofuels has, however, already improved stock disposal, which is expected to continue in the future.

Figure 10: EAGGF – Guarantee Section – expenditure on the COM wine (in €million)

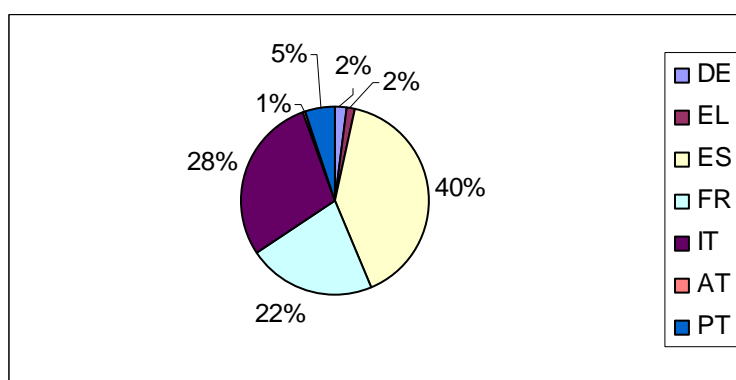


Source: EAGGF - Guarantee section - financial statements, 2005 budget and 2006 PDB

Breakdown by Member State:

Since wine-growing potential and take-up of the various COM measures differs widely among Member States, their share of expenditure also varies widely. Out of a total of €1092 million in 2004, **40% was allocated to Spain, 28% to Italy and 22% to France.**

Figure 11: share of EAGGF - Guarantee Section – expenditure for the COM in wine by Member State in 2004



Source: EAGGF - Guarantee Section - financial statements

The provisionnal expenditure for 2005 does not show significant changes in this breakdown. They also give the provisional expenditure in the new producing Member States which are limited (EUR 42 million). The main amounts concern the grubbing-up in Cyprus (Eur 21 millions) and the restructuring in Hungary (Eur 9 millions).

The graphs on the following page show in more detail the change in expenditure by measure and by country since 1998, i.e. just before and after the 1999 reform.

Figure 12: Expenditure by measure and by Member State (Source: EAGGF – Guarantee Section – financial reports)

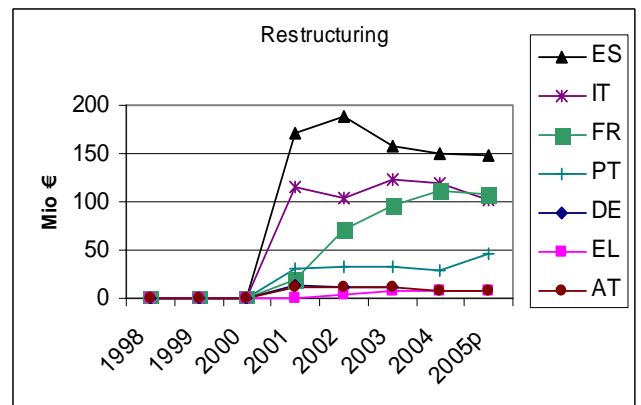
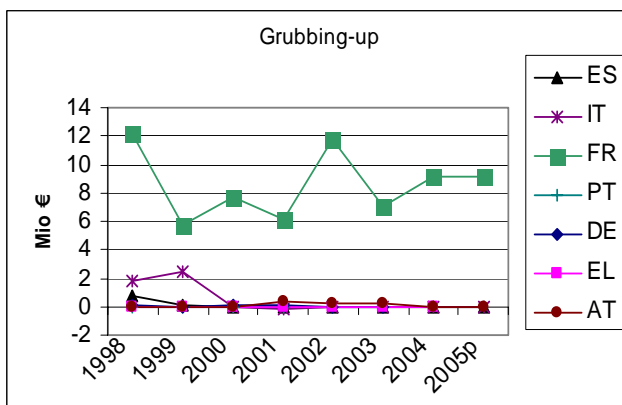
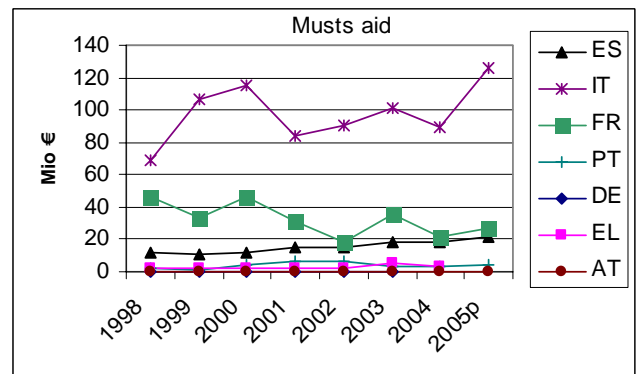
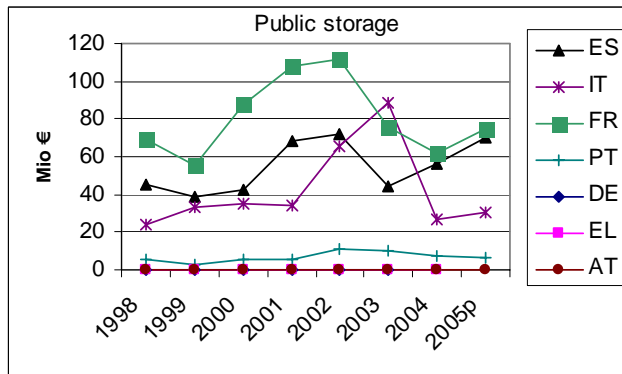
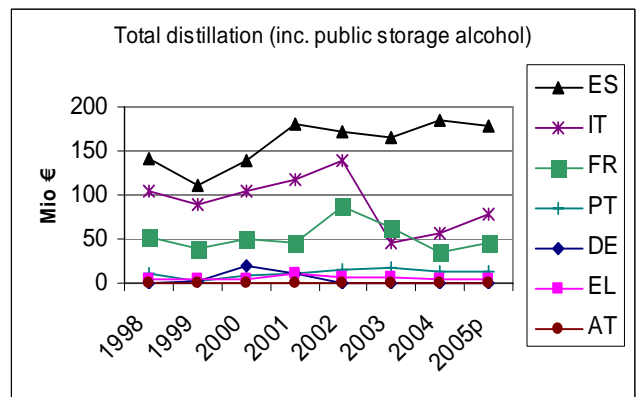
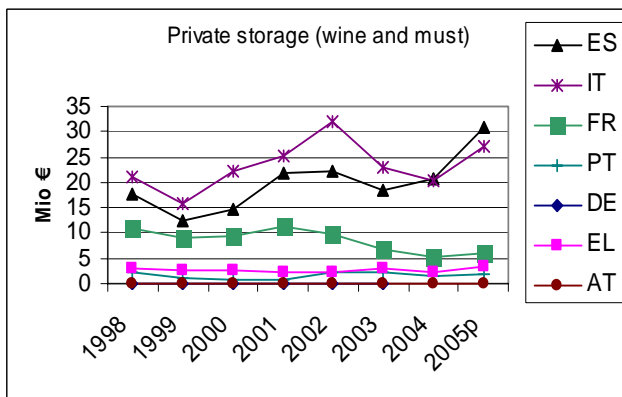
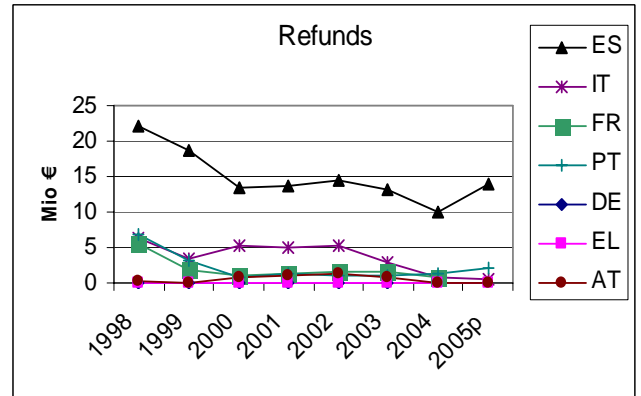
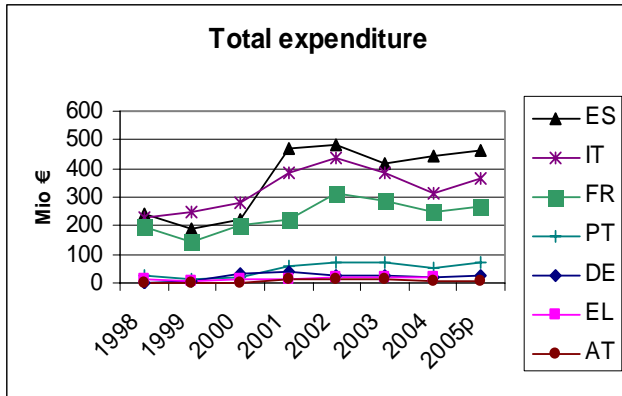


Table 5: Wine sector expenditure from 1993 to 2004 and 2005 budget appropriations, in €million

	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005 Budget
1) EXPORT REFUNDS	100.2	80.4	36.7	40.8	59.7	41.2	27.4	21.5	22.5	23.8	19.6	13.1	26
2) INTERVENTIONS, OF WHICH:	999.4	718.0	483.7	404.4	731.9	644.8	579.7	736.1	806.6	891.6	744.5	637.9	735
- Wine and grape must STORAGE	57.5	54.4	38.8	27.9	49.1	55	41.2	50.3	61.7	68.5	53.2	50.2	67
- DISTILLATION AND PUBLIC STORAGE OF ALCOHOL:	774.2	529.6	344.3	227.7	516.4	457.2	377.1	497.4	594.6	681.9	517.8	446.7	512
AID FOR MUSTS	167.7	134	100.6	148.8	166.4	132.6	161.4	188.4	150.3	141.2	173.5	141	156
OTHERS	6.3	5.8	7.4	3.9	-3.6	-1.2	-1.5	-1.6	-5	-4.8	-3.3	-8.5	-1
TOTAL MARKET MEASURES	1105.9	804.2	527.8	449.1	788	684.8	605.6	756.0	824.1	910.6	760.8	642.5	760
PERMANENT ABANDONMENT OF VINEYARDS	403.8	372	329.7	333.1	242.1	15.2	9	9.5	12.2	14.0	12	11.2	18
RESTRUCTURING PROGRAMME									360.4	424.3	440.2	438.4	450
TOTAL FOR THE WINE SECTOR	1509.7	1176.2	857.5	782.2	1030.1	700	614.6	765.5	1196.7	1348.9	1213	1092.1	1228

Source: EAGGF - Guarantee Section - financial reports

3. CONCLUSIONS

The state of and prospects for the EU wine sector have radically changed since the late 1990s. After a period in which wine production was consistently in considerable surplus, a sharp fall in surpluses was recorded. **Market imbalances appeared to return** in the early years of the 21st century, due to a **combination of increased supply, overall fall in domestic demand and stronger world competition**. However, figures continue to fluctuate widely year on year. The EU market is therefore quick to accumulate a deficit in years with poor harvests and a surplus when weather conditions are good for wine production.

Several factors contributed to the change in the overall state of and medium-term prospects for the wine market:

- European wine **production potential** is appreciably higher now than in the 1990s. Although the area under vines fell from approximately 3.4 million ha in 1997 to 3.2 million ha in 2003, the combined effect of new planting rights, scope under the restructuring programme for combining old and new vines and low take-up of the abandonment programme considerably curbed, and in some cases reversed, the initial downward trend. This could increase in the future as a result of the expected impact of the restructuring programme.
- The changes in **yields** over the last ten years reveals a significant upward trend, although year on year fluctuations are often very marked, resulting in very inconsistent supply of wine from one year to the next.
- Several **strong harvests** over the last five years resulted in crisis distillation in 2000/01, 2001/02 and 2004/05, preventing the disposal of a significant proportion of alcohol stocks from previous years' distillations in the sector of potable alcohol.
- Regarding the trend in consumption, the increase in demand for quality and table wines with geographical indication has yet to offset the **steady decline in consumption of other table wines**, to a large extent those from certain large producing countries.
- Another major change is the entry into force on 1 July 1995 of the **Uruguay Round agreement**. Although the rise in imports is not solely due to lower tariff protection, this agreement clearly had a major effect on the common organisation of market in wine as a whole. Today external wine protection has fallen to such an extent that forming an EU market in wine from more or less remote areas is inconceivable. This limits the efficacy of mechanisms to control supply because it is harder to improve market conditions by withdrawing surplus quantities. Moreover, floor prices (below which market prices cannot fall) have been abolished.

- Regarding market mechanisms, in particular **distillation mechanisms**, although the 1999 reform enabled wine production surpluses to be absorbed, it also created a host of problems and several drawbacks. These mechanisms remain overused, systematic almost, which hampers the necessary structural adjustments.

Given the return of imbalances in the wine market, it is essential to consider what new changes to the COM are needed.

As shown by heightened competition from imports, emphasis should be placed on **improving the competitiveness** of EU production on both domestic and international markets. This presupposes not only the continuation of efforts to **match supply with demand**, the acceleration of the rate of renewal of vineyards and **rationalisation of production structures**, but also the **modernisation of the wine industry at all levels**, from bottling to sale and marketing, as well as the adaptation of cellars, the organisation of producers and the promotion of products, especially on certain external markets that show potential.

In regions where wine-growing plays an essential role in **socio-economic development**, often without any viable economic alternative, outright abandonment of wine-growing could cause serious damage, even if it is difficult to prevent some relocation of production towards areas where wine-growing is more profitable. Moreover, maintaining wine-growing in many regions with a tradition in this sector is essential not only in the **conservation of the landscape**, but also to limit soil erosion. However, wine-growing can also create harmful effects, in particular where intensive use is made of plant health products and fertilizers. This is why we need to make the producers responsible and integrate vine cultivation into programmes which aim to encourage the introduction or the preservation of production methods compatible with **environmental protection** requirements and the **preservation of the countryside**.

ANNEXES

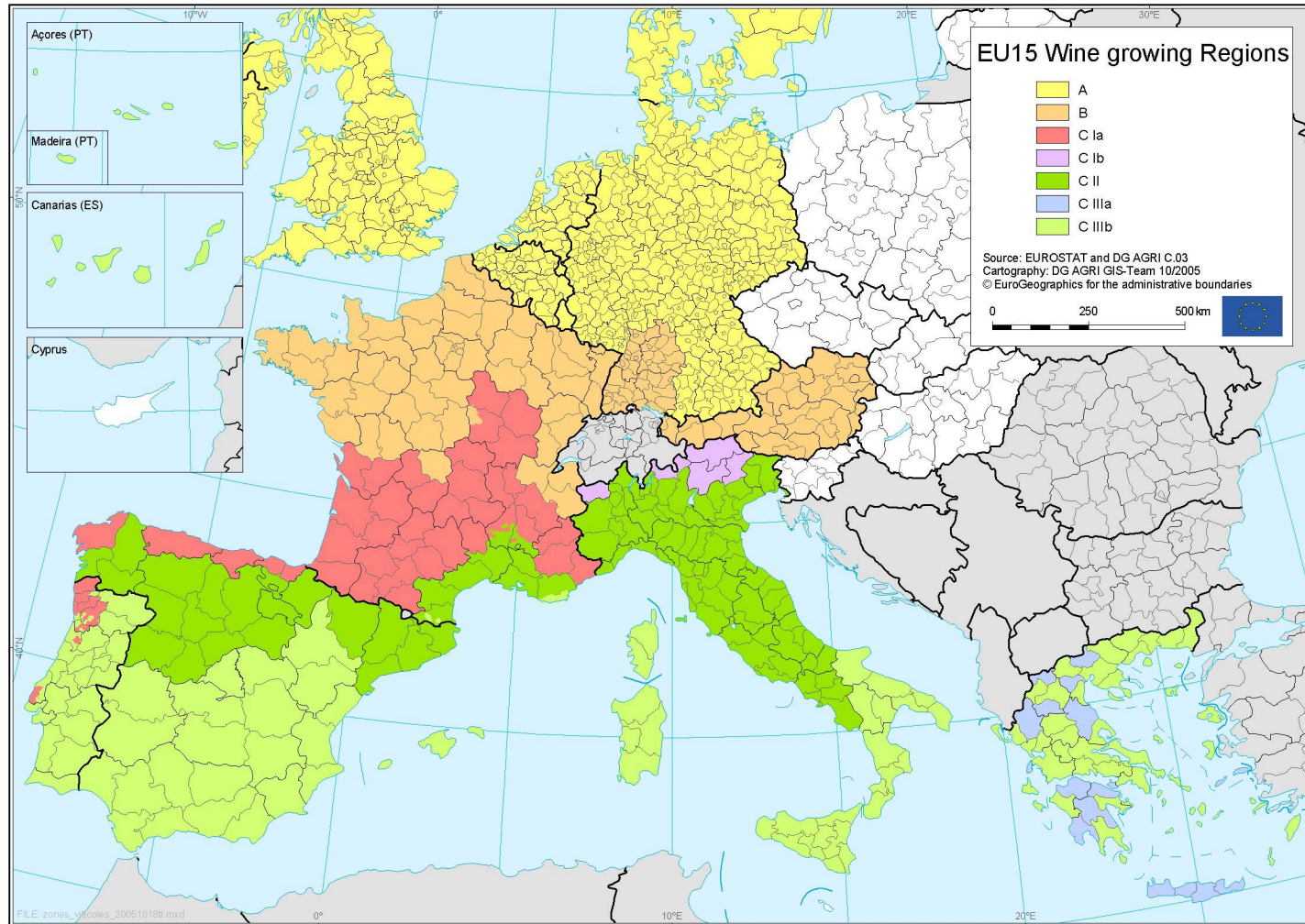
Annex 1

Areas of wine production in the EU and main limits

	A	B	C I		C II	C III	
			C I a	C I b		C III a	C III b
Minimum natural alcoholic strength - table wine	5% vol.	6% vol.	7.5% vol.	8% vol.	8.5% vol.	9% vol.	
Minimum natural alcoholic strength - quality wine	6.5 or 6% vol.	7.5% vol.	8.5% vol.	9% vol.	9.5% vol.	10% vol.	
Maximum total alcoholic strength - table wine	15% vol.						
Maximum total alcoholic strength - quality wine	9% vol. (8.5% vol.)						
Current minimum strength of table wine	8.5% vol.		9% vol.				
Increase in alcoholic strength	3.5% vol. (increase of 1% vol.)*	2.5% vol. (increase of 1% vol.)*	2% vol.				
Maximum alcoholic strength after enrichment for table wines (no limit given to the wines of quality)	Red wine 12% vol. White wine: 11.5% vol.	Red wine: 12.5% vol. White wine: 12% vol.	12.5% vol.		13% vol.	13.5% vol.	
Acidification	No		Only in years of exceptional weather conditions (conditions set out for CII and CIII zones)		musts: 1.5 g/l (20 milli-equivalents/l) wine: 2.5 g/l (33.3 milli-equivalents/l)		
De-acidification	1 g/l (13.3 milli-equivalents/l)					No	

* in years of exceptionally adverse weather conditions: to be decided by the Commission

Annex 2



GLOSSARY

AOC:	<i>Appellation d'Origine Contrôlée</i> (registered designation of origin).
Musts:	Grape juice which has not yet undergone alcoholic fermentation.
Concentrated must:	Uncaramelised grape must obtained from the partial dehydration of grape must, using any permitted method other than direct heat.
Rectified concentrated must:	Uncaramelised liquid product obtained by partial dehydration of grape must using any permitted method other than direct heat following authorised processes to de-acidify and remove non-sugar constituents.
OIV	International organisation of Vine and Wine
Alcoholic strength:	Volume of pure alcohol in an alcoholic drink (Unit %/l)
Varietal wine:	Varietal wines bear the name of the grape from which it is produced, often a single variety. As a general rule, European wines are mixed-variety wines, unlike third countries, which produce many single-variety wines.
Brand wines:	A wine labelled under a distinctive name distinguishing this wine from those marketed by other wine growers.

