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**COMMUNICATION FROM THE COMMISSION  
TO THE COUNCIL AND THE EUROPEAN PARLIAMENT**

**Towards a sustainable European wine sector**

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# COMMUNICATION FROM THE COMMISSION TO THE COUNCIL AND THE EUROPEAN PARLIAMENT

## Towards a sustainable European wine sector

### BACKGROUND

This Communication represents a Commission initiative as part of the continuing common agricultural policy (CAP) reforms of 2003<sup>1</sup>, 2004<sup>2</sup> and 2005<sup>3</sup>, which cover all the main sectors except wine and fruit and vegetables. The deterioration of the balance between supply and demand in the wine sector and the increasing challenges inherent in a European and international wine market require reform of the sector. Community policies on sustainable development, agreed at the Göteborg European Council<sup>4</sup>, on greater competitiveness in the Relaunching Lisbon Strategy<sup>5</sup>, and on Simplification and Better Regulation for the CAP<sup>6</sup> also point in that direction.

The European Union (EU) is the world's leading producer, consumer, exporter and importer of wine. In terms of quality, its reputation is recognised worldwide. This has been earned by centuries of quality wine making which has provided consumers worldwide with excellent quality products. In addition, it provides high value landscapes and allows a profitable use of land which might otherwise be abandoned – both of which are environmental assets, provided production is carried out in an environmentally respectful way.

The wine sector in the EU represents a vital economic activity, especially as regards employment and export revenue. With more than 1.5 million holdings using 3.4 million ha (2% of the EU-25 agricultural area) wine production in 2004 represented 5.4% of agricultural output. Wine production represents around 10% of the value of agricultural production in France, Italy, Austria, Portugal, Luxembourg and Slovenia, and a little less in Spain.

Council Regulation (EC) No 1493/1999 on the common organisation in wine (wine CMO) established a complex EU regime notably as regards production potential, market mechanisms, wine making practices (WMPs), wine classification, labelling and trade. Supplementary layers of rules at national and regional levels add to the lack of clarity. This goes with subsidiarity, but simplification and transparency are also legitimate aims.

Many support schemes have remained unchanged for some years, as has the level of aid they offer. All the measures financed from the Community's budget need to be reviewed, notably because of the increasing tendency towards crisis distillation not only for table wine but for "quality wine" produced in specified regions (QWpsr). Crisis distillation, which used to be an exception, is increasingly becoming a regular practice, undertaken in three out of the last five years. It was requested by several Member States in the 2005/06 wine year, despite an 11% reduction in production, for significant quantities of table wine and "quality wine". It is

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<sup>1</sup> General CAP reform.

<sup>2</sup> Cotton, hops, olive oil, tobacco.

<sup>3</sup> Sugar.

<sup>4</sup> Presidency Conclusions, 15-16 June 2001.

<sup>5</sup> COM(2005) 24 final.

<sup>6</sup> COM(2005) 509 final.

necessary therefore to ensure that future policy is cost effective and that the money is well spent. Moreover, from a public health point of view, concerns have been raised that subsidies to potable alcohol distillation artificially lower the price of wine spirits which are high in alcohol content.

An Impact Assessment (IA) covering possible options for a new Community policy for the wine sector has been carried out to ensure synergy with other Community policies. It represents the work of all the relevant Commission departments and is presented together with this Communication.

The Commission launched a public debate on future policy by holding a Wine Seminar with stakeholders on 16 February 2006. The documents of the Seminar are available on the European Commission website<sup>7</sup>. The Advisory Group on Wine has also discussed the potential reform scenarios. In addition, many bilateral meetings have been organised with a wide range of stakeholders.

## 1. CURRENT SITUATION AND MID-TERM FORECAST FOR THE WINE MARKET

Since 1975/76, the European problem of overproduction has been addressed by a policy of limiting production potential, and encouraging the permanent abandonment of production areas, contributing to a decrease from 4.5 million ha in 1976 to 3.2 million ha in 2005. However, since 1996, optional implementation of the grubbing-up scheme by Member States has led to a decrease in uptake which, together with the allocation of new planting rights, has practically cancelled out earlier benefits. Wine production<sup>8</sup> in the last five wine years varied between 166 and 196 million hl for the EU-25. The share of QWpsr in the total EU wine production has been increasing and currently almost equals that of table wines.

EU wine consumption has fallen significantly and steadily in recent decades. This trend has particularly affected table wine, whereas the consumption of QWpsr is growing, so that now the two have almost equal shares.

Since 1996 the volume of wine imports into the EU-25 has been growing at a rate of 10% a year, reaching almost 11.8 million hl in 2005. So-called “new world” wines have gained considerable market share from EU wines. The volume of wine exported from the Community has been increasing since 1996 but at a much slower rate than imports, to reach about 13.2 million hl in 2005. Overall, the EU remains a net wine exporter.

The mid-term outlook for the EU wine sector until 2010/2011, under the assumption that the wine CMO is unchanged and on the basis of the expected trends in production, consumption and trade dynamics, is that excess wine production will increase up to 27 million hl (15% of production), or to 15 million hl (8.4% of production), if the quantities distilled with aid to the potable alcohol sector are not considered surplus. The surplus is a particularly serious problem for table wine but the situation of QWpsr has also deteriorated. The EU-27 wine balance is outlined in the IA.

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<sup>7</sup> At [http://europa.eu.int/comm/agriculture/capreform/wine/index\\_en.htm](http://europa.eu.int/comm/agriculture/capreform/wine/index_en.htm).

<sup>8</sup> Total wine production = vinified production + production of grape musts and juices.

## **2. THE WINE CMO TODAY**

The wine CMO is organised around a comprehensive but complex set of policy tools. Three measures aim at managing production potential, by limiting planting rights and by supporting structural improvement through (a) permanent grubbing-up and (b) restructuring/reconversion programmes focusing on adapting quality and quantity to consumer demand. The planting rights restrictions, including a ban on new plantings, are valid until 31 July 2010.

The internal market measures include traditional measures such as crisis distillation of surplus wine and distillation of surplus wine from dual purpose grapes. The aim is to limit price decreases. Then there is compulsory distillation of lees and marc, by-products of wine making, to avoid over-pressing of grapes and improve wine quality. Finally, there is the distillation of table wine into potable alcohol for use in the spirit drinks industry, its purpose being to maintain certain parts of the potable alcohol sector as a traditional outlet for wine.

To avoid market disturbance and its consequences, aid is paid for the temporary private storage of wine and grape must. In addition, aid is available to encourage the alternative use of grape must, notably for enrichment and grape juice. The CMO also includes traditional trade mechanisms such as duties, refunds and licences. Agreements with non-EU countries have also been concluded.

The wine CMO, contrary to most others, provides a full set of rules governing definitions, QWpsr and table wine with a Geographical Indication (GI), WMPs, and labelling, ensuring a fair and transparent standard of quality for consumers.

## **3. PROBLEMS IDENTIFIED WITH TODAY'S CMO AND CHANGING CIRCUMSTANCES**

### **3.1. Market situation**

- EU wine consumption, is declining by about 750 000 hl or 0.65% annually.
- Consumption patterns in general and those of wine in particular, are changing, as are lifestyles.
- The structural surplus is estimated at about 15 million hl of wine, which is equivalent to about 8.4% of EU-27 wine production.
- Intervention via distillation is required to remove about 15% of wine production every year.
- Wine stocks which exceed one year's production are increasing, with little prospect of disposing of them. This exerts downward pressure on prices and producers' incomes.
- Imports are increasing at a faster rate than exports, the gap is narrowing and imports may soon exceed exports. The world trade in wine is already highly liberalised, with EU wine import duty at low levels.
- The surge in "new world" wine production and sales highlights the need for EU wine producers to become more competitive.

### **3.2. Regulating production potential**

- The success of the ban on planting rights in curbing production potential is limited by the granting of new additional planting rights and by the increase in yields in some Member States.
- Planting rights increase the cost of production and act as a brake on rationalisation of the structure of holdings, reducing competitiveness.
- Non-EU countries do not apply such planting restrictions.
- The restructuring and conversion scheme has enabled producers to upgrade to “quality wine” but could also lead to an increase in production. It may sometimes cover normal renewal, which would defeat its purpose.
- The use of the grubbing-up scheme has virtually stopped since 1996.
- After many years, some Member States have still not dealt with certain so-called irregular vineyards (planted before 1 September 1998) or the grubbing-up of certain so-called illicit vineyards (planted from 1 September 1998). The areas for which regularisation has been refused and which are still under examination amount to about 68 100 ha, or about 2% of the total EU-25 area under vines.

### **3.3. Market support measures**

- Market support measures in the form of distillation are not very effective in terms of securing vine growers' income and serve as a permanent outlet sustaining an unsaleable surplus.
- Crisis distillation, designed to tackle conjunctural surpluses, is used as a structural measure and now also covers “quality wines”.
- The private storage aid scheme has become a structural measure. Wine storage costs should be borne by the industry.

### **3.4. Wine-making practices, geographical indications and labelling**

- The rigidity of procedures for adopting and adapting WMPs hinders competitiveness.
- EU regulations are too complex, notably on definitions, WMPs, and classification, i.e. QWpsr, table wine with a GI and table wine.
- On QWpsr, there is no ‘*quality*’ concept at international level and no reference in Community legislation to the concept of ‘geographical indication’ as defined by the WTO’s Trade Related Aspects of Intellectual Property Rights (TRIPs) Agreement. Besides, in recent decades, there has been an increase in the number of QWpsr and table wines with GIs, which leads to customer confusion, weakens the Community GI policy in the EU and abroad, and contributes to the decline of the market situation.
- On labelling:
  - consumers are confused by wine labels resulting from a complex legal system consisting of a mixture of legal instruments which deal differently with several wine categories and with some particulars depending on the product;

- certain inflexible labelling rules hamper the marketing of European wines. A major drawback is the prohibition of the indication of the vintage and the vine variety on table wine without a GI;
  - non-EU countries regularly criticise European labelling policy as far as the sales designation (for example, QWpsr, table wine with a GI and table wine), the use of optional indications, the reservation of bottle shapes and the policy on traditional terms are concerned. In that connection the review of the labelling rules should take into account their impact on imports from third countries and the EC's international obligations.
- Independent analysis suggests that appropriate liberalisation of wine-making practices, in line with International Wine and Vine Organisation (OIV) rules, and more consumer-oriented labelling would enable EU wine producers to expand their outlets and improve their marketing, thereby improving their competitiveness and reducing the structural imbalance.

### **3.5. Health and lifestyle**

In recent years concerns have grown about the increasing trend of high risk consumption of alcohol among young people. However, there appear to be beneficial impacts on health among older people. Information on the advantages and the benefits of moderate and responsible consumption of wine as well as information related to alcohol-harm has to be provided to all concerned. Community policy should reflect this.

## **4. OBJECTIVES FOR A NEW EU WINE POLICY**

Against this background, the future regime should ensure sustainability for producers, make provision for the smooth integration of Bulgaria and Romania and the full respect of our international obligations. The EU wine sector is producing the best wine in the world and has a huge potential that should be further developed in a sustainable manner. The policy also has to react to changing circumstances in order to:

- increase the competitiveness of the EU's wine producers; strengthen the reputation of EU quality wine as the best in the world; recover old markets and win new ones in the EU and worldwide;
- create a wine regime that operates through clear, simple rules – effective rules that balance supply and demand;
- create a wine regime that preserves the best traditions of EU wine production, reinforces the social fabric of many rural areas, and ensures that all production respects the environment.

The new EU wine policy should also take in due consideration increased concerns of society on health and consumer protection.

## **5. OPTIONS EVALUATED IN THE IMPACT ASSESSMENT WHICH DO NOT PROVIDE AN ADEQUATE SOLUTION**

Taking into account the situation of the sector and the policy objectives to be achieved, the Commission considered four possible options for the reform of the wine CMO. Three of these options – to maintain the status quo, to reform the wine CMO along the lines of the CAP reform model and to pursue a complete deregulation – do not provide adequate answers to the problems, the needs and the particularities of the wine sector.

### **5.1. Status quo with possibly some limited adjustments**

In view of the serious difficulties of the current CMO in terms of:

- achieving a better market balance,
- applying the rules correctly in some Member States, notably the planting restrictions, and
- fitting in with the reformed CAP,

a merely cosmetic amendment would not be sustainable economically or politically.

The current CMO has not eliminated surpluses nor provided an answer to other problems, notably the loss of competitiveness as highlighted by the requests for crisis distillation and by the increasing share of non-EU wines on EU markets. There is a broad consensus among various stakeholders that major changes are necessary.

### **5.2. Reform along CAP reform lines**

The main innovation of the CAP reform is the decoupling of direct payments from the type of production and the introduction of the Single Payment Scheme (SPS). Significant advantages are farming flexibility, market orientation and WTO friendliness through green box classification. One possible thrust of the reform would be to shift all or part of the budget of the wine CMO to direct payments for vineyards which could be included in the SPS. Additional advantages would be a major simplification and the introduction of cross-compliance for all vine growers. However, in contrast to other sectors, there would be no obvious equitable way of distributing SPS entitlements.

On the basis of the available budget, the potential amount of decoupled payment would be very small for a permanent crop and would probably not compensate the loss of market support for many growers.

Abolition of market measures accompanied by decoupled income support fully transfers the responsibility for adjusting to changed market situations to producers. If the system is consequently implemented alone, a balanced market should be achieved, but only in the medium to long term, and probably only after a major crisis in the sector leading to a massive adjustment process.

### **5.3. Deregulation of the wine market**

The option of complete deregulation would imply the abolition of all policy instruments for the management of the production potential and of the market. Tools such as the ban on new plantings, and grubbing-up, the policy of restructuring and

reconversion and all market measures would be abolished, leading to complete liberalisation of the sector. The budget would be either suppressed or transferred to the second pillar for RD policy in general.

The harsh adjustment required by the immediate implementation of this policy and the lack of accompanying structural measures would produce in the short term severe negative economic and social impacts on the regions concerned.

## **6. PROFOUND REFORM OF THE WINE CMO**

Recognising the problems and the potential of the sector and its particularities, and following the in-depth analysis in the Impact Assessment, there is a need to keep a specific wine CMO which must, without doubt, be fundamentally reformed.

The challenge is to adapt the regulatory framework and the production structure to obtain a sustainable and competitive European wine industry with long-term prospects while, at the same time, ensuring the use of the budgetary means in the most cost-effective manner.

The Commission considers this option as the most appropriate response to the challenges. Two variants are identified. The first one would provide quick answers to the present difficulties but requires rapid and demanding adjustment of the sector. The second would obtain the same result, but phased in over time, which would allow the rural economy and the social fabric to adjust more smoothly.

### **6.1. Profound Reform of the CMO – Variant A – One-step**

#### **Abolishing the Planting Rights and Grubbing-up Scheme**

The system of planting rights restrictions would be either allowed to expire on 1 August 2010, or be abolished immediately. However, rules regarding access to GIs would de facto limit the number of hectares.

The current grubbing-up scheme would also be abolished at the same time.

Each hectare of vineyard grubbed-up at the farmer's expense would become part of the area eligible for the SPS.

### **6.2. Profound Reform of the CMO – Variant B – Two-step**

This approach is analogous to that adopted for the sugar sector – the first phase is restoring market balance and the second phase is building improved competitiveness, including the abolition of planting rights. The principal feature of variant B would be a structural adjustment, i.e. temporarily reactivating the grubbing-up scheme. The system of restrictions on planting rights would be extended until 2013, when it would expire. The least competitive wine producers would have a strong incentive to sell their planting rights. Rapidly, competitive producers can be expected to focus more on the competitiveness of their enterprise, as the cost of planting rights will no longer hamper expansion. In the medium to long term this would represent a reduction in their fixed production costs.

The grubbing-up premium will be set at an attractive level. To encourage take-up from year 1, a decreasing scale would be set for the premium over the remaining



period of planting rights. The aim is to grub up 400 000 ha in the EU over a five-year period with a maximum total aid of about EUR 2 400 million.

Vine growers should be free to choose to grub up or not.

The agricultural area formerly used for vine production, once grubbed up, would qualify as an eligible area under the SPS and be granted the average regional decoupled direct payment.

The Member State envelope could be topped up by a certain amount per grubbed up hectare.

Minimum environmental requirement would be attached to the grubbing up premia to avoid land degradation.

### **6.3. COMMON FEATURES OF VARIANTS A AND B**

Both variants contain common measures such as:

#### **6.3.1. *Abolishing market management measures and introducing more forward-looking measures***

Market management tools would be abolished from day one, namely:

- support for by-product distillation,
- potable alcohol and dual-purpose grape distillation,
- private storage support,
- must aid in relation with enrichment and for making grape juice.

The crisis distillation measure would be abolished, or replaced by an alternative safety net mechanism using the national envelope.

#### **6.3.2. *National envelope***

A budget envelope would be made available to each wine-producing Member State, calculated according to objective criteria, with which it would be allowed to finance measures, according to its preference, from a given menu. There would, however, be more resources available at the beginning under variant A because of the absence of grubbing-up expenditure.

This envelope could be used by Member States, for example, for certain crisis management measures such as for insurance against natural disasters, for providing basic coverage against income crises, for the administrative costs of setting up a sector-specific mutual fund<sup>9</sup>, and for measures such as green harvest. Its use would be subject to certain common rules (including minimum environmental rules), in order to avoid distortion of competition, and to approval by the Commission of the specific national programme.

The vineyard restructuring/conversion scheme would be maintained under the national envelope.

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<sup>9</sup> COM(2005) 74 final.

### **6.3.3. Rural development (RD)**

Many measures could be part of the RD plans adopted by the Member States. Early retirement and agri-environment support could provide significant encouragement and benefit for vine growers. Farmers who decide to stop all commercial farming activity definitively for the purpose of transferring the holding to other farmers may benefit from a maximum of €18 000/year and a maximum of €180 000 for a maximum of fifteen years. Agri-environment measures to cover additional costs and income foregone in providing and maintaining vinescapes/cultural landscapes may amount to a maximum of €900/ha for a period of between five and seven years. As the 2007-2013 RD planning process is in progress, and in order to encourage these measures, a transfer of funds between budget headings (market and direct payments on the one hand and RD on the other hand) would be necessary and would be earmarked for the wine producing regions in line with what was done in the tobacco and cotton sectors. Such development programmes could play an important role in the economic welfare of wine sector stakeholders in the future and in preserving the environment in the wine producing regions.

### **6.3.4. Quality policy/geographical indications**

The quality policy would be made clearer, simpler, more transparent, and thus more effective, by:

- a) Substantially revising the current quality regulatory framework, with a view to enhancing the conformity of EC quality policy as regards international rules. In particular it should be clearly aligned with the provisions of the TRIPs Agreement. Moreover, the wine quality policy incorporated in the CMO would be made consistent with the horizontal quality policy (on Protected Geographic Indications (PGIs) and Protected Designation of Origin (PDOs)). The Commission proposes to establish two classes of wines: wine without GI and wine with GI. Wines with GI would be further divided into wines with a PGI and wines with a PDO. A procedure for registration and protection of GIs would need to be established.
- b) The concept of EU quality wines is based on a geographical origin approach (quality wine produced in specified region). The EU wants to confirm, adapt, promote and enhance this concept worldwide.
- c) Expanding the role of the interprofessional organisations in order to be able to control and manage the quality of the wine produced in their territories. Control instruments should be reinforced as well, in particular for the production of ‘vin de cépage’.

### **6.3.5. Wine making practices**

The Commission would propose, regarding wine making practices (WMPs):

- to transfer from the Council to the Commission the responsibility for approving new or modifying existing WMPs, including taking over the *acquis*;
- to recognise OIV WMPs and filter at Commission level their incorporation into a Commission regulation;

- to authorise use in the EU of WMPs already agreed internationally for making wine to export to those destinations;
- to delete the minimum natural alcohol requirement of wine which becomes redundant due to the proposed limitation on enrichment and there is a legal minimum for alcoholic strength by volume of the wine marketed;
- to ensure an acceptable minimum level of environmental care in the wine making process.

#### **6.3.6. *Enrichment***

The sugar reform accentuates the problem of using sugar instead of must in enriching the alcohol content of wine. There are three possibilities: increase the aid for must, to compensate the reduction in the sugar price, leave the level of aid unchanged, which may disturb the equilibrium, or remove the aid and ban the use of sugar. On balance, the Commission considers the latter option to be the most advantageous since it would result in significant savings in the budget and increase the outlets for must.

Furthermore, the Commission proposes to reduce the maximum level of enrichment (with grape must) to 2% except in wine growing zone C (meaning certain parts of France, Spain, Portugal, Slovakia, Italy, Hungary, Slovenia, Greece, Cyprus, and Malta) where the maximum should be 1%.

#### **6.3.7. *Labelling***

The Commission proposes to simplify the labelling provisions by setting up a single legal framework applying to all the different categories of wine and particulars relating to them. It would be tailored to the expressed needs of consumers and more consistent with the wine quality policy. In particular, this would involve:

- transfer of competence from the Council to the Commission;
- the use of a single legal tool for all wines by complementing the rules in the horizontal labelling Directive 2000/13/EC as appropriate to meet the particularities of the wine sector as regards compulsory and optional labelling needs;
- improving the flexibility of the labelling policy, in taking into account the WTO policies, by: 1) removing the distinction between the rules on labelling wines with and without GIs, most importantly facilitating the indication of vine variety and vintage on wines without GI status, in order to allow EU wine producers to market “new world” type wines (i.e. single vine variety), and thereby put EU wine producers on an equal footing with external competitors, 2) maintaining and improving the traditional terms system, 3) adapting the policy on trademarks, 4) amending the language rules in the wine sector to allow more flexibility on the use of languages, 5) ensuring health and consumer information and protection, 6) fully informing the consumer of the origin of the product through appropriate labelling rules on traceability and 7) allowing to inform consumers on the environmental aspects of production practices.

### **6.3.8. *Promotion and information***

Several stakeholders, in particular during the 16 February Seminar, underlined the need for increased emphasis on wine marketing. The Commission intends to pursue with vigour a responsible promotion and information policy. All available opportunities in existing Community legislation should be used to carry out ambitious promotion projects outside the EU.

Information campaigns on responsible/moderate wine consumption could also be considered within the EU.

### **6.3.9. *Environment***

The Commission intends to ensure that the reform of the wine regime improves the environmental impacts of vine growing and wine making. In particular, it intends to include minimum environmental requirements for the wine sector covering the main pressures from the sector (notably, soil erosion and contamination, the use of plant protection products, and waste management).

### **6.3.10. *WTO***

An important feature of the profound reform will be to make the new wine CMO WTO-friendly. Thus, current trade distorting (“Amber Box”) intervention measures will be eliminated, and where internal support measures continue to exist, preference will be given to “Green Box” measures. The present ban on vinification of imported must and blending of Community wines with non-EU wines will be examined in the same spirit.

## **7. SO-CALLED IRREGULAR AND ILLICIT PLANTINGS**

Irrespective of the removal of the planting ban, economic operators and Member States have to comply with existing Community legislation regarding so-called irregular vineyards and illicit vineyards. Compliance with these rules is crucial to the functioning of the existing CMO. If the rules are not observed, the Commission will (continue to) take appropriate measures in the framework of the clearance of accounts procedures or, if necessary, initiate infringement procedures under Article 226 of the Treaty.

## **8. BUDGETARY IMPACT**

Precise estimates of the budgetary impact of the measures outlined above will be established when the formal legislative proposals are presented. However, the financial impact will not exceed levels of expenditure during the last years.

## 9. FINAL REMARKS

The Commission is of the opinion that a fundamental reform of the wine CMO is necessary.

The eventual implementation of these modifications should lead to simplification and better regulation, with positive consequences on limiting the management and statistical monitoring costs, on easing implementation and controls, hence on limiting the risk of fraud and misuse of public funds. In addition it would increase management efficiency through a higher level of subsidiarity given to Member States for the determination of the type of measures they need to respond to their specific situation. Finally, a reform along these lines will significantly strengthen the Commission's possibility to defend its policy in all international fora, which it intends to pursue actively.

With this Communication the Commission invites all stakeholders to participate in an open debate on the future wine CMO, which will assist it in drafting proposals before the end of this year.