

PLAN OF ACTION ON WINE

To supplement the statements made by Mr Dalsager at the informal meeting of agriculture ministers at Angers on 29 May, here is more background material to amplify the six major points identified by Mr Dalsager (see IP(84) 201).

It should first be remembered that the wine market has been in structural surplus since the end of the 1970s, mainly because wine consumption has declined in the wine-growing countries. This has been aggravated by the very high yields in some production areas and a degree of mismatch between demand and the quality of wines produced.

Over recent years the Council has made a series of adjustments to the common organization of the market, the last being in 1982, and has initiated a number of structural measures to bring the market back into balance. The Commission still believes that the present system is fundamentally sound but takes the view that urgent steps need to be taken to improve the way the market operates if further crises are to be avoided in future.

1. Statistics on market supply and demand

The basic Regulation requires wine-makers to inform their governments of the levels of production and stocks etc. for forwarding to the Commission, so that a forecast on wine available and market outlets can be drawn up each December. This forward estimate is drawn up by the Commission after consulting the Management Committee and is used as the basis for managing the wine market in general, and more particularly for deciding whether to introduce compulsory distillation at reduced prices as provided for in the 1982 reform (see Section 3).

The forward estimate adopted by the Commission in December 1983 showed surpluses of table wine on the market which could be absorbed by the distillation schemes already planned. In the light of this, the Commission did not consider it necessary to introduce compulsory distillation.

From the first months of 1984, the Commission became aware that a rising quantity of wine was being sent for distillation while prices were stationary or even declining. It therefore asked the Member States to review the figures originally notified. This led the Commission to draw up a revised supply balance indicating that some further six million hectolitres of table wine would be available (117 million hl instead of 111 million hl). However, the volume being distilled was up from 18 million hl (including 10 million hl accounted for by preventive distillation) to 32 million hl (including 22 million hl under preventive distillation).

Given that a large proportion of wine stocks is immobilized by long-term storage contracts, two Member States would theoretically end the wine year with a shortfall making it impossible for them to cover domestic consumption. But in fact prices remain immovable at a ceiling of around 70% of the guide price because of the surpluses. It appears that the quantity of table wine in some Member States is being seriously underestimated although these countries seem unable to provide more accurate estimates.

## 2. Distinction between quality and table wines

The price support system applies only to table wines, to the exclusion of quality wines p.s.r. and wines for further processing (cognac, liqueur wines, etc.).

The quantity of quality wines p.s.r. currently available is very large (expected stocks at the end of the wine year are put at 150% of the normal vintage) and cannot be marketed to traditional outlets. As a result, these wines are depressing the table wine market, where they are now in direct competition.

The Council has recently extended the ban on new plantings to quality wines. It will also be necessary to review the terms on which Community rules are applied with a view to enforcing the limits set for quality wine yields.

## 3. Links between the various distillation schemes

The intervention arrangements brought in in 1982 following the 1981 crisis are based on balancing two objectives :

- withdrawing surpluses from the market at the beginning of the wine year by preventive, and if necessary, compulsory, distillation;
- providing producers thereafter with a minimum guaranteed price of 82% of the guide price.

There are four main types of distillation designed to stabilize the wine market :

- (i) Preventive distillation at 65% of the guide price from 1 September each year (no limit on quantity).
- (ii) Compulsory distillation at 60% of the guide price, which the Commission can decide to introduce in December in the light of the forward estimates if supply exceeds requirements for the year by more than 5-6 months of consumption. The Commission lays down the percentage of production which each producer must send for distillation, an amount which can be varied according to per-hectare yields, type of wine and alcoholic strength (small wine-growers may be exempted from this scheme).

The quantities distilled under preventive distillation are set against the compulsory distillation requirement, which is intended to absorb foreseeable surpluses, particularly those resulting from high yields.

- (iii) Support distillation at 82% of the guide price, which the Commission must introduce in the event of compulsory distillation but which may be introduced at other times if the Commission considers it necessary. The Commission is empowered to activate support distillation up to a ceiling of 5 million hl, above which such distillation may be approved only by the Council.

Support distillation at a minimum guaranteed price has replaced special distillation under the previous arrangements and was the concession made in return for the acceptance by producers of low-price distillation at the start of the wine year. To qualify for support distillation, however, producers must have met their compulsory distillation commitments.

- (iv) Special price-support distillation at 91.5% of the guide price(1), which the Commission may introduce from September each year to assist producers concluding long-term storage contracts covering up to 18% of their output. This measure is a way of both steadying market prices (contracts being concluded in December-February for a period of nine months, immobilizing some stocks until the end of the wine year) and of supporting incomes.

In 1982/83, and again in 1983/84, the amount of table wine at the beginning of the wine year did not call for the introduction of compulsory distillation, given the average size of the harvest and the distillation already taking place. The Commission was subsequently forced to introduce support distillation covering 5 million hl in 1982/83; and there has been an urgent request to do the same in the current wine year. The amount distilled was 22 hl, or 20% of table wine production, in 1982/83; if the official forecasts are correct this will rise to 32 million hl or 27% of table wine production in 1983/84, with a corresponding expansion of EAGGF expenditure.

It is evident that the link made in the Regulation between compulsory distillation and support distillation has not worked as expected, while preventive distillation has increased beyond all expectations, particularly in Italy.

As part of the overall agreement on rationalizing the CAP, the Council has made three changes to the market organization aimed at giving the Commission more flexibility in managing the market. These are :

- the fixing of the preventive distillation price at 65% of the guide price (previously it was 60%, rising to 65% for compulsory distillation);
- the option of stopping preventive distillation at any time as a way of restraining speculative distillation contracts;
- the option of linking preventive distillation to support distillation.

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(1) For red wine. In the case of white wine, the price is 90% of the guide price.

#### 4. Wines other than table wines qualifying for distillation

The intervention system makes provision for compulsory distillation at 50% of guide prices of certain wines which may not be marketed as table wines, namely wines made from table grapes and surplus wine made from grapes with a dual classification such as Charentes wine, which is used for making brandy, etc. (1).

There are indications that a large quantity of these wines is being sent for preventive distillation, which in principle is restricted to table wines, thus qualifying for 60/65% of the guide prices instead of 50%.

#### 5. Chaptalization

Chaptalization, i.e. the addition of sucrose to increase the alcoholic strength of wines, is currently authorized only in regions where it is traditionally practised, that is in Germany, Luxembourg and France outside the Mediterranean areas. It is prohibited in the south of France, Italy and Greece, and in Spain and Portugal. When the Council revised the wine régime in 1982, it decided, as a counterbalance to the continuation of chaptalization in northern Europe, to introduce unlimited aid for the use of concentrated grape must in place of sucrose for the purposes of wine enrichment. However, this provision might well encourage high yields at a low natural alcoholic strength, with producers subsequently claiming aid for the addition of must to bring alcoholic strength up to the level required of the marketed wine. This carries with it the danger of rising expenditure on grape must aid and on distilling surpluses.

In October 1983, in the context of the discussions on rationalizing the CAP, the Commission put forward the following proposals to prevent this happening :

- the minimum natural alcoholic strength allowed in wines eligible for enrichment would be raised;
- the use of sucrose (chaptalization) would be prohibited and aid for grape must would end in 1990, the interim period being used to increase capacity for the production of rectified must to meet increased demand for this product and to develop viable methods of detecting sugar in wine.

The Council confined itself to adopting a half-measure involving the reduction of distillation aid by the amount of aid granted for any must used in producing the wine in question. Beyond this, the Council was not able to agree on the Commission's proposals either to increase alcoholic strength or prohibit chaptalization (2). This would, however, still be a viable solution because it would halt the trend towards ever bigger yields while absorbing a substantial amount of surplus wine by processing into products for use in enrichment.

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- (1) All by-products of wine-making are subject to compulsory distillation at a third of the guide price.
  - (2) The Council agreed to pursue its consideration of the Commission's proposals with a view to adopting a package of measures to encourage production based on quality.

Apart from the specific problem of chaptalization, there is also the general problem of what controls to apply to prevent illegal chaptalization and the fraudulent making of wine from unauthorized substances. These practices can have the effect of artificially inflating the volume of wine for distillation.

#### 6. Structural measures

The first interim measures prohibiting new plantings of table-wine vines and granting premiums for the temporary cessation of wine-growing were taken in 1976.

Two regional Directives covering the Mediterranean south of France (cessation and modernization) and the brandy producing area of Charentes (cessation) were later adopted in 1978 and 1979.

In 1980 the Council adopted a specific "action programme" (1) which the Commission had proposed in 1978; this is to run until 1986 and its main features are :

- the definition of permanent Community arrangements concerning plantings and, related to this, a continuation of the ban on all new plantings of table-wine vines;
- an aid scheme to encourage the modernization of vineyards by means of collective restructuring projects;
- an aid scheme to encourage producers to cease wine-growing altogether.

Finally, the Council recently decided (in April 1984) to continue with the ban on new plantings until 1990, widening the measure to include all types of grape-growing (table grapes, dried grapes and quality wines). It also invited the Commission to present it with proposals for further structural schemes.

The various measures to encourage cessation of wine-growing have brought substantial results even if the process has been slow to develop momentum, especially in Italy where there have been problems of financing at national level. It is currently estimated that 56 000 ha have been withdrawn completely from wine-growing with the help of premiums in France (2) and more than 30 000 ha in Italy, which is close to the target of 100 000 ha in the action programme.

It should also be noted that the total area under wine grapes in the Community fell by about 240 000 ha between 1976 and 1982. This is a decline of 10%.

However, this has been offset by higher yields, particularly in certain regions.

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(1) Programme for the progressive achievement of balance in the wine market.

(2) To which must be added 6 200 ha withdrawn under the "Charentes" Directive.

6. Figures on wine production in the Community of Ten

Production of wine in the Community over the last five wine years has been about 165 million hl, compared with an average of 154 million hl in 1971-80. The main producers are Italy (about 78 million hl on average) and France (about 72 million hl).

Total consumption, which was 150 million hl in 1971-75, is now no more than 140 million hl. Per capita consumption is falling in the main wine-growing countries and is not being offset by increased consumption in the other countries.

The amount of wine distilled under intervention rules averaged 6 million hl a year in 1971-80, rising to 20 million hl a year over the last five wine years, and could exceed 30 million hl in 1983/84 out of a total output of table wine of 110-120 million hl.

Budget expenditure has also gone up, increasing from under 100 million ECU in the 1970s to 500-900 million ECU. Spending in 1983 came to 660 million ECU, to which must be added 177 million ECU of expenditure delayed until 1984, making a total of 837 million ECU. Expenditure in 1984 is estimated at 861 million ECU on the basis of distillation operations already planned, without taking account of the 177 million ECU held over from 1983.