



DIRECTORATE-GENERAL FOR INTERNAL POLICIES  
POLICY DEPARTMENT B  
STRUCTURAL AND COHESION POLICIES

# The Liberalisation of Planting Rights in the EU Wine Sector

Negotiated Procedure IP/B/AGRI/IC/2011-006

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## General Overview of World Wine Markets

- Wine market is changed over the last 30 years
- Different types of wine are directed to different market segments, which are evolving differently
- In recent years:
  - wine consumption: increased in non producing countries and declined in traditional producers
  - the international trade grew dramatically
  - New Producers grew at a faster pace up to few years ago
- Now, the competitive advantage of players look rebalanced: Australia is facing oversupply and EU is experiencing increasing prices and market shares

## The Mechanisms of Planting Rights in the EU (1)

- The implementation of PR scheme varies according to MS and Regions
- It has been adapted according to the importance and dynamics of viticulture in areas concerned
- The effectiveness of reserve(s) varies according to MS/Regions
- The transfer of PR is based on different rules:
  - authorization from regional/national authorities
  - none authorization
  - yearly volume (ha) of PR allowed for transfers is restricted in some MS/Regions/PDO or PGI

## The Mechanisms of Planting Rights in the EU (2)

- Prices of PR represents a relevant issue:
  - strong prices differentiation across Regions and over the time
  - management of reserve(s) may influence the price of PR in the open market
  - cases of high intermediation costs
- PR have not represented a barrier to expand size of vineyards or a constraint for new entrepreneurs
- The market of PR lacks transparency: buyers, sellers, volume of PR for sale are not generally clearly known
- Speculation on prices of PR hampered market

## Impact of Planting Rights: the Nerlove Model

- Model takes the planted area as the supply response to change in the market (export prices): results show different behaviours for different countries:
  - For non EU Countries price significantly influences the Ha cultivated: response it's not immediate, but delayed a few years (a time lag of 5 to 10 years)
  - For EU countries, the effect of price is not significant due to the inherent over-production and a relative high level of domestic consumption of total production
- Results reveal that, in the case of non EU Countries, the size of supply is more tightly linked to the market and tends to adjust to price variations in broad lags

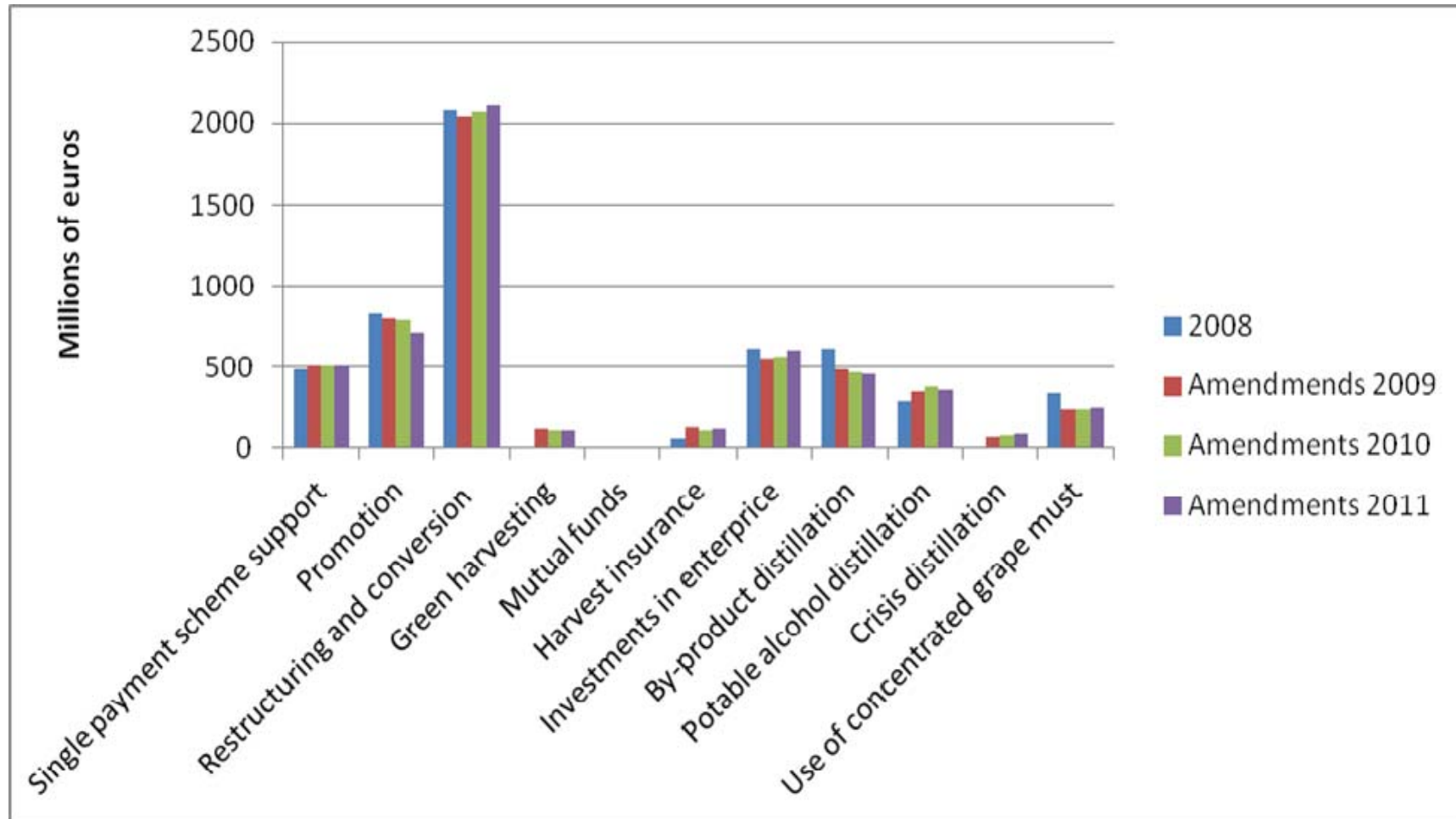
## Impact of Planting Rights: Results from FADN

- The wine and grape producing farms shows a higher profitability respect other types of farms in almost all studied situation (FADN data analysis):
  - This means that could exist a latent pressure towards the wine and grape production (area)
  - Such pressure depends on the relative price. PQM model results over estimate such pressure because of the modelling technique which does not take into account the investment risk and financial constraints
- Anyway, the differences in profitability exists and may determines a pressure toward new plantations.

## The current CMO: a preliminary evaluation

- Analysis of CMO implementation has showed:
  - a difficulty of implementation of specific new measures introduced in 2008 (mutual funds, harvest insurances, green harvesting)
  - a still significant relevance of the measures in phasing-out (distillations)
- Also the distribution of resources, up to MS, has favoured the traditional measures specifically tailored for the wine sector, as witnessed by the small role of single payment scheme.

# The current CMO: programmed expenditures





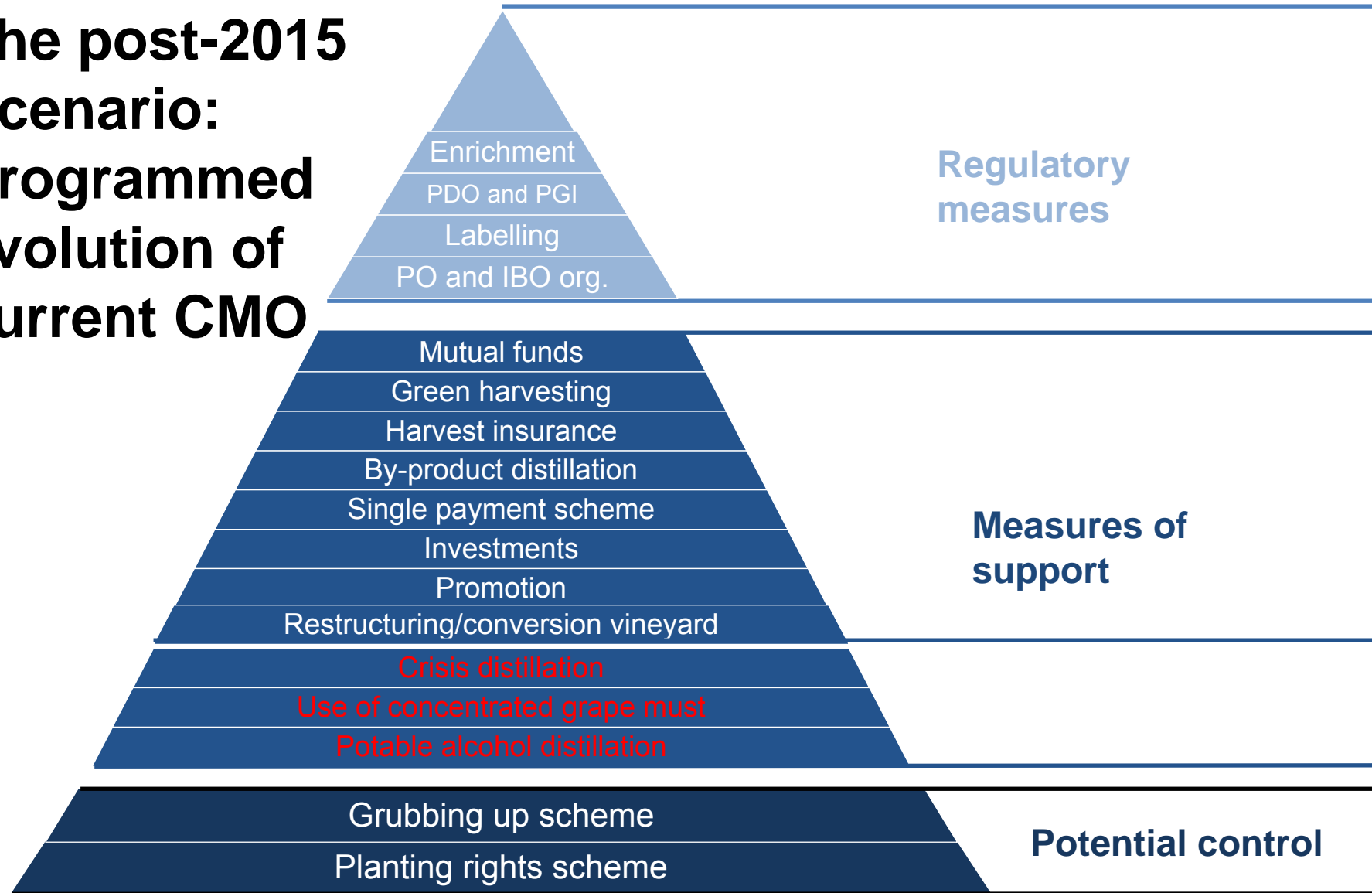
## The post-2015 Scenario: Abolishment of PR (1)

- All measures of the CMO are directly or indirectly useful in the framework of the abolishment of PR
  - To carefully evaluate a revision of: Promotion, Investments, Mutual funds and Harvest insurance (proposal COM(2011) 626)
  - The latent risk of overproduction linked with the abolishment of PR suggests to operate also on the side of regulatory measures: Enrichment (reduction), Producer Organisation, Inter-branch Organisation
  - In order to following production potential: useful the maintenance of the vineyard register after 2015

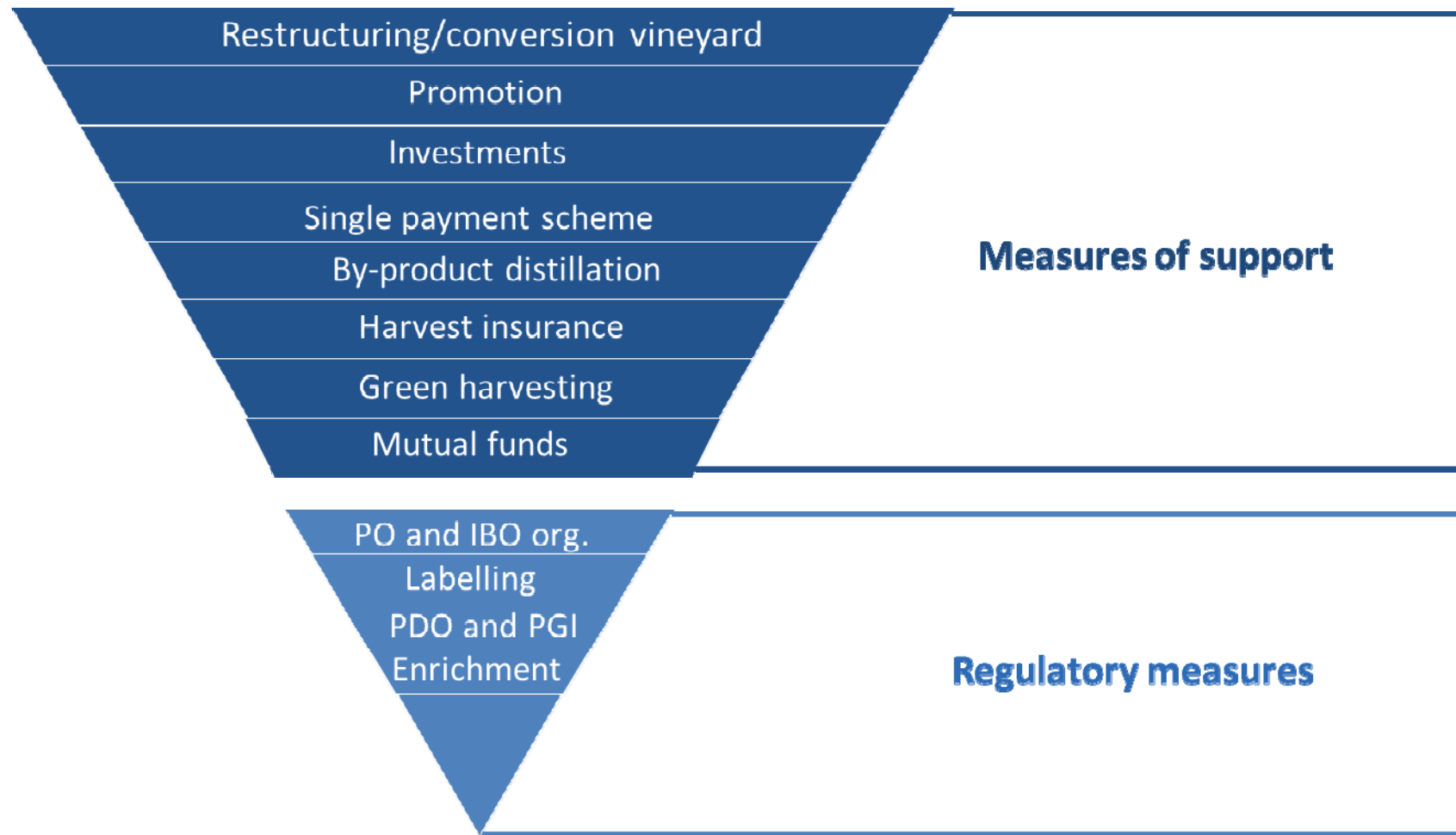
## The post-2015 Scenario: Abolishment of PR (2)

- In enlarging the role of PO & IBO in wine sector, it is not possible to directly refer to the F&V institutional framework for:
  - Higher differentiation in structure and product types
  - Dominant role of PDO&PGI
- A larger role of PO&IBO in wine sector require suitable operative models and financial support
- Concerning the supply control by PO&IBO:
  - It looks strategic for the reinforcement of market position of single PDO
  - It looks unable to avoid the occurrence of a new structural situation of oversupply as the decisions of such bodies are atomistic and likely with a reduced aggregate effect

# The post-2015 Scenario: Programmed evolution of current CMO



# The post-2015 Scenario: Future equilibrium of CMO



## The post-2015 Scenario: Maintenance of PR (1)

- Reconsidering the abolishment of PR should move by:
  - The capacity to contribute to the control of production without costs for EU budget, and to ensure favorable effects for farmers ceasing production
  - The legal framework defined by EU/MS for the functioning of PR scheme has permitted to experiment a successful management of potential in some dynamic areas
- Confirmation of PR should define a “renewed” scheme, with different mechanism functioning:
  - To overcome the most relevant inefficiencies emerged
  - To ensure a better flexibility of production potential

## The post-2015 Scenario: Maintenance of PR (2)

- The structure of a renewed planting right regime should be based on two pillars:
  1. An improved market for planting rights, through:
    - New technical rules for the exchange of PR, aimed to: prevent phenomena of speculation, define the role of buyers and suppliers, avoid risk of frauds, limit excessive prices differentiation and reduce extra costs (i.e. Auctions)
    - Opportunity to enlarge boundaries for the PR exchange
  2. A periodic evaluation of the aggregate size of EU production potential (eventually with the distribution of additional PR among MS/Regions)

## Key Issues

- There aren't elements of incoherence between PR and common principles of CAP, EU international obligations, EU policy concerning social aspects of alcohol consumption, policy concerning PDO and PGI and others measures of CMO
- Policy concerning social aspects of alcohol consumption in almost all Countries (EU/non UE) determines limitations to wine advertising/sale
- It's important to separate two issues often confused:
  - general issue of PR regulation
  - issue of PDO wine supply regulation

# Conclusions: Liberalisation

| Options evaluations   |  |   |  |
|---|--|---|--|
| <i>Expected advantages</i>  | <i>Expected risk</i>   | <i>Countermeasures</i>  | <i>Policy making</i>   |
| Cost reduction  | Loss of control on the production potential  | Maintenance of Inventory  | Complex implementation of countermeasures:<br><b>deep changes in CMO</b> |
| Higher supply reaction which should enable the EU wine supply to become more competitive in the low price wine segments | Oversupply   | a) Risk management tools<br>b) IBO supply self reduction  |  |
|   | Misleading signals to the market   | Information   |  |
|   | Weakening of already established competitive position of "non excellence and non niche actors" | a) Measures to support weaker grapegrowers and wine maker<br>b) Contracts<br>c) IBO supply management |  |
|   | Weakening of environmental and socioeconomic stability in marginal areas                       | Specific measures of rural development and a specific regime of single payment                        |  |



# Conclusions: Maintenance PR

| Options evaluations   |   |  |   |
|---|---|--|---|
| <i>Expected advantages</i>  | <i>Expected risk</i>                        | <i>Countermeasures</i>   | <i>Policy making</i>  |
| Preventing oversupply   | Weakening of the reactivity of the industry | a) Management of potential<br>b) Increase of information in the market | Rather simple implementation of countermeasures but difficulties in assuming decisions and complexity of related political bargaining |
| Defence of current structure of the industry<br>Environmental and socioeconomic stability in marginal areas | Increasing production cost                  | Increase of the planting right market efficiency                       | concerning:<br>a) changes in potential production size<br>b) dimension of planting right exchange areas                               |

## Conclusions:

- Wine market and wine industry are so complex that it's impossible to derive a clearly identified "Optimal decision" suitable for all actors and typology of wines
- Liberalisation could make more dynamic EU wine supply giving space to new options linked with the indication of variety and vintage in all wines:
  - if applied with indicated countermeasures could not necessarily have an immediate dramatic impact
- Maintenance of PR should protect current structure of EU industry privileging traditional shape of EU wine supply:
  - if accompanied by countermeasures indicated should not hamper the evolution of EU wine supply