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# CAP WORKING NOTES

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## WINE

DIRECTORATE-GENERAL FOR AGRICULTURE  
Reports, publications, studies and documentation

# **WINE**

***1995 edition***

**EUROPEAN COMMISSION**

Directorate-General for Agriculture

Reports, publications, studies and documentation

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## INTRODUCTION

The information in this document is arranged in three parts:

- the "analysis" part describes the market situation and the mechanisms of the market organization in the product;
- the "statistics" part gives most of the tables appearing for the product in the annual report on the agricultural situation in the European Union;
- the Council decisions on the agricultural prices provide a vital illustration of the Community's policy in this sector.

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## **DESCRIPTION OF THE MECHANISMS OF THE COMMON MARKET ORGANIZATION\***

In Regulation No 24 of 4 April 1962 the Council made provision for the progressive establishment of a wine market organization. The basic regulation finally adopted is Regulation (EEC) No 822/87, as last amended by Regulations (EEC) No 1891/94 and (EC) No 3290/94.

It covers the following products:

- grape juice and must, with or without added sugar;
- grape must, in fermentation or with fermentation arrested; wine of fresh grapes;
- fresh grapes other than table grapes;
- wine vinegar;
- other (piquette, wine lees, grape marc).

The marketing year runs from 1 September to 31 August.

Expenditure in this sector relates only to table wine. It varies quite considerably from one year to the next owing to fluctuations in production. In normal years it accounts for between 2.5 and 5.5% of the EAGGF Guarantee total. It accounted for 4.5% of EAGGF Guarantee expenditure in 1993.

### **1. Economic background**

After a large harvest in 1992 the 1993 and 1994 wine harvests were small. Production of table wine in 1993/94 is estimated at about 93 million hl (EUR 12), and the figure for 1994/95 is likely to be around 86 million hl. For 1995/96, the estimated expenditure requirement for the 1996 financial year corresponds to 101 million hl (EUR 15), which may be regarded as a normal level of production. The two preceding marketing years cannot be used as reference years for forecasts as their low yields make them atypical. It should be noted that Austria as a new Member State is contributing to the increase in output.

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\* Translated from *Avant-projet de budget général des Communautés européennes pour l'exercice 1996*.

Community consumption of table wine continues to show a slight downward trend. Human consumption in 1994/95 is estimated at about 72 million hl (EUR 12) and industrial uses are put at some 3.6 million hl. As far as trade is concerned, the Community is a net exporter. The trade balance is around 3 million hl.

Even if the structural surplus which characterises the sector and which led to the Commission's proposal for a reform of the common market organization still exists, it was camouflaged in 1994/95 by a harvest that was, due to exceptional climatic conditions, clearly a deficit one. Therefore, distillation measures, the main instrument for disposing of the surplus, have been limited to the *preventive* distillation of 5 million hl whereby the EAGGF only pays the distillation aids and does not cover the cost of taking-over of the alcohol.

The Commission has pursued its policy of disposing of the stocks of alcohol in the fuel sector.

The level of stocks of alcohol for sale had been reduced to 1.6 million hl on 31 December 1994.

#### *Operation of the stabilizer*

To tackle the structural imbalance on the market in wine, agricultural stabilizers have been implemented in accordance with the guidelines laid down by the Brussels European Council on 11 and 12 February 1988. These measures relate to the abandonment of vineyards (grubbing) and reinforcement of the system of compulsory distillation to the detriment of other types of distillation (see point 2.3.5.), leading to a substantial decrease in support (prices) for surplus wine. The aims of this package of measures are to reduce wine-growing potential between 1988 and 1996 by abandoning a potential of some 40 million hl and, parallel to this, discouraging high yields to make up for the expected fall in demand. The Commission is also reducing optional intervention measures by stages. It has, accordingly, not granted restorage aid for table wines since 1988 and no longer intends to apply this costly measure. It has also abolished distillation under the special price support measures for long-term storage contract holders with effect from 1991/92.

#### *Reform of the sector*

Given that the recovery of the market has not produced the desired results, the Commission has made thorough proposals for a reform of the sector.



## **2. Operation of the market**

### **2.1. The types of table wine**

For the purposes of the price system, table wines are divided into several types:

(a) Red table wines:

- Type R I: red table wine, other than of type R III, of an actual alcoholic strength by volume of not less than 10% vol and not more than 12% vol;
- Type R II: red table wine, other than of type R III, of an actual alcoholic strength by volume of not less than 12.5% vol and not more than 15% vol;
- Type R III: red table wine obtained from vine varieties of the Portugieser type.

(b) White table wines:

- Type A I: white table wine, other than of types A II and A III, of an actual alcoholic strength by volume of not less than 10% vol and not more than 13% vol;
- Type A II: white table wine obtained from vine varieties of the Sylvaner type or of the Müller-Thurgau type;
- Type A III: white table wine obtained from vine varieties of the Riesling type.

### **2.2. Price arrangements**

Each year the Council fixes a guide price for each type of table wine.

The guide price is fixed at a level which ensures a fair income for producers, on the basis of the average of prices recorded during the two preceding marketing years and the trend of prices during the current marketing year.

The activating price is the threshold for activating the intervention mechanism and corresponds, for each type of table wine, to 92% of the guide price.

The Commission establishes two types of price:

- (a) Representative price: Every week in respect of each type of wine the Commission determines an average producer price for each representative market and a Community representative price equal to the weighted mean of the average prices.

- (b) Reference price: Every year the Commission fixes a reference price for a number of products. This is calculated on the basis of the guide price and acts as protection at the Community frontier since it represents the minimum entry price of imported wines.

### **2.3. Specific market instruments**

#### *2.3.1. Import and export arrangements*

There is no restriction on imports from non-member countries, which pay customs duties according to the alcoholic strength of the products. If the reference price is not reached, a countervailing charge is applied, unless special agreements have been made with non-member countries under which they comply with the reference price.

Refunds may be paid to facilitate exports. They may vary according to intended use/destination.

#### *2.3.2. Private storage aid for table wine and grape must (Article 32 of Regulation (EEC) No 822/87)*

The aim is to freeze existing supplies on the market for a certain period by encouraging winegrowers to store their products in return for aid:

There are two possibilities for concluding private storage contracts:

- Long-term contracts:  
These contracts may be concluded for wine whenever, at the beginning of the marketing year, supplies available exceed foreseeable requirements by at least four months.

As regards musts, such contracts may be concluded when long-term storage for wines is decided on. Aid is conditional on the conclusion of storage contracts valid for a period of nine months for wine. The contracts for table wine must be concluded between 16 December and 15 February.

- Four-month contracts, supplementing long-term contracts (Article 42):  
This possibility is available when long-term contracts expire whenever market prices fail to match the activating price for three successive weeks. This facility may be combined with the distillation supplementary to long-term storage contracts (price support guarantee), but the Commission is no longer making use of this measure.

### *2.3.3. Re-storage aid (Article 34)*

This assists winegrowers carrying heavy stocks to clear their cellars before harvesting begins, by storing the available wine elsewhere. This aid is optional. It is a management measure for which the Commission is responsible and which it has not implemented for several years.

### *2.3.4. Aid for the use of must (Articles 45 and 46a)*

This aid is intended to improve the competitive position of must produced in the Community. It is granted for:

- the production of grape juice from grape must and from concentrated grape must,
- the production of 'British', 'Irish' and 'home-made' wines from grape must and from concentrated grape must,
- the use of concentrated grape must to enrich certain wines.

The amount of the aid is fixed annually before 31 August for the following wine year. Part of it is used for the organization of promotional campaigns for grape juice. Aid was also established for the use of concentrated grape must in livestock feeding, but the Commission has taken no action on this. The amount of the aid may not be more than that paid for preventive distillation.

### *2.3.5. Distillation*

In the case of all distillation reserved for producers there is a guaranteed minimum purchase price for the wine delivered to distillers. Where a distiller supplies proof that the minimum price has been paid, he receives aid to dispose of the alcohol produced or, in the case of compulsory distillation, he may deliver his alcohol to an intervention agency, which then receives financial compensation for taking over the alcohol.

The purchase price of wine for each type of distillation (except those referred to in Articles 35 and 36) is reduced to take account of the economic advantage obtained by producers who have enriched their harvest with sucrose or concentrated must on which the aid provided for in Article 45 has been paid (Article 44).

#### 2.3.5.1. Voluntary distillation

- Distillation supplementary to long-term storage contracts (price support guarantee, Article 42)

The aim is to guarantee winegrowers that their wine will not be disposed of at a price below the activating price provided that they have concluded long-term storage contracts.

If it is observed at the end of the marketing year that representative market prices have failed to match the activating price for at least three successive weeks, wines under long-term contracts or some of such wines may be distilled at a price close to the activating price valid when the storage contracts were concluded. A maximum of 18% of production may be distilled. This type of distillation has been abolished as from the 1991/92 marketing year.

- Preventive distillation (Article 38)

The Commission may introduce preventive distillation at the start of each wine year, at 65% of the guide price for each type of wine.

- Support distillation (Article 41)

Producers of table wine receive a minimum guaranteed price of 82% of the guide price for each type of wine.

The quantities to be distilled may not exceed 6.2 million hl without the Council's authorization.

In order to maintain the guaranteed price, appropriate measures other than distillation may be resorted to.

#### 2.3.5.2. Compulsory distillation

- Compulsory distillation of the by-products of winemaking (Article 35)

These compulsory distillation measures are intended to prevent the overpressing of marcs and lees and the marketing of inferior-quality wines with a low natural alcohol content.

- Compulsory distillation of wines other than table wines (Article 36)

This distillation measure applies to surplus wine in the Cognac area, to wines made from table grapes or from grapes for drying, etc.

- Compulsory distillation of table wines (Article 39)

This is decided upon by the Commission:

- (a) when the availabilities recorded at the beginning of the wine year exceed normal utilization by more than four months;  
or
- (b) when production exceeds normal utilization by more than 9%;  
or
- (c) when the weighted average of the representative prices of all types of table wine at the beginning of a wine year is below 82% of the guide price.

In practice these conditions are always met.

The total quantity to be distilled is shared among the various production regions of the Community, grouped by Member State, on the basis of the difference recorded between production in the region during the wine year in question and 85% of the average production in that region for 1981/82, 1982/83 and 1983/1984. Each producer legally so obliged distills a certain quantity according to his yield, taking into account the different yields in the various production regions of the Community.

The quantities delivered for preventive distillation by a given producer may be deducted from the quantities to be delivered for compulsory distillation by that producer. Producers who have permanently abandoned an area used for the production of table wine also qualify for exemption from the obligation laid down in Article 39 when the decrease in wine-growing potential is at least 20%.

The minimum price guaranteed to producers varies from year to year but is always markedly lower than for other types of distillation.

### 2.3.6. Marketing of alcohol offered for intervention

For wine delivered for Community distillation, distillers are eligible for aid to help market the alcohol produced. In cases of compulsory distillation, distillers may either receive aid or, as happens in practice, deliver the alcohol produced to a Community intervention agency.

The marketing of alcohol taken over by the intervention agencies must not disturb the Community market in alcohol and spirituous beverages. If necessary, the alcohol will be marketed in other sectors, in particular the fuel sector.

The Commission has pursued the disposal programme launched in 1990. Alcohol has been sold mainly to the Caribbean and Central America to be used, after processing, as fuel in the USA. In 1995, alcohol to be used as fuel has also been sold to Brazil.

### 2.3.7. Permanent abandonment premiums in respect of areas under vines (Regulation (EEC) No 1442/88)

The aim is to reduce vine-growing potential. All areas under vines are eligible. The amount of the premiums varies, according to yield, type of cultivation and variety from ECU 1 449 to 12 317/ha.

#### Trend of appropriations\*

(ECU)

Article	Heading	Appropriation 1995	Appropriation 1996
B1-160	Refunds on products of the vine-growing sector	71 000 000	55 000 000
B1-161	Intervention for products of the vine-growing sector	236 000 000	420 000 000
B1-162	Taking over of alcohol from compulsory distillation	205 000 000	178 000 000
B1-163	Aid for the use of must	139 000 000	131 000 000
B1-164	Permanent abandonment premiums in respect of areas under vines	385 000 000	297 000 000
B1-165	Promotion of consumption	8 000 000	11 000 000
TOTAL OF CHAPTER B1-16 (Products of the vine-growing sector)		1 044 000 000	1 092 000 000

\* For 1995, amounts refer to approved appropriations; for 1996, requested appropriations.

## THE SITUATION OF THE MARKETS\*

The European Union is the leading wine economy in the world with, on average, 60% of world production and 55% of world consumption. The other main producers are, in descending order of production, the United States, the former Soviet Union, Argentina, the countries of eastern Europe taken together (Bulgaria, Hungary, Romania, the former Yugoslavia, the Czech Republic and the Slovak Republic) and South Africa.

Taking imports and exports together, international trade in wine accounts for around 31% of world production, which is around 270 million hectolitres (1991-93 average). With annual consumption at around 227 million hectolitres (1991-93 average), the world surplus can thus be put at 47 million hectolitres, of which two thirds is the responsibility of the Union. The latter's structural surplus is mainly sent for distillation.

In 1994 the Union's outward trade with non-member countries fell: 11 748 000 hectolitres were exported as against 12 552 000 hectolitres in 1993. Spain (2 439 000 hectolitres), Italy (3 824 000 hectolitres) and France (3 251 000 hectolitres) are the main exporters, and the most important trade partners are the EFTA countries (25%), the United States (19%) and Canada (7%). It should be noted that the volume of wine exported in 1994 was, however, higher than that in the years immediately preceding 1993.

Imports of wine to the Union rose slightly in 1994 (3% up on 1993 levels), reaching 2 738 000 hectolitres. The main importers are Germany and the United Kingdom with 35% and 44% of Community imports respectively. The countries of eastern Europe are the chief suppliers (32.5% of the wine imported by the Union). The market share of Australian wine is improving rapidly thanks to increasing exports to the Union (17.5%), while around 8% of wine imported from non-member countries comes from the United States.

The Union's production during the 1994/95 wine year has been calculated (provisionally) at 151 million hectolitres for all wines (table wine, quality wines produced in specified regions and other wine), down on the 1993/94 harvest of 159 million hectolitres, while 1995/96 production is estimated at 155 million hectolitres. The guide prices for table wine of types AI, RI and RII were maintained at 3.17 "old" ecus/%/vol/hl and rose to 3.828 from 1 February 1995 following the application of the monetary coefficient. Table wine prices varied considerably according to the region in which they were produced, ranging from 57% to 106% of the guide prices.

Direct human consumption of wine appears to be relatively stable in relation to the previous wine years (127 million hectolitres), as does industrial use for the production of vermouth and vinegar (3.7 million hectolitres).

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\* Extract from *The agricultural situation in the European Union. 1995 report.*

Stocks with producers and traders totalled 108 million hectolitres at the beginning of the year. At the end of the year they appeared to have fallen considerably to around 100 million hectolitres.

Substantially reduced production (151 million hectolitres and considerably reduced stocks - 108 million hectolitres - at the beginning of the year) meant that in 1994/95 recourse to compulsory distillation and support distillation could be avoided. Only preventive distillation was decided on, for 5.5 million hectolitres (as against around 10 million hectolitres in the previous year).

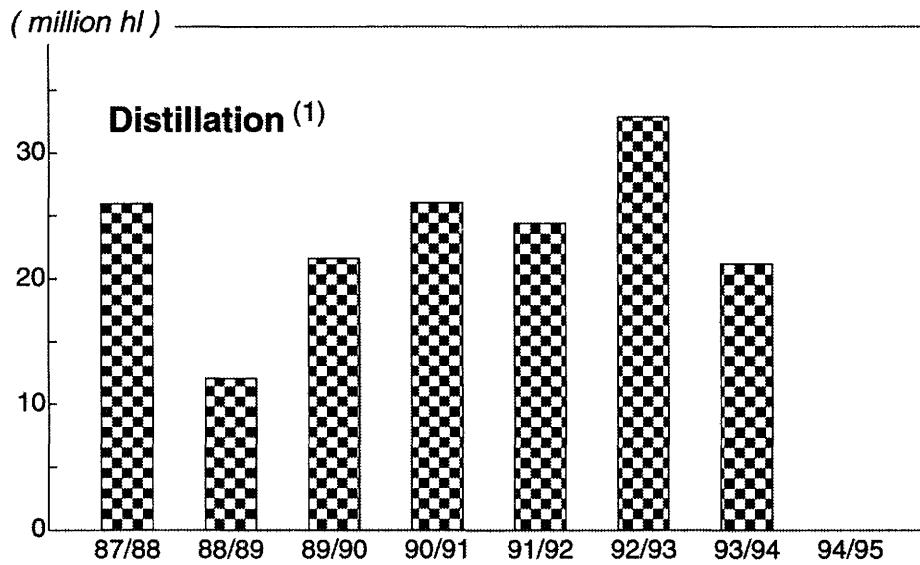
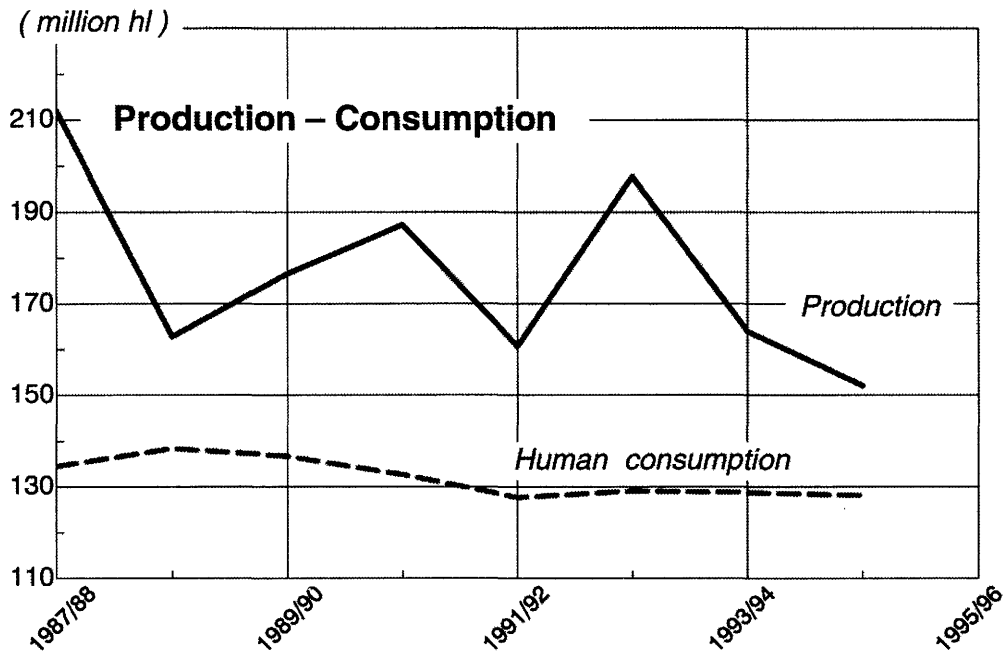
From 22 December 1994 to 15 February 1995, long-term storage contracts (nine months) accounted for 5 908 704 hectolitres (table wine: 4 668 631; must: 998 948; concentrated and rectified must: 241 125), as against 9 823 330 hectolitres in the preceding year. Producers were allowed to apply for withdrawal of up to 90% of the quantities under contract, the aid then being paid for the actual period of storage.

The low production levels of the last three wine years (including 1995/96) and the fact that from 1988 to 1994 grubbing up in exchange for premiums (the permanent abandonment of wine-growing areas) amounted to 460 000 hectares has made it possible to achieve a relatively balanced situation. Nevertheless, this balance is delicate, since it has been caused principally by natural phenomena such as drought and other extreme weather conditions in some wine-growing regions.

The Commission has submitted to the Council a proposal for the reform of the common organization of the market in wine with the aim of achieving a more sustainable balance on the market. Considering that the low production levels are very recent and, so far, it is difficult to establish whether recent trends in wine-growing potential are likely to substantially alter the basic data, the Commission proposal, submitted to the Council on 11 May 1994, remains a starting point for discussion.



## Wine



**Source:** European Commission, DG for Agriculture.

(1) : Compulsory and optional distillation (Portugal excluded 1979-91)  
1992 figures include Portugal



## COUNCIL PRICE DECISIONS

The Council decided that the guide prices should remain unchanged for the 1995/96 marketing year.

Pending the establishment of the new market organization for wine, it was decided that certain time limits set by regulations be extended for the 1995/96 marketing year, concerning:

- the submission of reports on:
  - sulphur dioxide content of wines, sparkling wines and liqueur wines;
  - arrangements whereby producer groups can be regarded as producers for the purposes of compulsory distillation contracts;
  - the relationship between structural measures and compulsory distillation;
- the laying down of rules for calculating the quantities to be distilled for each production region (uniform percentage and reference year) authorised following the Dublin compromise, but deferred until 31 August 1994, and the derogation granted for compulsory distillation to be applied according to special rules in Greece;
- the trial period for certain deacidification practices, which has reached its expiry date;
- the period (already extended last year until 31 August 1994) during which a proportion of the aid for juice production from grape must can be assigned to the promotion of grape juice.

Implementation of the vineyard register has been delayed in several Member States. The Commission is proposing, under the reform of the market organization, to set up a simplified register. The existing provisions must therefore be adjusted so that the vineyard register can be launched on a simplified basis or further progress be made thereon in the Member States concerned. The implementation of the vineyard register has, therefore, been authorized up to 31 December 1996. 50% of the costs are financed by the Community. Those Member States, however, whose vineyard register is only partially implemented (but at an advanced level) are authorized to complete it. In these cases Community financing is limited to its costs incurred in the drawing up of the graphical reference base for the areas concerned.

The current rules on the abandonment of areas under vines do not specifically rule out the payment of grubbing premiums in respect of areas for which restructuring aid has been paid. The reform of the market organization provides for this anomaly to be corrected, but the Council decided to introduce this amendment immediately.

### Price decisions in ecus

Product and type of price or amount (Period of application)	1994/95 <sup>(1)</sup>		1995/96	
	Amount ECU/t	% change	Amount ECU/t	% change
Table wine <sup>(2)</sup> (1.9.95-31.8.96)				
- Guide price type R I	3.828	0	3.828	0
- Guide price type R II	3.828	0	3.828	0
- Guide price type R III	62.150	0	62.150	0
- Guide price type A I	3.828	0	3.828	0
- Guide price type A II	82.81	0	82.81	0
- Guide price type A III	94.57	0	94.57	0

<sup>(1)</sup> The 1994/95 amounts have been multiplied by 1.207509 for comparison purposes, in order to take account of the new agri-monetary system.

<sup>(2)</sup> R I, R II and A I in ECU/%/hl.  
R III, A II and A III in ECU/hl.

# STATISTICAL TABLES\*

## Supply balance - wine

EUR 15(2)

	1 000 hl				% TAV
	1990/91	1991/92	1992/93	1993/94	<u>1993/94</u> 1992/93
1	2	3	4	5	6
<b>1. Total wine</b>					
Usable production	187182	160650	197676	163913	-17,1
Change in stocks	684	12452	3681	-14751	-500,7
Imports	3371	3324	3298	3497	6,0
Exports	8876	8525	9592	12688	32,3
Intra-EU trade	26405	26335	25503	29107	14,1
Internal uses:	176592	163566	181003	164541	-9,1
losses - production	23	529	944	906	-4,0
- marketing	42	236	566	266	-53,0
processing	42555	34748	50476	34736	-31,2
human consumption	132582	127554	129016	128633	-0,3
Human consumption (l/head)	38,7	37,3	37,7	37,1	-1,6
Self-sufficiency (%)	123,8	112,0	133,0	113,0	-15,0
<b>2. Quality wines produced in specified regions (Total):</b>					
Usable production	56755	49416	59099	54507	-7,8
Internal uses	51690	45550	49271	52625	6,8
<b>3. Table wines (total):</b>					
Usable production	111238	101205	117385	93922	-20,0
Internal uses of which:	106734	102184	108527	96543	-11,0
- human consumption	75057	73710	71443	71466	0,0
- Community distillation (1)	26066	24430	32878	21242	-35,4

Sources : Eurostat and European Commission, Directorate-General for Agriculture.

(1) Excluding distillation for the production of wine spirits bearing a designation of origin and national distillation operations.

(2) EUR 12.

\* Extract from *The agricultural situation in the European Union. 1995 report.*

Area under vines, yield and production of wine and must

1	Area						Yield						Production					
	1000 ha			% TAV			hl/ha			% TAV			1000 hl			% TAV		
	1990/91	1991/92	1992/93	1993/94	1992/93	1993/94	1991/92	1992/93	1993/94	1992/93	1993/94	1991/92	1992/93	1993/94	1992/93	1993/94	1992/93	1993/94
2	3	4	5	6	7	8	9	10	11	12	13	14	15	16				
EUR 15	3831	3723	3566	3517	-1,4	48,9	43,4	54,3	45,8	-15,7	184579	159408	193565	160846	-16,9			
Belgique/België	0	0	0	0	x	x	x	x	x	x	2	1	2	2	0,0			
BR Deutschland	101	102	106	103	-2,8	94,1	104,9	127,2	96,3	-24,3	9505	10699	13482	9920	-26,4			
Eliáda	85	84	65	62	-4,6	41,5	47,9	62,3	54,5	-12,5	3525	4021	4050	3378	-16,6			
España	1453	1385	1317	1281	-2,7	27,8	22,2	25,9	20,7	-20,1	38658	30796	34032	26495	-22,1			
France	892	889	883	899	1,8	71,7	48,6	71,6	57,9	-19,1	63940	41438	63256	52059	-17,7			
Italia	871	861	875	861	-1,6	62,3	67,2	77,8	72,1	-7,3	54266	59238	68066	62068	-8,8			
Luxembourg	1	1	1	1	0,0	151,0	86,0	271	170,0	-37,3	151	86	271	170	-37,3			
Österreich	55	55	54	50	-7,4	57,6	56,2	48,3	37,0	-23,4	3166	3093	2588	1865	-27,9			
Portugal	377	325	264	259	-1,9	3,0	30,8	29,4	19,0	-35,4	11351	10021	7771	4871	-37,3			
United Kingdom	:	1	1	1	0,0	15,0	15,0	27	18,0	-33,3	15	15	27	18	-33,3			
EUR 12	3780	3666	3512	3467	-1,3	48,8	43,4	54,4	45,9	-15,6	181413	156315	190977	158981	-16,8			

Source : Eurostat

European Commission

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