

## **Track: Number 19 Wine business and globalization**

### **The Public Choice theory as a tool for CMO wine analysis**

#### ***Abstract***

The objective of this work is to reconstruct the role of agricultural lobbyist and the national alliances, in determining the outcome of the process of the latest wine common market (CMO) regulations entered into force on 1<sup>st</sup> August 2009 (Reg. 479/2008), and how these have changed the Commission's initial proposals. Four example of public decisions have been discussed: grubbing up vineyards and liberalization of replanting rights; the abolition of market measures (the case of distillation measures); quality policies (designations of origin) and new rules of wine labels. The approach to the models of Public Choice, included for the first time in a specific context such as the wine sector, has served to focus attention on the processes and the interactions between the politicians and the agricultural associations. The most important innovation in this work is the inclusion of different organizational forms of political interests and wine business representation. It covers not only traditional collective action but also individual action and third party representation. This is fundamentally different from the usual focus on collective action in isolation from other organizational form (Coen, 1997). Public Choice theory has identified as pressure groups or lobby stakeholders, of different size, who participating in the political process. This is often referred to in the honorific terms as doing "public service," which is contrary to widespread impression, because they are motivated by self-interest the same as the people in the market place (Buchanan, 2003; Downs, 1957; Rausser, et al., 2009). Politicians find themselves in front of a trade off in choosing a policy in the general interest of the community that would lose the support of the lobby or encourage the latter and unleash the electorate: they choose the policy that best maximizes their objective function and generated the condition of *win set* between pressure groups and public decisions (Olson, 1965; Putman, 1988). This positive sum game view of governmental intervention also presumes a political economy which improves the allocation of resources.

The focus of the paper is characterizes by two steps. The first one has studied the structure and behavior of the main actors involved in the genesis of the policy of regulation (from "white papers in 2006"). Then have been identified several sources of pressure groups working at different levels: European actors (Agriculture Commission; European Parliament; Producer Organizations as COPA, COGECA, Comitè Vins CEEV; CEJA; and the relationship of political position between the agricultural Ministers of Italy, France, Spanish and Portugal); Italian actors (Agriculture – Distillation unions; Regions; Italian Agriculture Minister and Young farmers unions); each with a range of different interests. In the second step, are analyzed the effects that individual lobbyist

actions have generated on the main themes of the Regulation: the Commission proposal, the activities of lobbyists and political agreement reached in December 2007. The wine sector reform, riding on two key moments (Fischler 2003, and Health Check 2007), determined the configuration of a CMO more conservative than the original proposal from the EU Commission (EUC), despite the many new features and some important items that break with the past (Gaeta, 2009). The great and true expectation was based on the budget that the OCM would have generated: this was to be the main turning point, also gives the right signal to the role that the wine sector has acquired in recent years. In front of this objective it can be said that CMO has failed. The impact of government support on the income of the vigneroni is not only most limited, but highly unbalanced in respect to other sectors (such as cereals with more than 70%). Looking at the debates of the Member States (MS) with the EUC, the position taken by MS within the negotiations is determined by the *win set* adopted by government representatives of each country. The Commission has taken the direction of moving the orientation of the *win set*, depending on the willingness to “meet “ the interests of the MS and Producers organizations. The EU Commission geared towards promoting common EU interests, as well as promoting its own position. According to the theory of Olson and Downs, the reasons for this lobbyist action are partly attributable to the fragmented action that the agriculture and lobbying system has always expressed its inability to act with appropriate means of pressure, if not for individual corporate battles aimed more to justify the existence of different organization (small or large), rather than worrying about the overall effects of the new economic policy and the future wine sector post 2013.

**Keywords:** CMO wine, Public Choice theory, lobby.

### References

- Buchanan, J.M (2003), *Public Choice. The origins and development of a research program*, Fairfax Va.: Center of Study of Public Choice, George Mason University.
- Buchanan, J.M. and Tullock G. (1962), *The calculus of consent*, Ann Arbor, University of Michigan Press.
- Coen, D. (1997), “The evolution of the large firm as a political actor in the European Union”, *Journal of European Public Policy*, Vol.4(1), pp.91-108.
- Downs A. (1957), “An economic theory of political action in a democracy”, *Journal of Political Economy*, Vol. 65 No 2: pp. 135-150.
- Gaeta, D. (2009), *Evoluzione del processo di riforma tra mutamenti del mercato, gruppi di pressione e alleanze nazionali*, in Pomarici, E., Sardone R. (eds.), *L’OCM Vino. La difficile transazione verso una strategia di comparto*. INEA, Roma pp. 49-69.
- Olson, M. (1965), *Logic of collective action: public goods and the theory of groups*, Harvard University Press.
- Putman, R. (1988), “Diplomacy and domestic politics: the logic of two level games”, *In International Organization*, Vol. 42, No.3.
- Rausser, G. C. (1982), “Political economic markets: PERTs and PESTs in food agriculture”, *American Journal of Agricultural Economics*, Vol. 64 No. 5, pp.8211-833.
- Rausser, G. C. and Roland G. (2009), “Special interests versus the public interest: the determination of policy instruments”, *Agricultural Distortions Working Paper 78*, May 2009

Rausser, G. C. and Swinnen, J.F.M and Forthcoming, P.Z. (2010), *Political power and endogenous policy formation*, New York, Cambridge University Press.

Regulation No. 1234/2007 establishing a common organisation of agricultural markets and on specific provisions for certain agricultural products (Single CMO Regulation).

Regulation No. 479/2008 on the Common Organisation of the Market in wine. Brussels: European Council.

Regulation No. 555/2008 laying down detailed rules for implementing Council Regulation (EC) No. 479/2008 on the common organisation of the market in wine as regards support programmes, trade with third countries, production potential and on controls in the wine sector. Brussels: European Commission.