Study of the socioeconomic and territorial impact of the relaxation of planting rights in the wine sector

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FEBRUARY 2012

PROJECT AGREEMENT AREV – UMR-MOISA-MONTPELLIER
0 Summary

It was eighty years ago that France and Spain first put in place a system of regulations for the control of the planting of vines. In terms of the European Union, with the exception of a brief respite from 1970 to 1976, the CMO (Common Market Organisation) has “temporarily” adopted these regulations. The permanent disappearance of these regulations, validated in the texts of the latest reform in 2008 for implementation by the 1.01.2016 or at the latest by 2018, was abundantly motivated, but as the deadline approaches, the wisdom of this deregulation is increasingly being called into question on a European scale by a large number of professionals and regional elected representatives, who fear that it may lead to disastrous consequences. By implementing such a decision, may we not be opening Pandora’s Box in terms of European winemaking?

The members of AREV wanted to enrich their strategic reflexion by looking more deeply into the subject. To this end, they launched an international invitation to tender, before finally selecting the MOISA research unit in Montpellier to produce the study discussed in the present report.

0.1 Plan – Method

The social sciences present few opportunities for “laboratory” testing the economic and social consequences of an economic policy decision that has not yet been implemented. We therefore chose to employ a number of different approaches to the question, including comparative economics, history, statistics and law, in order to validate or invalidate the various arguments put forward in the debate. Given the broad scope of the subject, its complexity and its simultaneously European and worldwide aspects, we have not attempted to be exhaustive. In practical terms, we undertook long-term case studies both within Europe and in the New World; conducted detailed analysis of the of the modes of functioning of these regulations in a number of countries, including processing of the available data; mobilised, in France, the data from the RICA (Network of Agricultural Accounting Information) in order to test the question of economies of scale associated with the size of the winegrowing estates; observed on the European scale the dynamic of growth of these estates; in order to eventually answer the main criticisms of the system.

The Commission’s arguments essentially concern the reduction in competitiveness that the system of planting rights would entail. We have therefore sought to answer the following questions: will planting rights increase production costs? Will they impede the rationalisation of the vineyard
structures? Are there other means of bringing about this rationalisation? Is it the absence of planting rights that has enabled other countries that are not members of the European Union to have more rational and thus better-performing structures?

### 0.2 The New World

#### 0.2.1 Australia

From among the New World countries, we have chosen Australia and Argentina. Australia represents the reference in terms of vineyard growth in the absence of regulation of production potential through planting rights. Since the beginning of the 1990s, Australia has become the international model of success in the winemaking world, and particularly in terms of exports. Nevertheless, Australia’s results did in fact reach their limits a number of years ago. The overproduction of grapes was sustained by the excessive planting of vines throughout the past twenty years. This is explained by a positive reaction to the success of Australian wines in terms of exports, supported both by the contracts offered by the wineries and the ‘price’ signals sent out by the market. Grapes produced by investors aiming to secure a return on their capital or on a promising investment also arrived on the market at this time.

In the absence of wine sector policies limiting the quantities produced and the yield, the regulation came solely from the market. The only real Australian wine sector policy consists of promoting Australian wines, both on the home markets and abroad. The contracting policies are no longer sufficient to stabilise relations between the wineries and the wine-growers. The wineries are increasingly looking to purchase their grapes from the spot market.

To sum up, the exponential development of wine production ‘took off’ through a series of mistakes in terms of expectations. With the exception of non-harvesting and the private uprooting of vines, the sector possesses no obstacles either to planting or to production. Adaptation is supposed to take place through access to new markets, and the move upmarket is difficult in light of the earlier mode of development. The logic is that of company management, which leads in this case to the disposal of assets.
Overall, liberalism is no obstacle to crisis. Confronted with the inertia of a perennial plant, the instability of currencies and markets, and a number of anticipatory errors, the Australian wine sector functions with an “entrepreneurial” model of adaptation that works through the reviewing of contracts. Lastly, we see all the same economic crisis indicators: uprooting, bankruptcy, non-harvesting, sequestration, a rapid drop in land values, the purchase of assets by foreign investors, etc.

Observed from Europe and through the point of view of the deregulation of planting rights, it becomes clear that the wine dealers, who will take advantage of this new regulation in order to create their own vineyards and thus guarantee part of their supply, will also be able to exercise pressure on the purchase price of grapes and wines, and all the more so since grapes will be overproduced in the absence of limits on planting. The argument that “we shouldn’t see an explosion in the area of vines if there isn’t a market” must be put into perspective, since each investor is naturally convinced that in the end he will win out over his competitors.

0.2.2 Argentina

Long observation of Argentinean winemaking and its organisation calls into question the idea that competitor countries in the New World fail to regulate their supply. It also enables us to understand the essential conditions for the success of a planting rights system, to study another method of regulating the annual supply, and to put into perspective the social consequences of a brutal period of deregulation.

In the 1980s, Argentina failed in its attempt to implement a system of planting rights due to its inability (in the socioeconomic climate at the time) to enforce the regulations created, resulting in unlawful planting and the impossibility of achieving the goals they had set.

Thanks to a historic agreement between the country’s two main wine-producing regions, Argentina managed to implement an effective market regulation mechanism, based on the exportation of grape must and concentrated musts on the international fruit juice markets. This system protects the incomes of winegrowers by stabilising the level of wine prices. It takes market perspectives into account. It seems to be well adapted to the regulatory and economic history of the country’s winemaking sector. Nevertheless, in the event of economic crisis and deregulation of the
sector, access to credit represents a discriminatory mechanism which eliminates small and medium-sized producers that lack access to financing.

### 0.3 Portugal

#### 0.3.1 Alentejo

Restructuring, redevelopment and the uprooting of vines have reconfigured the landscape and wine production in Portugal over the course of the past twenty years. The region of Alentejo in particular has seen its wine production almost double within the space of a decade, thus modifying the structure of the winemaking social fabric. This transformation is explained by changes in the regulatory framework in force up to the end of the 1990s and the opportunity given to the regions to freely transfer planting rights, in this case from the neighbouring regions of Ribatejo and Estremadura.

Within the framework of the 1999 CMO reform, a new system of financial support, the ‘Vitis’ programme, was introduced in order to encourage the reconversion and restructuring of the vineyards, whilst remedying the main handicaps faced by Portuguese winemakers, i.e. the small size of the parcels of land and the ageing of the vines. Set against a background of gradual reduction in Portugal’s wine growing area, the case of Alentejo underlines the strong growth in some areas. In parallel, the wine regions specialising in the production of table wines (Ribatejo in particular), where the average price of wines is particularly low, are diminishing in acreage.

The freedom given to wine growers to freely exchange planting rights has logically led to the transfer of planting rights from the more fragile zones or those in difficulty to the zones where wine growing performance is more attractive (Alentejo and Douro in particular). This means that the planting rights have blocked neither the creation of new winemaking projects ex nihilo, nor the expansion of existing ones. It is in fact the methods of transferring planting rights rather than the system itself that acts as an obstacle to the evolution of the vineyards.

That said, the freedom to transfer planting rights has not enabled the region to escape overproduction “by inertia” in the general euphoria of planting. Like in Australia, the anticipatory error of a (short term) excess in terms of supply linked partly with an exceptional harvest and partly
with uncontrolled growth of production potential (long term supply trend) are the ingredients for an overproduction crisis.

0.3.2 The Douro demarcated region

The study of the development of the winemaking situation in the Douro demarcated region (RDD) over the last few years enables us to understand the role played by planting rights regulations in a region that has been subjected to complex boundary changes and organisation in preparation for the authorisation of mutage. There are in fact two types of vine planting rights in the RDD, those that provide the right to mutage and the rest. Rights to the production of wines that have undergone mutage are limited and defined by a qualitative method of classification of the territories from A to I, with only those classified from A to F being authorised to undertake mutage. These rights are ten times more expensive than those for the other wines.

Possessing vines in a classified territory is not enough to ensure authorisation to undertake mutage. The volume of mutage-authorised wines is reviewed each year and set according to stock levels and anticipated sales. The quantitative allocation of volumes is made according to the “Method of Punctuation”. This means that beyond the surface areas with planting rights to produce mutage wines, there is also a second level of regulation which depends on market perspectives and which makes any rise in value of planting investment uncertain. The rights market is organised by intermediaries who influence prices in a market that is far from transparent, due to the asymmetry of information and a lack of understanding concerning the production rights of mutage wines.

As a result of the rugged terrain of the RDD, systematic measuring errors have also been made, linked particularly with land registry and its management, as well as the difficulties in precisely measuring land surfaces. The national reserve has sold planting rights in this region for the derisory sum of just 300€ per hectare, but only within the framework of projects to assist young winemakers to set up or in order to preserve the biodiversity of the grape varieties.

Although the Interprofessional Council of the RDD possesses the power to regulate the annual growth potential of the surface areas planted, it hasn’t intervened directly to slow down the growth of new planting. So the current regulatory framework has not in fact acted as an obstacle to the setting up of new ex nihilo winegrowing projects, nor has it slowed the expansion of existing estates, including those with over 50 hectares of vines.
This case study underlines the coexistence of several mechanisms for the regulation of supply and the choice of non-intervention that may be taken by the Interprofessional Council. The creation of estates is therefore not blocked, but the growth of supply may have consequences in terms of the promotion of wines – whether mutage or non-mutage – and thus lead to difficulties for the producers should demand stagnate, whether for Port or for the regional wines.

0.4 Spain

Spain possesses a national reserve and several regional reserves of planting rights. The transfer of planting rights between Autonomous Communities is permitted. But since the transfer of rights must not bring about any significant imbalances in the wine producing territory, the annual interregional transfer is limited to 0.4%. Detailed analysis of the different forms of transfer show how little fluidity there is between the different regions, as transfers are frequently blocked by the specific regional wine sectors laws. Furthermore, the transfer of European wine sector policy measures to the regions has led to a degree of administrative complexity.

We have seen a drop in the average value of planting rights since 2008. The financial, international and wine industry crises, and, to a certain extent, the prospect of the lifting of this system planned for 2016, explain this major impact on the value of transferred (re)planting rights.

The reserves of planting rights have played a leading role in assisting young winemakers to set up and in the regrouping of land parcels. Furthermore, the qualitative adaptation of popular wine appellations still remains possible, as is clearly shown in the case of white Rioja.

0.5 The French system of planting rights

The French regulations were adapted to the most recent significant reform of the system at a European level during the 1999 CMO reform, through the creation of a reserve mechanism. Aside from the specific case of new planting rights reserved for regrouping, for experimentation, for the production of grafts or for the installation of young winemakers, the planting rights may be internal to the estate in origin through uprooting or through anticipated planting, or it may be external in origin through the purchase of a parcel of vines, by private transfer or transfer from the reserve. They must generally be paid for, but are free to young winemakers.
Possessing a planting right is not sufficient to enable you to plant a vine. It is also necessary to obtain planting authorisation. With the exception of the wines without geographical indication (VSIG), the two other categories (VIGP and VAOP) control their production potential through the Management Organisation (ODG). This organisation sets an annual quota per appellation in order to avoid supply growth incompatible with market requirements. Arbitration and harmonisation take place on a national level. This quota is shared proportionately based on individual demand. Added to this is a maximum limit of 3ha/person/year in zones producing IGP wines and a limit of 1ha/person/year for AOP wines. It is this quantitative limit that comes in for criticism from companies wishing to set up winemaking projects ex-nihilo.

The planting rights achieve their primary function of stabilising the vineyards, which isn’t difficult given that the vineyards have shrunk overall by 11% over 10 years. Similarly, we observe that the qualitative improvement (from the point of view of denominations and regions) is also continuing. Young winemakers receive preferential consideration. Each region manages its quotas collectively and adapts the evolution of supply levels. Thus, according to provisional data from the last RGA (2000-2010), Champagne has increased its vineyards by 2,360 ha in 10 years, an increase of 7.6 %, Alsace by 786 ha, or 5.1 %. The other vineyards have shrunk overall, but at varying rhythms, and with significant internal reallocations. The rights are shared “democratically” through the setting of extremely low individual annual quotas. The price of the rights is also quite low and is dropping. They are relatively independent of the regions of origin and the regions that receive, which represents a real increase in value for those vineyards with high land prices. This policy favours “production” and the individual quotas prevent major installation projects.

0.6 Economies of scale

One of the major arguments put forward by the European Commission in favour of scrapping planting rights concerns the hindrance to the growth of vineyards that this mechanism represents. This limitation prevents them from benefiting from economies of scale and consequently they are less efficient than vineyards in the New World.

After analysing the RICA data on the average over three years (2005-2007), we have observed that for wines with the same sale price, the size of the vineyard appears to have very little influence on the economic productivity of the work (total unit revenue), and curiously, more often downwards than upwards.
Increasing the size of the vineyard appears to have no effect on work productivity; admittedly, we see a limited increase in unitary family income (solely for high value wines), but this results entirely from the employment of a larger number of staff and the gap between their salaries and the productivity of the work.

In the winemaking sector, as in the other otex agricultural sectors, there are gains in productivity to be made: the larger the area worked, the fewer workers are needed per unit of surface. The physical productivity of the work is an increasing function of the size. But unlike in the other otex sectors, in winemaking these physical productivity differences seem to have practically no effect on income differentials.

In the appellation winemaking sector, a positive link between size and income only appears to exist among the small minority of winemakers located in the zones that enjoy a prestigious reputation (particularly Champagne); furthermore, differences in family incomes related to the size of the vineyard seem to be more a result of differences in levels of payment to salaried staff and labourers than to economies of scale per se. In the non-appellation winemaking sector (now a minority in France), the link between size of vineyard and income is barely better established, but the differences in income that result from it are so small that they don’t allow the large winemakers to avoid the low incomes that are prevalent in this winemaking sector.

From the point of view of planting rights, their elimination would essentially lead to a drop in price linked to the growth in supply. The sale price being the most important factor in terms of income, far more so than the size of the vineyard, the effect obtained will be the opposite of the objective. To return to theoretical references, it clearly emerges that the major phenomenon in winemaking is not the existence of economies of scale, but is far more a question of economy of variety linked to a broad range of products at clearly differentiated prices.

0.7 The growth of vineyards

The surface under vines in Europe has remained largely stable over the past 20 years (with the exception of Portugal), but we have witnessed an unprecedented concentration of vineyards over the past ten years: their number has diminished, but the size per unit has increased.

It is therefore reasonable to suppose that the existence of planting rights has not prevented, until now and in the majority of countries, the growth of the average size of vineyards. Furthermore,
if the development of winemakers’ incomes has not reached the desired levels, it is far from certain that accelerated growth in terms of the size of vineyards, which may well result from the proposed elimination of these planting rights, would lead to a more satisfactory result.

### 0.8 Employment and landscapes

#### 0.8.1 Employment

The grape vine is a “populating” plant. The average vineyard in France occupies 9.2 hectares and employs 1.9 people on a full time basis, i.e. one person for the cultivation of 4.8 hectares. 30 % of the work is carried out by salaried employees. The regions that promote their products most are characterised by the highest levels of employment. The level of employment also depends on the activity, i.e. whether the wine grower does his own vinification and marketing, whether his product is bottled or in bulk, and therefore on the creation of value. But succession problems are cropping up everywhere as a major difficulty linked to the price of land.

As well as the jobs directly linked to the vines there are also a number of upstream jobs (supplies and materials) and downstream (vinification, maturing). There are also a large number of jobs created by wine tourism, as well as in the fields of research and training. The multiplier effect has been estimated as a factor of ten in Burgundy. The relocation of vineyards can therefore have a major impact on economic activity.

#### 0.8.2 Landscapes

The landscape is an economic good since it satisfies needs and possesses the quality of rarity. Certain landscapes are particularly remarkable, and even irreplaceable and unique. Vineyards are widely recognised as being amongst the most remarkable forms of landscape resulting from human activity, both in terms of the mark that they imprint on the territory and through the cultural traditions that are associated with them.

The landscape is often considered as a local public good or possession. Several territorial development policies focus on the landscape as an attractive factor drawing both businesses and tourists. The winemaking model is the perfect example of this. The Geographical Indication wines have made full use of the territorial reference to raise their profiles and helped to develop the regional economies by creating wine circuits, thus helping to promote wine tourism.
studies underline the economic importance of this collaborative structuring. Nevertheless, there still remains the question of “the economic evaluation of this landscape” in order to take “optimal economic decisions”. A large number of methods are used.

This dimension of the problem is essential in the debate about planting rights. The liberalisation of planting rights will have a direct impact on the location of vineyards. Abandoned land will lead to sprawl, to waste land, to the “closure” of the landscapes, with, for a certain small percentage of them, uncontrolled building development. This negative externality of the winemaking policy is difficult to measure, and the methods tend to become muddled when it comes to suggesting orders of magnitude. The development of wine tourism associated with vineyard landscapes is far easier to quantify, thanks to the visitors’ spending on associated local services (purchase of wine, accommodation, restaurants and travel). The risk of the gradual disappearance of these positive externalities must therefore be taken into account in any evaluation of the impact of changes to the economic policy regarding the control of supply.

0.9 Conclusions

Our work has revealed that: (1) The size of the vineyard is not necessarily synonymous with economies of scale and growth in terms of income (based on data from the RICA in France), (2) that the price of planting rights does not significantly increase the cost of creating a vineyard, (3) that a less than rigorously applied system of planting rights will not effectively assist in avoiding overproduction (Alentejo, Argentina, Aquitaine, Loire Valley), and will often have a negative chain reaction on more virtuous regions, (4) that the absence of systems to regulate planting in the New World has not enabled our competitors to avoid imbalance in the market, (5) that other countries have abolished this system, but due to their inability to effectively impose their regulations, have implemented other mechanisms to regulate the market (Argentina), (6) that the system of planting rights has not “rigidified” the vineyards, but has facilitated reallocations in the regions in which opportunities appear to be growing (France, Italy, Alentejo). Europe’s other winemaking regions still remain to be studied, however.

As can be seen in the example of Australia, where the hierarchical organisation of wines by territory is still in its early stages, and that of Argentina, where they have only regulated part of the territory, the production potential must be controlled for all categories of wines – with and without Geographical Indication – especially given that the 2008 CMO reform has granted the VSIG wines the
product-enhancing right to visually display their vintage and grape variety like VIG wines, but without the constraints of their specifications.

The logic of the elimination of planting rights forces us to focus on the future location of the new plantations with regard to the current vineyards, and their outlying areas, which constitute economic, social and territorial entities. Will these new plantings be created in competition with the winegrowing agricultural zones (as yet unplanted demarcated geographical zones) or with the general agricultural zones, or on the zones to be cleared? In any case, the environments and landscapes of the winegrowing regions will inevitably be affected. But even if the economists are unable to put a figure to this impact, they are able to state that relocation towards the plains will begin, and eventually will damage wine tourism and its burgeoning economy, as well as the competitiveness of the vineyards located in the mountains or on steep slopes – with all the resulting environmental consequences.

The evolution of the wine sector in recent decades has principally been marked by an undoubted move towards industrialisation, which is pushing the wine merchants to move into the production side – a process that necessitates significant recourse to external capital. In addition, financial pressure due to the recession is forcing merchant companies to make fast and significant returns on their investments: hence their need to produce large volumes and sell them quickly.

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