COMMISSION OF THE EUROPEAN COMMUNITIES

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COMMISSION STAFF WORKING DOCUMENT

Accompanying document to the

Proposal for a
COUNCIL REGULATION
on the common organisation of the market in wine
and amending certain regulations

Impact assessment summary

{COM(2007) 372 final}
{SEC(2007) 893}
{SEC(2007) 895}

1. PROBLEM DEFINITION

The analysis in the impact assessment[1] accompanying the Commission's communication "Towards a sustainable European wine sector"[2] pointed to the vital importance of the European wine sector, both in terms of its weight on the world wine market and of its primary role within the agricultural and rural activity of wine-producing Member States (MS) and regions. However, in spite of the widespread reputation and the competitiveness of a large part of the EU wine production, the sector is increasingly confronted with a series of shortcomings:

1. **steady decline in consumption** over decades, resulting from profound lifestyle changes in society as regards nutrition,
2. **loss of competitiveness** compared to non-EU wines,
3. **unsustainable market imbalance of the EU wine sector**,
4. **complexity of the legal framework for wine policy**,
5. **insufficient consideration of environmental concerns**.

In this respect, many CMO policy tools are probably not effective in achieving their objectives:

- the **ban on new plantings** has not completely managed to control production;
- the use of the **grubbing-up scheme** has virtually stopped;
- **distillation measures and other market tools** encourage overproduction, thereby preventing market equilibrium;
- some provisions of the CMO have created a **heavy administrative burden**;
- some rules (e.g. on **labelling** and on **wine-making practices**) do not allow efficiency and hamper the development of new production techniques and marketing methods. In particular, the **labelling rules** are too heterogeneous and rigid, and make it difficult to develop so-called “varietal wines” *(vins de cépage)*, i.e. wines made from one or more grape varieties and which emphasise the name of the varieties, rather than the geographical origin of the product, for marketing purposes;
- the present **dichotomy between table wines and “quality” wines** produced in specified regions no longer provides the appropriate framework to promote the concept of geographical indications for wines;
- several policy tools are currently under pressure within the **WTO**.

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1 SEC(2006) 770 of 22 June 2006, http://ec.europa.eu/agriculture/capreform/wine/fullimpact_en.pdf.
2 COM(2006) 319 final of 22 June 2006 http://ec.europa.eu/agriculture/capreform/wine/com2006_319_en.pdf.

2. OBJECTIVES

The June 2006 communication pointed out that the wine reform should be considered in the context of the ongoing process that began with the 2003 general reform of the CAP, which was continued in 2004 (reform of cotton, hops, olive oil, tobacco) and 2005 (reform of sugar). The recent Commission legislative proposal to amend the remaining main sector not covered by the reform, namely fruit and vegetables[3], is another initiative in this direction.

The new direction taken by the CAP represents a resolute step towards a more forward-looking, market-oriented and sustainable agricultural sector, thereby providing an important contribution to the goals of the Lisbon strategy[4] and the sustainable development policy agreed at the Göteborg European Council[5].

The new wine regime should also align itself with the **fundamental principles of the new CAP** in order to contribute to its accomplishments**;** therefore, the reform of the wine sector should be guided by the objectives of **competitiveness** and of **economic, social and environmental sustainability**.

More specifically, the reformed wine CMO should achieve the following objectives:

- ensure a better quantitative and qualitative **balance between supply and demand**,
- increase the **competitiveness** of European wine,
- enhance **market orientation**, horizontal approach and cross compliance,
- safeguard **producers' incomes**,
- integrate wider **society concerns**, e.g. health and consumer protection and environmental matters,
- preserve the **authenticity** and the traditional character of the **product**,
- respect **international obligations**,
- **simplify the legislation** and allow a more flexible and effective legal framework,
- **attain a higher degree of subsidiarity**, by adapting the measures to specific conditions and needs, but under certain common rules in order to avoid distortion of competition,
- provide for a **smooth integration of Bulgaria and Romania** in the EU by enhancing the modernisation and restructuring of their wine sectors.

3. LEGISLATIVE PROPOSAL

The legislative proposal is broadly based on the "profound reform" option, and more precisely on its variant B examined in the communication of June 2006, which it has taken a stage further.

The main new elements of the current proposals compared to the "profound reform" option are:

[3] COM(2007) 17 final.
[4] COM(2005) 24 final.
[5] Presidency conclusions, 15-16 June 2001.

- **reduction of scope of the grubbing-up scheme** (from 400 000 to 200 000 ha);
- **making the vine area eligible for the Single Payment Scheme (SPS)** (even though this does not involve the creation of new SPS entitlements attached to it).
  This measure would introduce an important element of the CAP reform option into the proposal (option 3 of the communication);
- special emphasis on measures for the **promotion** of European wine on non-EU markets via the national envelope and on **information** campaigns on responsible and moderate wine consumption within the EU.

4. ANALYSIS OF IMPACTS (STATUS QUO VS. LEGISLATIVE PROPOSAL)

4.1. Economic impact on the wine sector

4.1.1 Market balance

In the light of the mid-term outlook for the EU-27 wine sector, **the no-reform option** would lead to increasing surpluses, thereby appearing unsustainable.

Under the legislative framework proposed by the Commission, the termination of market measures would guarantee a better market orientation of wine production, and therefore the achievement of the market balance **in the long term**.

In the short term, the Commission proposal would allow achieving a **progressive absorption of wine surplus**, by enhancing the reduction of production potential, encouraging the structural adjustment in the sector and boosting the demand for EU wine.

4.1.2 Prices

Under the **status quo**, growing surpluses will generate increasing pressure on intervention measures and on the EU budget. Market tools will progressively encounter difficulties in clearing effectively wine stocks. Recurrent crises would entail a **deterioration of prices, and thus of farm incomes**.

The proposed reform would lead, **in the long term**, to a **satisfactory level of prices**, which is a direct consequence of the achievement of market equilibrium.

However, the sector will have to cope with a **price drop in the short term**, as the stabilisation of the market situation will require an important effort of structural adjustment.

The impact on wine prices was assessed on the basis of the statistical relation determined between table wine prices and total wine stocks, from which prices were extrapolated.

The results of this exercise indicate that the **Commission proposal,** in the short term, would have a **less pronounced impact on prices (–7%)** than in the no reform scenario **(–11%)**, and would assure a rapid price stabilisation over time.

4.1.3 Competitiveness

The EU wine industry has currently **some handicaps** compared to its competitors:

– **smaller production structures**, with higher production costs and smaller volumes for the needs of large-scale retailers,
– **less dynamic marketing strategy**,
– **more regulatory constraints**.

These handicaps have led to an erosion of the market share of EU wines relative to competing wines, both on the domestic and on the export markets. This is the sign of a **worrying loss of competitiveness** of our industry, particularly in the low and medium-quality segment.

In this respect, the **no-reform option** would not solve the current problems.

The Commission proposal would correctly address the problems through:

– better market orientation and improvement of structures,
– more flexibility on wine-making practices and labelling rules,
– less regulatory constraints,
– support for the information and the promotion of EU wine.

In particular, lifting the **ban of new plantings, from 2014, would be an asset for competitiveness**, allowing the most efficient producers to optimise the size of their holding and to operate at the most convenient production scale.

Finally, the proposed provisions concerning **enrichment could lead to an increase of the production costs** for the concerned producers; the lower the price of wine, the higher the increase, which is more significant for producers enriching wine with subsidised concentrated must than for those using sucrose.

4.1.4 Economic impact on the potable alcohol sector

The abolition of subsidies on potable alcohol distillation would entail an increase in production costs for distillers, who would have to purchase table wine at market prices.

The costs increase is estimated at about of €0.4 per litre of brandy (40% vol.) and €0.15 per litre of fortified wines. This small cost increase would probably be transferred to the retail price of the product.

Given that the retail price of a one-litre bottle of brandy, even in countries with the lowest level of excise duties, is usually about €10, the impact of the production cost increase on the price of brandy will be relatively limited (normally less than 5%) and even lower for fortified wines.

The effect of the price increase will entail a drop in the consumption of wine alcohol, which is estimated to correspond to the equivalent of 4 million hl of wine.

4.2 Social impact

4.2.1 Agricultural incomes

As mentioned under 4.1.2, the **long-term** deterioration of prices **under the current regime**, due to the gradual accumulation of wine surpluses, will lead to a **significant worsening of farm incomes** in the wine sector.

The reform proposal would lead, **in the long term**, to a **satisfactory level of incomes** corresponding to the relative high level of prices.

However, as mentioned in the analysis on prices, **both in the status quo scenario and in the Commission proposal** wine producers will have to face **income losses in the short term**.

The impact on incomes generated by the forecasted price drops was simulated with information of the Farm Accountancy Data Network (FADN), and based on some "model farms", representing the most significant typologies of table wine producers in several wine-producing EU regions.

The analysis shows that the **Commission proposal** would have, even in the short term, a **less pronounced impact on incomes** in all regions **compared to the status quo**, and would assure the rapid income stabilisation over time.

4.2.2. Agricultural employment

The revitalisation of the grubbing-up scheme in the first five years of application of the wine reform will bring about, along with the reduction of the cultivated vine area, a **more significant reduction of agricultural employment** in the wine sector compared to the no-reform scenario.

In particular, it is expected that, in the year with the most intense grubbing up of vineyards (2009), agricultural employment in wine farms will fall by 5.1%. This percentage will gradually decrease over the following years and go back to 3.3%, which coincides with the expected decrease in agricultural employment with the continuation of the existing regime.

In short, the impact of the **Commission reform proposal** will be to **slightly accelerate the normal long-term trend** towards rationalisation in the use of the labour input and **reduction of agricultural employment**. In particular, it is interesting to observe that the overall level of employment after the end of the transitional period of the reform (2013) equals that which would be attained two years later (2015) under the status quo scenario.

4.2.3. Employment in the wine market chain and related sectors

The off-farm wine production involves 8 600 cooperative cellars or private wineries, which employ about 76 000 persons in total in the EU.

With the revitalisation of the grubbing-up scheme, some vine growers, who are used to sending their production to wineries, will stop their activity, thus entailing a sudden loss of wine production for the wineries concerned.

As a consequence of the overall reduction in wine production, a significant structural adjustment of the wine processing sector could take place; this would push wine cooperatives to increase in size or to merge, in order to achieve an optimum size. On the one hand, this process could lead to a possible loss of jobs, but on the other hand it could enhance the rationalisation of the wine processing industry, which has shown certain problems of inefficiency due to its small size. At the same time, the increase in resources intended for rural development measures in the wine regions could boost the existing tendency among wine processors to increase the value added of their production, by extending the scope of their activity within the wine market chain.

Another industry related to wine production is the wine distilleries sector, which, in Italy, France and Spain, is made up of **256 distilleries**, employing a total of **6 800 workers** (no data available for other Member States).

The abolition of distillation measures, and in particular the distillation of by-products, which represents a large share of their business, will undoubtedly put under strong pressure wine distilleries and **some of them would probably close down**. However, other distilleries have a **chance to adapt to the new situation**, also taking into account that another part of their production, namely alcoholic beverages, has a significant market demand. Increased Rural Development funds are available to finance investments aiming at developing new technologies, in order to reduce costs or find new outlets for distilleries' production, or to undertake restructuring actions aimed at finding conversion possibilities for the distilleries that are closing down.

4.3 Impact on the environment

Wine production exerts a number of environmental pressures (impacts on the soil, intense use of plant protection products and in particular fungicides, disposal of by-products of wine making, increasing use of irrigation in certain regions, excessive specialisation).

The **status quo** would result in the **continuation of all these pressures**.

The reform proposal would lead to many beneficial effects on the environment, mainly by **making vine land eligible for the Single Payment Scheme (SPS),** systematically linking support measures granted under the wine CMO to **cross-compliance rules,** and **transferring new funds to the second pillar**.

The **strengthening of grubbing up** could have globally positive impacts on the environment, as it generally reduces monoculture. The cross-compliance rules associated with the premium for permanent abandonment and the SPS entitlement granted on the grubbed-up area would help to prevent the adverse impact of land abandonment.

Finally, the removal of all **distillation measures** may also have positive impacts on the environment, provided that that the by-products of wine making are dealt with in a sound manner.

4.4 Impact on trade and WTO conformity

For the wine sector, the main issues at stake in the context of the WTO are:

– **internal support**:
large part of the annual wine CMO expenditure is classified as Amber Box, that is the most trade distorting type of support.

– **export refunds**:
WTO negotiations might lead to an agreement on phasing out all export subsidies;

– **quality policy/GIs**:
the existing quality regulatory framework does not allow an optimal international protection of our geographical indications under WTO-TRIPS Agreement.

– **labelling provisions**:
our rules are considered discriminatory by some third countries.

Under the **no reform** scenario almost all WTO problems of the existing wine regime would remain unsolved; therefore **many provisions of the CMO could be under attack in future**.

The **reform proposal** would make the wine CMO more **WTO-friendly**, although in the national envelope the Green-Box status is not guaranteed for all the proposed measures.

4.5 Impact on wine quality, health and consumer protection

4.5.1 Wine quality

With the reform proposal, the better market orientation achieved through the termination of market measures should tend to **favour the segment of high-quality wines**.

4.5.2 Health and consumer protection policy

In the existing wine CMO, **potable alcohol distillation** has a negative impact on public health, because it subsidises the transformation of wine into a beverage with higher alcohol content. By allowing the production of wine spirits at lower costs, it encourages their consumption, which is in conflict with health concerns.

The abolition of the subsidised potable alcohol distillation and, more in general, the aim of reducing surpluses through a better market orientation of the production, are likely to have a **positive impact on public health**. Moreover, the simplifications proposed for the quality policy, geographical indication system and labelling rules, as well as education and information campaigns, could **enhance transparency for the consumers**.

4.6 Impact on management efficiency

Maintaining the existing CMO would mean the continuation of a **complex system**, imposing a **growing burden for economic operators**, thereby **hampering their competitiveness**, and **leaving virtually no room for subsidiarity**.

The **Commission proposal** would provide for **important simplification** mainly because of the suppression, in some case after a transitional period, of some complex measures (planting rights, distillations, wine private storage and public storage of alcohol). It would also **increase the level of subsidiarity** by introducing a national envelope, allowing Member States to choose between a set of alternative measures, and increasing the funds to Rural Development in the wine regions.

Finally, the Commission proposal is broadly based on the **principle of budget neutrality**, (about **€1.3 billion per year)**. Therefore, there will be no change in the overall level of support to the sector; but simply **better value for money** from Community funds.