Regional effects of the end of the planting rights regime

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Introductory observations

- **Context and key issues:**
  - Current debate on the effects of not extending the planting rights regime at EU level beyond 2015
  - Types of effects:
    - Market/economic effects (on prices, incomes, land value...)
    - Social effects (employment, social-economic vibrancy of rural areas)
    - Environmental effects (changes in land use patterns, intensification vs abandonment...)
  - Are planting rights an effective tool? Which winners and losers?
  - Trend of decrease of vine areas in most wine-producing Member States, in parallel with the decrease in wine consumption at EU level
  - Key issue at **economic level**: the propensity for the extension of new vine plantings in a scenario of absence of a regulatory framework
Introductory observations

**Challenges for analysis:**

- Difficulties in conducting "classical" prospective analyses based on econometric models
- Wine not a commodity – segmented consumption markets, varied products and production strategies, "quality" considerations affecting consumer behaviour (GI, brand)
- Lack of previous research on this topic (contrary to the case of milk quotas)
- Incomplete data available on wine/grape prices, land values, etc. in ESTAT, FADN, national statistics or other databases (compared to other agricultural markets)
- Complex interaction between wine markets, land markets and planting rights markets
Information on EU Wine Regions

- The analysis at the level of "Wine Regions" appears very relevant due to the way the wine sector is organised in most wine-producing Member States (MS) and the purpose of the analysis.

- Significant contrasts between Wine Regions in different MS (and even within the same MS) on key economic indicators, reflecting different natural (soil, climate), socio-economic (farm size, type of labour) and technological conditions of production:
  - Yields (in hl of wine/ha of vineyards)
  - Area of vines per farm (in hectares)
  - Wine prices (in €/hl of wine)
  - Gross margin of wine activities (in €/ha of vineyards, or €/hl of wine)
  - Farm Net Value Added per Annual Working Unit (€/AWU)
  - Farm Net Income per Family Working Unit (€/FWU)
The data presented in maps displayed in the following slides is based only on the Farm Accountancy Data Network (FADN).

The data analysed concerns only specialized wine farms included in the FADN sample for each wine region - that is, farms with a size larger than 1 ha (no further size selection was made) and where more of 50% of the total income is generated from the wine activity (either only grape production or also wine production).

All indicators are presented at the level of wine regions; the wine regions defined in the following maps do not always correspond exactly to existing "administrative wine regions" in MS due to the way data is organised in FADN – they are defined either at the level of NUTS II regions (ES, IT, EL), as aggregates of NUTS III regions (FR, PT, RO), or as the whole country (SI, CZ, CY).
Information on EU Wine Regions

- All indicators per wine region are calculated for the most recent three-year average available – 2006-2008 – in order to diminish the effect of annual variations; the purpose is not to observe developments during time but to have the most recent snapshot.

- The values for FNVA, FNI, AWU and other are directly extracted from the database; the values for GM are calculated for the "wine activity" on the basis of information extracted from the database; the values for yields, prices and areas of vines per farm are also calculated/deducted from information extracted from the database.

- The results are based on a sample of FADN farms which are larger and more specialised than average vine-growing farms in the regions studied. However the main interest in this study is comparative (both inter and intra-regional), and therefore the FADN provides a sound basis for analysis.
Information on EU Wine Regions

Wherever the number of specialized wine farms in the FADN sample is below a threshold of 15 in the period 2006-2008, no information is presented for a given region even if it is known that the given region has significant vine areas (e.g. Extremadura and Andalucía in ES; Sud-Ouest in FR; Beiras in PT; most regions in BG, RO and EL)

The indicators for all wine regions are expressed in intervals of values and represented by a range of different colours; the highest values are represented in darker reds, while the lowest in lighter yellows
Information on EU Wine Regions

- The **highest yields** are observed in northeast France, west Germany, northeast Italy and southeast Italy; the **lowest yields** are observed in several regions of Spain and Portugal, as well as certain regions in the new Member States.

- The **largest vine areas/farm** are located in central Spain and southern France; while in Greece, northern Portugal, Slovenia and southern Italy **vine areas/farm are the smallest**.

- The **highest wine prices** (at farm gate) are observed in northeast and centre-east France, as well as in certain regions of Italy (Toscana, Trentino); the **lowest wine prices** are observed in central and southeast Spain, in southeast Italy, in southwest France (Languedoc-Roussillon) and generally in Bulgaria and Romania.
Some possible groupings of regions:

- Group 1 – Regions with small vine areas/farm, high yields and high wine prices
  - Champagne, Alsace-Lorraine (FR), Luxembourg

- Group 2 – Regions with small vine areas/farm, high yields and low wine prices
  - Puglia, Abruzzo (IT), Crete (EL)

- Group 3 – Regions with large vine areas/farm, medium yields and medium wine prices
  - Loire, Provence (FR), Pais Vasco, Castilla y León (ES)

- Group 4 – Regions with medium vine areas/farm, low yields and high wine prices
  - Toscana (IT), Niedeösterreich (AT)

Different groups may reflect different characteristics of the wine regions and also different production strategies.
Wine regions EU27

FNI per FWU
Farm Net Income per Family Work Unit
(average 2006-2008)

- ≤ 5 000 €/FWU
- 5 000 - 10 000 €/FWU
- 10 000 - 20 000 €/FWU
- 20 000 - 30 000 €/FWU
- 30 000 - 40 000 €/FWU
- 40 000 - 60 000 €/FWU
- > 60 000 €/FWU

F ADNI Data not available
No vineyards or less than 200 ha

Source:
DGAGRI, Member States.

Cartography:
DG AGRI GIS-Team 09/2012
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Information on EU Wine Regions

- The highest gross margins (GM)/ha of vineyards are observed in Champagne and northeast France, plus Toscana, Trentino and Bolzano in northeast Italy; the lowest GM/ha are observed in northeast and centre-east of Spain, Languedoc-Roussillon and Corse in France, Tejo and Península de Setúbal in Portugal.

- The highest Farm Net Value Added (FNVA)/Annual Working Unit (AWU) are observed in Champagne and Cognac (FR), Castilla y Léon (ES), Toscana and Marche (IT); while in Bulgaria, Slovenia, Hungary and Portugal FNVA/AWU are the smallest.

- The highest and lowest Farm Net Income (FNI)/Family Working Unit (FWU) are roughly observed for the same wine regions as mentioned for FNVA/AWU.
The economic performance of wine farms in different wine regions, as measured by the 4 previous indicators, is partly determined by the key characteristics mentioned before (yields, ha vines/farm and wine prices).

Wine regions could be grouped according to 2 indicators:

- **Group 1 – High GM/ha and high FNVA/AWU**
  - Champagne, Bourgogne (FR), Toscana (IT), Luxembourg

- **Group 2 – Low GM/ha and high FNVA/AWU**
  - Castilla y Léon, Rioja (ES), Marche (IT), Cognac (FR)

- **Group 3 – Low GM/ha and low FNVA/AWU**
  - Languedoc-Roussillon (FR), Emilia-Romagna (IT), Minho and Douro (PT)
Methodology

- Empirical approach based on multi-criteria analysis, including both quantitative and qualitative indicators
- **Key objective:** assessing the propensity for total vine areas of specific wine regions to grow with the end of the planting rights regime (therefore with the end of restrictions)
- A value is attributed to each indicator and for each wine region; a sum of the values of all indicators per region is made and a ranking of "propensity to grow" is established
- A final analytical judgement is made on the results, and a conclusion is drawn by classifying all wine regions according to the likeliness for vine areas to grow
- Wine regions tending to have growth of vine areas would also tend to see their wine production expand
Methodology

The chosen six most relevant indicators per region were:

1. Evolution of wine growing areas in the period 2001-2011
2. Balance of planting rights movements for the region/MS
3. Comparison of GM/ha between wine activity and the best alternative activity
4. Comparison of FNVA/AWU between specialized wine farms and the best alternative farm specialization
5. Comparison of FNI/FWU between specialized wine farms and the best alternative farm specialization
6. Degree of restrictiveness of the regional application of the planting rights regime (qualitative assessment)

The rationale is that none of the above-mentioned 6 indicators should, per se, be used to draw conclusions due to the complex nature of the issue studied and to the caveats that each of indicators alone presents. Seen together, they could allow to make a more balanced judgement.
Methodology

- Some **caveats** can be associated to this methodology, despite the analysis being made on the basis of the best available information:
  - Prospective reasoning is largely based on data referring to recent years for wine areas, but for the period 2006-2008 regarding FADN information - the economic situation of wine farms may have changed after 2008 (due among other factors to the CMO reform)
  - There is a lack of data available for many regions and for different indicators, not all indicators could be used for several wine regions:
    - In the case of balance of planting rights per region/MS, this information was not made available for many wine regions - only for some of them it could be taken into account
    - In the case of FADN-based indicators, the comparison of alternative crops or farm specializations was not always possible because there is either only data for wine, or then there is data only for one alternative crop which is not the most probable substitute
    - No data is presented for MS and regions which do not apply the planting rights regime, and therefore no analysis is done; in some of them vine plantings have been expanding in recent years, but surfaces are very low
Results

- **Vine planted areas** have decreased over the last decade in almost all MS; despite this marked trend, growth has taken place in some wine regions (e.g. *Veneto* in IT, *Champagne* in FR, *Alentejo* in PT, *Rioja* in ES, *Macedonia* in EL or *Dobrogea* in RO)

- The comparison between the GM/ha for wine activity and the best alternative activity (e.g. olive oil, stone fruits, cereals, etc.) shows that:
  - In some regions the profitability per ha is much higher for wine than other crops (e.g. *Castilla y León* in ES, *Cognac* in FR, *Rheinland-Pfalz* in DE or *Toscana* in IT);
  - In some other regions the opposite happens (e.g. *Tejo* in PT, *Valencia* in ES, *Languedoc-Roussillon* in FR or *Puglia* in IT)
  - In other regions there is not much difference (e.g. *Castilla-la-Mancha* in ES, *Lazio* in IT, or *Baden-Württemberg* in DE)
Wine regions EU27
Comparison between Wine Activity and the best Alternative Crop Activity

GM per ha of Alternative Crop / Wine (%)
Gross Margin per hectare (average 2006-2008)

- > 200 % - best alternative crop activity much more profitable than wine activity
- 125 - 200 % - best alternative crop activity more profitable than wine activity
- 75 - 125 % - no significant differences in profitability
- 50 - 75 % - wine activity more profitable than best alternative crop activity
- < 25 % - wine activity much more profitable than best alternative crop activity
- Only information on wine specialization available
- FADN Data not available
- no vineyards or less than 200 ha

Source:
DG AGRI: FADN database (until 2008)
Cartography:
DG AGRI GIS-Team 08/2012
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Results

- The comparison between the FNVA/AWU for specialized wine farms and the best alternative specialization (e.g. other permanent crops, cereals, etc.) shows that:
  - In most regions the profitability per unit of labour is not very different between specialized wine farms and other types (e.g. Bavaria in DE, Piemonte in IT, Jura and Savoie in FR or Cataluña in ES);
  - In some regions the best alternative crop specialization shows higher profitability per unit of labour than wine (e.g. Emilia Romagna in IT, SL or HU)
  - In a minority of wine regions wine specialization presents substantially higher profitability per unit of labour than the best alternative (e.g. Friuli-Venezia-Giulia in IT or Rioja in ES)
Results

- If comparison is made between the FNI/FWU for specialized wine farms and the best alternative specialization, the results differ from the previous indicator in that:
  - Less regions present a comparable level of profitability per unit of family labour between specialized wine farms and the best alternative;
  - More regions present a higher profitability per unit of family labour for wine than for the best alternative specialization (e.g. Emilia Romagna in IT, SL or HU);
  - But there is still a significant number of wine regions for which the best alternative specialization presents a higher profitability per unit of family labour than the wine specialization (e.g. Abruzzo in IT or Aragón in ES)
Results

- As regards the **qualitative indicator** used, the following could be concluded:
  - Due to the nature of the FR and DE implementation of the planting rights regime at national/regional level, many of the respective wine regions can be considered as significantly restricted by the system.
  - In PT and ES, despite the existence of some restrictions, only for two regions it could be considered that significant restrictions exist: **Douro** in PT and **Rioja** in ES.
  - In IT some regions were considered to be somewhat restricted by the system (e.g. **Veneto** or **Friuli-Venezia-Giulia**) while other were not (e.g. **Abruzzo** or **Lazio**).
  - For other MS no significant restrictions for the expansion of vine surfaces were considered to be in force at the level of wine regions, due to the wide availability easily accessible planting rights or inexistence of strict controls on their use.
Results

- Following the application of the methodology described, the following results were reached:

  - For the majority of wine regions in the 16 MS applying the planting rights regime, it does not appear likely to have a growth of planted areas in a scenario of liberalisation (regions in blue in the map) – the decreasing trend of recent years should continue due to economic factors independently of the existence of the planting rights regime (e.g. most of southern ES, southern IT, HU or SK)

  - For some wine regions it appears likely to have a growth of planted areas in a scenario of liberalisation (regions in yellow in the map) due to economic factors, but this would be relatively independent from the existence of the planting rights regime – this is because the regime is not applied restrictively (either because there are plenty of available rights within the region, or farmers therein can easily source them from a national reserve or to buy them from producers in other regions) and in practice the situation is not very different from liberalisation (e.g. Alentejo in PT, Bavaria in DE or Dobrogea in RO)
Results

- Following the application of the methodology described, the following results were reached:
  - For a reduced number of wine regions (8 in total) it appears likely that vine areas would grow due to the end of the planting rights regime (regions in red in the map) – this is because there is a growing trend and the regime effectively restricts the expansion of vine areas in those regions (e.g. Porto/Douro in PT; Rioja in ES; Cognac, Champagne and Alsace-Lorraine in FR; Baden-Württemberg in DE; Veneto and Friuli-Venezia-Giulia in IT)
  
- For a limited number of wine regions (9 in total) the analysis yielded inconclusive results (regions in green in the map) – this is because, on the one hand some indicators show that wine appears to be more profitable than alternatives, that more planting rights have been entering those regions than exiting and/or that significant restrictions are applied; but on the other hand the total vine surfaces have been decreasing over the last decade, indicating that the rate of abandonment is higher than the growth/renewal dynamics (e.g. Trás-os-Montes in PT; Castilla y León in ES; Bordeaux, Bourgogne and Jura/Savoie in FR; Rheinland-Pfalz in DE, Luxembourg; Piemonte and Toscana in IT)
Concluding observations

- There is much diversity among EU wine regions, both between different MS and also within the same MS – reflecting natural, socio-economic and technological differences.

- The impacts of a change in policy necessarily affect those regions differently.

- The end of the planting rights regime is likely to significantly impact only a small number of regions with certain features:
  - Growing trend of total vine planted areas
  - Higher levels of profitability for wine than any other alternative crops
  - Significant restrictions to free use of planting rights due to national/regional rules
  - Usually associated to prestigious and high value PDO's
Concluding observations

- In those more affected regions, the excessively quick increase of plantings could lead to production increases at regional level - these could in turn affect prices, incomes and patrimonial values of currently established producers.

- The end of the planting rights regime is not likely to affect the large majority of European wine regions were regressive trends are already in play and/or that are not significantly limited by the implementation of the regime.

- Overall it does not appear likely, on the basis of the available information and methodology applied, that the end of the current regime would lead to a dramatic increase of planted areas and wine production at EU level leading to a general market crisis.
Concluding observations

- The most proportionate policy response would be to provide the tools allowing Member States to regulate vine plantings in a targeted way (for some wine regions or PDO areas), while not imposing the need for a general control system to be applied everywhere.
Thank you for your attention!