

A future for Europe's wine

European File

Wine has an important place amongst the produce covered by the common agricultural policy:

- at the present moment, the European Community cultivates and consumes about half of the wine produced in the world. When the Nine is extended to twelve members with the accession of the three new Mediterranean partners, Greece, Spain and Portugal, around two-thirds of world wine production will carry the Community label;
- each European drinks on average 49 litres of wine per year (twice the level of milk consumption). However, wine consumption varies considerably from country to country according to national traditions and according to the amount of tax levied in each country;
- wine accounts for only 2.1% (1978 figures) of the value of the Nine's final agricultural production, whilst milk represents 19.5% and beef and veal 15.5%. But grape juice plays a determining role in the regional balance within the Community. The vine is a keycrop in the Mediterranean areas of the Community, where the level of economic development is well below the rest of Europe. Two-thirds of the Community's vineyards are located in only ten French and Italian regions. In a region such as Languedoc-Roussillon, vines cover much of the farming land to the extent of seeming the only crop.

The Community wine market

- *Production:* the annual average production of wine in the Community was of the order of 145 million hectolitres between 1972 and 1978, distributed approximately as follows:
- about 48% in Italy, 46% in France, 6% in the Federal Republic of Germany, 0.1% (100 000 hl.) in Luxembourg;
 - about 70% of table wines, 20% of the 'VQPRD' wines ('quality wines from specific regions'), 10% of other wines (bubbly, etc.).

The wine balance-sheet (averages 1972-73 to 1978-79, in million hl.)

Community harvest	145	Own consumption as wine	128
Imports	6	Other uses	13
		Exports	5
		Surpluses distilled	5
Total	151	Total	151

Being very sensitive to climatic variations, the production of wine varies considerably in volume from one year to the next. The differences are sometimes as high as 40 million hl., almost one-third of average production:

- during the 1972-73 marketing year the harvest scarcely exceeded 127 million hl., and 128 million hl. in 1977-78;
- it did, by contrast, rise to 171 million hl. in 1973-74, exceeded 160 million in 1974-75, and 167 million in 1979-80. One fact which should be noted, however, is that the levels achieved in the record harvests of the last decade are higher than those recorded previously.

Given these annual fluctuations, it is difficult to measure exactly the trend of Community production. During two four-year periods, 1969-1973 and 1974-1978, it is thought that production was more than 15% higher than the average observed between 1959 and 1963.

- *Consumption:* by contrast, the capacity of the European market to absorb more wine is not increasing. After a slight rise, wine consumption in the Community dropped from 133 million hl. (1974-75) to 124 million (1978-79). This decline may continue over the coming years. It is the result of two factors working in opposite directions which partially neutralize each other:
- in France and Italy — traditionally large wine-producing and consuming countries — consumption is tending to decline slightly, which particularly affects the most popular wines;

- in other Community countries, consumption has always been lower. It has increased since the introduction of the common market for wine, but progress has slowed in recent times. Consumer habits and, above all, the high level of excise duties, hinder consumption.

Annual wine consumption per head (in litres)

	1970	1979
France	108	98
Italy	111	92
Luxembourg	37	42
FR of Germany	16	24
Belgium	12	17
Denmark	5	13
Netherlands	5	12
United Kingdom	3	5
Ireland	2	3

The contrasting trends in production and consumption explain the emergence of surpluses which, though varying greatly from year to year, represent an average of 5 million hl., and are increasing.

- *External trade:* foreign trade is only a small factor in the creation of wine surpluses. Community imports which reached 5 million hl. in 1971, rose to over 7 million in 1972 and 1973 before dropping back to 5 million. In the majority of cases, these imports cover wines 'd'appellation origine', or liqueur wines whose average value is three times higher than that of table wines.

Due to the increase in European wine sales particularly to the United States, trade with third countries is beginning to show — in value terms — a net benefit which has increased more than 40% since 1976 and which will soon reach a level close to 300 million European units of account¹ per year. In addition, since 1978, imports and exports have tended to balance out in quantity terms at around 5 million hl. This did not prevent the emergence in 1979 of surpluses estimated at 17 million hl.

As most of the additional wine available because of abundant harvests is mediocre, the surpluses can evidently neither substitute for imported wines, nor find export markets. The only outlet is distillation at the Community's expense.

Market organization: the experience gained

Community countries are, of course required to open their frontiers to industrial exports from their partners and the importance of wine in the economy of certain

¹ 1 EUA = about £0.61 or Ir. £0.68 (at exchange rates current on 9 June 1980).

Community countries required the introduction of market organization at the European level. The objectives are to ensure the free movement of wine as well as reasonable balance between the interests of producers, consumers and tax payers.

Given the variations in production, the common market in wine has required the use of two principal instruments: price regulation and control over areas used for vineyard cultivation.

- *Price regulation:* Community prices are fixed each year for different qualities of wine, depending on normal levels recorded during the previous seasons. European producers benefit:
 - from Community preference. For the quantities of wine imported in the framework of cooperation agreements made between the Community and its trading partners in the North and South of the Mediterranean, the reduction of European customs duties is governed by respect for a reference price which aims to prevent unfair competition;
 - European storage aid (288 million EUA in total between 1971 and 1979) and aid for distillation (395 million), which helps limit the fall in market prices when there is an abundant harvest. Storage aid is given to stock wine over the short term (three months) or long term (nine months). Distillation aid is granted when storage is insufficient to regulate market forces. Supplementary distillation has been employed on average on 5 million hl. per year between 1972 and 1978. Even during normal years, millions of hectolitres must be distilled. And when the harvest is bountiful the figures become enormous: 20 million hl. in 1974-75 (14% of normal usage), about 17 million in 1979-80.
- *Controlling vineyard expansion:* to control the growth of the wine market, the Community has established an inventory of vineyards and requires notification or requests for authorization for all new plantations. Since 1976, new measures have been taken to tackle surpluses: ban on expansion of vineyards which produce table wine, limitation of the number of varieties or authorized varieties, the introduction of premiums for 'grubbing' (uprooting) low-quality vines. These measures have only been partly successful:
 - the total area of vineyards, which had slightly increased up until 1976, has settled at a level close to that attained at the beginning of the decade (2.5 million hectares). The cutback has been particularly marked for the most popular wines, where vineyards have been reduced by 25 000 hl. during the last three marketing years;
 - it has thereby been possible to slow down the increase in production, but not to eliminate it. The effect of Community measures has been compensated for by productivity gains which result, particularly, from the relocation of cultivation. Some producers have abandoned the hillsides to produce on the plains where conditions are easier and yields are higher. However, the wine produced on the plains is often mediocre and these zones are more suited to other produce (maize, vegetables, flowers, etc.).

At the level of prices, as in production, the difficulties of the common market for wine results from the fact that the arrangements were conceived at a time when only temporary imbalances, due to natural factors, seemed likely. It was supposed that over a period there would be an equilibrium between production and the markets. Since those early days it has become clear that such an equilibrium will not come about as a matter of course. Action must be taken a step further so as to transform progressively the structure of the market.

The Community action programme

Formally adopted by the Ministers of the Nine in February 1980, the Community's 'action programme 1980-85 for the market in wine' set itself three principal objectives: to pursue a policy of quality, to restrict wine production to the most suited zones, and to reduce the structural surplus, including its cost to the European budget. The measures taken cover both the direct production potential and regulation of the market.

Production control

The Community plan comprises the classification of production zones and different actions to reduce the quantities produced whilst improving quality.

- Classification of zones of production: to promote optimal utilization of the land, the means of application of structural measures depends on which of the three major categories of land is involved. Land is defined in terms of its topography, climate and soil characteristics:
 - the hilly areas (where the production of table wines accounts for around one million hectares);
 - the meridional plains with non-alluvial soil (around 270 000 hectares of table-wine vines);
 - other areas (around 400 000 hectares of table-wine vines).
- Plantation systems: new plantations have been prohibited since 1976 and will not be permitted until 1986, except for quality wines (VQPRD) where the decision is left to the governments concerned. Replantation is not authorized except for certain varieties, and even then only eight years after cessation if the wine-grower has benefited from Community aid. The transfer of replantation rights, through inheritance, sale, etc., is subject to different conditions according to the category of land. Authorized plantations and replantations must be brought to the attention of the European Commission.
- Aid for restructuring vine cultivation: since 1978, the Community has decided, in the context of Community enlargement, to allocate about 105 million EUA to the restructuring of 66 000 hectares of Languedoc-Roussillon wine-growing land.

The plan adopted in 1980, extends this operation to other regions totalling 224 000 hectares, 145 000 of which are situated in Italy. Financial aid can be accorded to certain new plantations in hilly zones, as well as for replantation on hillsides or in non-alluvial hillside plains. The conditions for this operation are that the restructuring must be undertaken in the framework of collective development plans or projects; it should allow for the improvement of working conditions as well as the use of specific varieties of vine. The objective is to promote the production of good quality table wines, or quality wines from up to 10% of the total crop area in specific regions. The cost of these measures is put at about 580 million EUA, 30% of which (about 175 million) is chargeable to the Community.

- Premiums for ceasing wine production or leaving the industry: wine growers have the right to financial aid in the following cases: if they uproot their vines and agree not to replant for at least eight years; if they subsequently renounce their right to replant; if they are at least 55 years of age and stop wine growing altogether. The cost of these different measures is estimated at around 350 million EUA, 40% of which (about 140 million) is chargeable to the Community.

Market regulation

The Community action programme also allows for new measures to control surpluses and increase outlets for vine products:

- a minimum selling price can be set when the market level falls to less than 85% of the European guide price for three consecutive months, when all traditional measures have been taken. In such a crisis situation, it is prohibited to sell wine below the minimum price, and surpluses bought at this price can be immediately distilled.
- chaptalization, an operation which aims to raise a wine's proofage or degree of alcohol through the addition of sugar, is still prohibited, except in those French zones where it was already practised in accordance with the legislation of 1970. The sugaring/watering-down process used to soften German wines is restricted to Riesling and to Elbling varieties produced in certain areas and should be eliminated altogether by March 1984. The European Commission is trying to promote other processes, such as the use of rectified concentrated must which constitutes a sort of grape sugar.
- Community aid can be accorded to encourage the production — within certain volume limits — of grape must and concentrated musts, to enrich the wine or to produce grape juice and low-alcohol beverages.

Other measures

Parallel to the action programme outlined above, other Community measures have been taken or are envisaged to stimulate wine consumption and promote the reconversion of wine-growing regions.

- In the consumption area, the European Commission is proposing to Community countries, the harmonization of the structure of excise duties on beers, wines and alcohol. The European Treaties prohibit the imposition of different taxes according to whether a beverage is home-produced or is imported from another member country. The Commission is trying to ensure that these distortions in competition are eliminated. At the beginning of 1980, it won several cases in this area before the European Court of Justice. In the case of the United Kingdom, where the tax on wine is five times greater than on beer, the Court of Justice demanded that the UK and the Commission re-examine this problem before the end of 1980 and report on the level of taxation judged to be suitable given the nature of these two drinks, which compete with each other in the market though being produced under very different industrial conditions.
- Wine-growing areas will have to cope with increased competition over the coming years from the three countries expected to join the Community in the near future. Greece (as of 1 January, 1981), then Spain and Portugal. These countries, where production costs are lower, already account for 59% of total Community wine imports and their production surplus in relation to consumption, particularly large in Spain, already stood at 4.3 million hl. in 1978.

The European Commission is proposing that, during the seven to ten-year transition period between Spain's accession and full integration in the Community, Spanish prices should rise progressively to the level of Community prices, and mechanisms will be introduced to avoid distortions which price differences could cause. On the other hand, the efforts undertaken in the 1980-85 wine market programme will be pursued and provisions for irrigation, chaptalization and preventive distillation will be introduced. The objective is to counter the structural imbalances in the market and their implications for the Community budget, whilst ensuring that the burden of this effort is borne by the whole of the Community and not only by Mediterranean producers.

Moreover, the Mediterranean regions of the present Community could adapt themselves to the new enlargement and even benefit from it if they develop new activities in the context of a new trading network which will expand along with the integration of the new partners:

- at the end of 1978, the Nine adopted a five-year programme for the development of Mediterranean agriculture to a total value of around one billion EUA. Apart from the aid already mentioned for restructuring wine growing in the Languedoc-Roussillon region, this programme caters in particular for Community support for irrigation programmes in Italy's Mezzogiorno region, to the development of rural road infrastructure, water supply, electrification and agricultural advisory services, to the improvement of forestry management and the processing and marketing of agricultural produce. Other measures have been taken or proposed to improve the organization of certain markets: olive oil, fruits and vegetables both fresh and processed, peas and beans;

- in addition, the European Commission is preparing to launch special regional development actions affecting the Mezzogiorno and the French regions of Aquitaine, Midi-Pyrénées and Languedoc-Roussillon. 120 million EUA will be allocated to promote industrial innovation, small and medium-sized enterprises, craft industries and rural tourism. An additional sum of 16 million EUA will be devoted to the diversification of energy sources in the Mezzogiorno (hydro-electric and alternative energy sources) ■

The contents of this publication do not necessarily reflect the official views of the institutions of the Community.

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