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The European wine policy through producer support estimates: an attempt at analysis

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This paper is an attempt to provide an analysis of the European wine policy through the evolution of indicators of support producers dedicated using two of the most well know and used OECD' indicators: the Producer Support Estimate (PSE) and Producer Single Commodity Transfer (PSCT). The works focus on the different between wine and others three agricultural PSCT from 1986 to 2012: common wheat, milk and rice, with the goal of comparing different agricultural PSCT and to highlight the high different support. PSCT calculations do not include much of the EU wine budgetary support (such as distillation measures) considered within the classification of payments based on non-commodity criteria. As a consequence, PSCT value of wine is lower than what one would expect. The reduction is also due to negotiations in the WTO – Uruguay Round of the GATT, which required a reduction in protection (tariff and non tariff barriers), aimed to eliminate all agricultural policies with a distortive effect on trade flows and export subsidies.

Keywords: CAP, PSE, PSCT, wine policy,

INTRODUCTION

In the course of its evolution, the Common Agricultural Policy (CAP), and the wine sector cannot be excluded, has been accompanied by a number of structural measures with direct or indirect environmental objectives in terms of protection and control (Kay, 2003). The strong arm of the CAP was based on direct support measures implemented through price intervention, a high level of customs protection and setting a guaranteed average price. In the same manner, indirect support measures were also activated at national level with the aim of bringing agricultural income into line with that of other economic sectors. The action taken to regulate markets, immediately became closely "coupled" (until 1992) to the quantity produced and characterized by a high level of protection. The way that support differed from one product to another would go on to become characteristic of the CAP throughout its history, generating real imbalances between agriculture in the north of Europe and the Mediterranean. The result was the increase of the European Union (EU) cost for support this system (once applied, the market policy absorbed the majority of the available European financial resources) and after 57 years the CAP still remains its position as the largest component of EU expenditure, accounting for approximately 39% of the total EU budget for the period 2014-2020.The financial agreement contained a budget for Europe of €960 billion (2014–2020).

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Out of the budget, 38.9 percent is destined for the agricultural sector (more than €370 billion in total), 33.9% percent is allocated for the cohesion policy for growth and development (around €325 billion), 13.1 percent is for research and technology, 6.1 percent is for international affairs, 6.4 percent is for administration, and 1.6 percent is for internal affairs (EU Commission and Parliament, 2013). This paper is an attempt to provide an analysis of the European wine policy through the evolution of indicators of support producers dedicated (from 1986 to 2012) using two of the most well know and used OECD' (Economic Cooperation and Development): the Producer Support Estimate (PSE) and Producer Single Commodity Transfer (PSCT). The works focus on the different between wine and others three agricultural PSCT: common wheat, milk and rice, all of them were strongly supported by the CAP, with the objective of comparing different agricultural PSCT (and EU Budget Expenses on wine as % of production value) and to highlight the high difference support. The paper is organized as follows: in the section called "materials and methods", we discuss, in the first part, the concepts and methodologies used to calculate the PSE and PSCT, including the wine index. The methodology here used is the standard one proposed by the OECD. In the second part, we will present a briefly overview of the EU wine policies from its inception in 1962 until the last reform in 2013 (under CAP Reform) and focus on the effect of support on wine stocks and production in the major EU wine producing countries (France, Italy, Spain, Germany and Portugal). Finally, in the last part, we present the results and discussion on the general PSE wine level and the different between wine and others PSCT, in the context of the EU agricultural policy.

MATERIALS AND METHODS

1)   PSE and PSCT: concepts and methodologies

Josling in the early 1970s' was the first author developed the use of the PSE/CSE (Consumers Support Estimate) method to estimate assistance to agriculture, although the theoretical foundation may be found in the work of Corden (1971) and adopted by the OECD in implementing the 1982 Ministerial Trade Mandate. From 1990's during the Uruguay Round of GATT, the PSE methodology was developed with the aim to monitor agricultural support for basic commodities in world trade (Cahill and Legg, 1990; Alston et al. 2010).

PSE represents the annual monetary value of gross transfers from consumers and taxpayers to agricultural producers, measured at the farm-gate level, arising from policy measures that support agriculture, regardless of their nature, objectives or impacts on farm production or

income (OECD) (PSE) states: "*the payment that would be required to compensate farmers for the loss of income resulting from the removal of a given policy measure*". The nomenclature and definitions of this indicator replaced the former Producer Subsidy Equivalent in 1999. The term "*subsidy equivalent*" came from the economic theory of protection developed in the 1960s to evaluate the effects of tariffs (Corden, 1971). According to this, the producer subsidy is the payment per unit of output that a government would have to pay producers to generate the same impact on production as that policy measure. PSE can be expressed in three ways: i) *as the total value of transfers to the commodity produced*; ii) a*s the total value of transfers per unit of the commodity produced*; and iii) *as the total value of transfers as a percentage of the total value of production including transfers*: a % PSE means that the estimated value of transfers to individual producers from consumers and taxpayers is equivalent to a percentage of gross farm receipts (OECD, 2013). In algebraic form, the PSE estimations as measured by OECD are shows in equation 1:

$$PSE = MPS + \sum BOT = \sum PSE + (sub)\ Category\ [1]$$
$$BOT = (B + C + D + E + F + G + H) \qquad [2]$$

Where:

MPS, is the *Market Price Support or* the transfers from consumers and taxpayers to agricultural producers arising from policy measures that create a gap between domestic market prices and border prices of a specific agricultural commodity, measured at the farm gate level; the MPS is the difference in production value (Qd) at domestic prices (Pd) and production value by reference (world) prices (Pw). BOT is an aggregate *Budgetary and Other Transfer* to producers from policies for specific countries. This indicator occurs in various forms. The most common, according to the OEC manual, and file dataset, are: 1) Actual payments to producers, or 2) reduced budget revenues. B. *Payments based on input use* as transfers from taxpayers to agricultural producers arising from policy measures based on on-farm use of inputs: *B.1. Variable input use* as transfers reducing the on-farm cost of a specific variable input or a mix of variable inputs. *B.2. Fixed capital formation:* transfers reducing the on-farm investment cost of farm buildings, equipment, plantations, restructuring and reconversion expenditures (in the case of wine sector – as show in table 1). *B.3. On-farm services:* transfers reducing the cost of technical, accounting, commercial, sanitary and phyto-sanitary assistance, and training provided to individual farmers. C. *Payments based on current A/An/R/I, production required* as *a* transfers from taxpayers to agricultural producers arising from policy measures based on current area (A), animal numbers (An), receipts (R) or income (I), and requiring production. D. *Payments based*

Table 1. The Producer Support Estimate index linked to the wine sector

A) Support based on commodity output	**A1) MPS – Market Price Support**	
	A2) Payments based on output	- National output payments for wine
B) Payment based on input use	**B1) Variable input use**	- Agri-monetary (Labour insurance 35%) Wine
	B2) Fixed capital formation	- Restructuring and conversion of vineyards - Vineyard restructuring national expenditures
	B3) On-farm services	
C) Payments based on current A/An/R/I, production required	- Vineyard restructuring - Premium for the conversion of vineyards - Vineyard restructuring - Payments for wine in most remote regions - Per hectare payments for raisins - Area payments for wine national expenditures - Payments for integrated production of wine RDR expenditures - Payments for integrated production of wine national expenditures - Vineyard improvement/restructuring national expenditures	
D) Payment based on non – current A/An/R/I, production required		
E) Payment based on non-commodity criteria not required		
F) Payment based on non-commodity criteria	**F1) Long term resource retirement**	- - Permanent abandonment premiums in respect of areas under vine - - Grubbing up (wine reform 2007) - - Abandonment areas under vines - - Premium for abandonment of area under vines (Prime cessation viticulture) - - Abandonment of vine growing and wine making (Abandon of surface) - - Permanent abandonment of areas under vines national expenditures
	F2) A specific non commodity output	
	F3) Other non commodity criteria	
G) Miscellaneous payments	- Wine others	

Source: Authors' own creation from OECD Producer and Support Estimates database, index table.

on non-current A/An/R/I, production required: transfers from taxpayers to agricultural producers arising from policy measures based on non-current (*i.e.* historical or fixed) area, animal numbers, receipts or income, with current production of any commodity required. E. *Payments based on non-current A/An/R/I, production not required:* regards the transfers from taxpayers to agricultural producers arising from policy measures based on non-current (*i.e.* historical or fixed) area, animal numbers, receipts or income, with current production of any commodity not required but optional. F. *Payments based on non-commodity criteria:* transfers from taxpayers to agricultural producers arising from policy measures based on: *F.1. Long-term resource retirement:* transfers for the long-term retirement of factors of production from commodity production. The payments in this sub-category are distinguished from those requiring short-term resource retirement, which are based on commodity production criteria. *F.2. A specific non-commodity output* is considered a transfers for the use of farm resources to produce specific non-commodity outputs of goods and services, which are not required by regulations. *F.3. Other non-commodity criteria:* transfers provided equally to all farmers, such as a flat rate or lump sum payment. Finally, G. *Miscellaneous payments*: transfers from taxpayers to farmers for which there is insufficient information to allocate them among the appropriate categories (OECD, 2000; 2008 and 2012). Table 1 summarizes the list of PSE index linked to the wine sector and its intervention.

Most often, this indicator shows the values in the form of percentage PSE (%PSE). The relative agrarian equation is:
*% PSE = PSE/(PdQd + BP)*100*   [3]
Where:

PdQd = production value expressed in producers prices, BP = budgetary payments to producers.

The OECD's uses two main indicators to show the level of support to individual producers at the commodity level: the producer NPC (Producer Nominal Protection Coefficient) and % of PSCT. Here, the authors will focus on PSCT evolution. This indicator represents the *value of gross transfers from consumer and taxpayers to agricultural producers at farm gate level, arising from policy measures directly linked to the production of a single commodity that the producer must produce with the intention of receiving the transfer* (OECD, PSE manual 2008). PSCT is calculated by adding market price support (MPS) and the ∑ of the value of budgetary and other transfers. According to this, the algebraic equations are:

% PSCTs = Wine specific transfers / value of receipts from Wine production   [4]

% PSCTs = Milk specific transfers / value of receipts from Milk production   [5]

% PSCTs = Rice specific transfers / value of receipts from Rice production   [6]

% PSCTs = Common Wheat specific transfers / value of receipts from CW production   [7]

All the data was collected from the OECD website and are referred to the EU with 27 countries from 1986 to 2012.

2)   European wine policy: interventions and implications

The EU wine system is regulated by the Common Market Organization (CMO). The wine CMO is the legal and regulatory basis of the European wine market, covering everything from vineyards to wine production, and in terms of its scope it is one of the most complex structures within the Agricultural Policy. Under the framework of the CAP in 1962, the CMO was created in order to enable a gradual convergence of prices and the elimination of customs barriers, with the goal of establishing a single market for products with one common customs tariff for the rest of the world. From 2007 all the agriculture products were governed by the Single CMO (Reg. 1234/2007). It replaced all 21 CMOs created between 1962 and 1971. The wine has been included in the single CMO in 2009, after the 2008 reform. The CMO wine has gradually been established with the aim of improving productivity and quality, supporting the income of wine producers, and maintaining a balance between supply and demand. In 1970 were published two formal CMO wine regulations relating table wine, with the goal of market intervention to regulated the wine surplus a rules concerning production and for controlling planting; and regulation for quality wine. These two policies kept their autonomy for 29 years, until 1999 (Meloni and Swinnen, 2013). The most important regulations being adopted in 1987 (Reg. 822/1987) and then in 1999 (Reg. 1493/99). After less than ten years the

new reform entered into force on 1st August 2009 (Reg. 479/2008).

For many decades now, the European wine market has suffered recurring overproduction problems, although the scale of the imbalance has risen and fallen over time. However, the action to rebalance of the market was a dominant concern at the dawn of the revision of Reg. 1493/99. In particular, the EU Commission has repeatedly expressed the need for drastic action on the surplus of the system called "structural". The problem of overproduction and expenditure were addressed by means of a policy of limiting production potential, with a "quota" on new plantations, an incentive for the permanent abandonment of production through a grubbing-up premium (from 2009-2011: in three years was grubbed up in Europe 161.167 ha; the maximum quota was 175 000 ha in three years) with total cost of 1.024.623 million of euro, Gaeta and Corsinovi, 2014) and a gradual withdrawal of distillation subsidies until 2012 (phasing out measure) for crisis distillation, potable alcohol distillation and the use of concentrated grape must measures. The planting rights scheme is seen as a fundamental building block of the EU's policies for controlling wine production. The underlying reason behind the creation of this kind of intervention was the increasing imbalance on the wine market at the time, coupled with the sector's tendency to create surpluses. At the same time, EU wine consumption has decreased significantly and steadily in recent decades. Wine consumption in Europe has shown a significant and continuous decline in the last decades, falling by an average of 750.000 hl per year, or 15 million hl in the last twenty years, although in the most recent years the decline in consumption has been less pronounced (Gaeta and Corsinovi, 2014; Proposal for a Council Regulation on the CMO wine and amending certain regulations. Brussels, 4 July 2007).Together with over production and wine decrease, one of the greatest fears for the EU Commission, was the "attack" of new wine players on EU market. Since 1996, the volume of wine imports into the EU-25 has been growing at a rate of 10% a year, reaching almost 11.8 million hl in 2005. So-called "new world" wines have gained considerable market share from EU wines. The measure of promotion in third countries was established with market oriented in order to recover the market share from EU wines. The last one changing of the wine sector is represented by the Regulation 1308/2013 within the Single CMO package. The new single CMO is part of the CAP reform (2014-2020) approved in December 2013. Analyzing the budget forecast for wine the sector, we find no major differences between it and the previous years apart from a slight drop in 2015. The budgetary limits for National Support Programs is 1.248.913 million of € in 2014 and 1.105.054 million of € in 2015-16-17. The majority CMO funds are allocated in historical viticulture countries, such as Spain, France and Italy (Gaeta and

Corsinovi, 2014). Compared to the previous CMO wine, Regulation 1308/2013 provides for more streamlined national programs support (NPS) with only eight eligible measures rather than 11: *1) Promotion* this measure covers public relations, promotional or advertising measures and participation at events, fairs or exhibitions of international importance in third countries with the aim to improving EU competitiveness in those countries. *2) Restructuring and Reconversion* It was 1980, when this aid was first created. It was a measure which would turn out to be fundamental for the development of a wine-production sector which was increasingly concerned with containing its production potential. Today, EU support for actual costs may not exceed 50% and contributions to restructuring and conversion costs shall not exceed 75%.

3) Green Harvesting was introduced in 2008 with the aim of supplying grape management. This provides for the total destruction or removal of bunches of grapes while still at an immature stage, thereby reducing the yield to zero.

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4) Mutual funds support for setting up mutual funds was created in order to provide assistance to producers seeking to insure themselves against market fluctuations. The measure is subject to regional choices and covers the amounts paid by the mutual fund to holders of financial compensation. This has never been applied. *5) Harvest Insurance 6) Investments 7). Innovation* Investments shall be intended to improve the overall performance of the enterprise and its adaptation to market demands, as well as to increase its competitiveness, and shall concern the production or marketing of grapevine products; Innovation in wine research and competitiveness of firms.

8) By product distillation: all measures are programmed for 2014–2018 and there are no phasing-out measures. National support programs are managed directly by the member states. They are applied and managed according to objective criteria and take into account the economic situation of the producers concerned, as well as the need to avoid unjustified unequal treatment of producers.

The new programs no longer contain potable alcohol distillation, crisis distillation, aid for grape must, or aid for the use of concentrated grape must. Despite the fact that the overarching aim of all the agricultural and wine historical reforms had been to control supply and reduce spending, the gap between products (wine) surplus and demand had become unsustainable and the measures adopted had not provided any solution.

The following graph (Graph.1) compares production in the main European wine countries and level of stocks (all information were obtained from EU, DG Agri sources). The data demonstrates that wine stocks have continued to rise despite multiple policy interventions to attempt to control them since 1962. Between 1981 and 2012, the level of European wine stocks grew steadily from vintage 1984/1985 and 1998/99. The EU's problem with surplus production, which had first developed in the 1970s, had worsened and by the early 1980s not only could the markets no longer absorb the produce, there seemed to be no stopping the uncontrollable supply. Italy produced 84 million hectoliters in 1983, of which 75 million hectoliters was table wine (Pomarici et al., 2009). From 1994 wine stock levels were progressively increased. However, distillation measures adopted in the past effectively resulted in transferring the structural surplus issue from the wine sector to the alcohol sector at huge cost (Gaeta and Corsinovi 2014). The distillery paid the producer a minimum price, which varied depending on the quantity and type of wine or wine by-product to be distilled. In turn, the distillery received support for the distillation, which was calculated in such a way as to compensate for the difference between the distillery's costs (the minimum price paid for the wine and the distillation costs) and the alcohol's market price. These payments came out of the Community budget and expenditure for distillation reached incredibly high levels, reaching between 65% and 77% of total spending for the wine sector in 1983-84. For example, the cost of alcohol produced from wine reached around 388 ECU /hl by the end of the 1980s; far too high when compared with the cost of synthetic alcohol (35-41 ECU/hl) and alcohol from cereals (56-63 ECU /hl). As a result, due to its high cost, alcohol produced from wine was stockpiled (Special Report N[o]. 4/87 – GU C 297 of 6 November 1987). The European Agricultural Commission's efforts to dispose of these stocks by sending them to the fuel production sector were not a great success despite offering the alcohol at a price lower than production cost. Looking at the EU main producer countries, we can see that between 2000 and 2011 France, Italy and Spain all reported gradual increases in stock levels. From 2009-2013, the stocks progressively decreased probably as a consequence of grubbing up system (2009-2011), abolition of distillation measures from 2012.

RESULTS AND DISCUSSIONS

As mentioned before, most of the EU wine supports was linked to regulated the level of stocks, and managing the supply; graphic 1 clearly shows how inefficient the measures thus far adopted by the Commission had become at the end of the 20th century and beginning of the 21st century.

To confirm this, the estimate from OECD on the PSE and PSCT could be an interesting tool of this analysis, though with limitations as show below. The results confirm that the level of protection enjoyed by wine in the EU is significantly below that benefiting all other agricultural commodities. In

Graph 1. The main wine producer countries and the level of European wine stocks
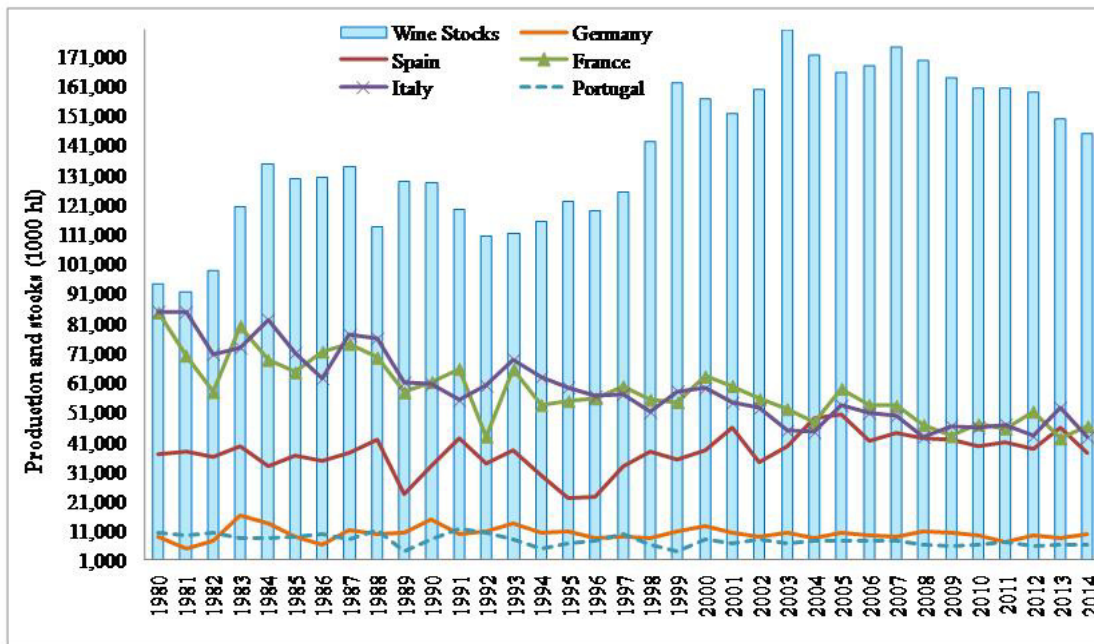
Source: Authors' creation from Gaeta and Corsinovi, 2014 and European Commission Wine Statistics, 2014.

Graph 2. The % PSCT of wine, milk, rice and common wheat and EU budget expenses on wine from 1986 to 2012
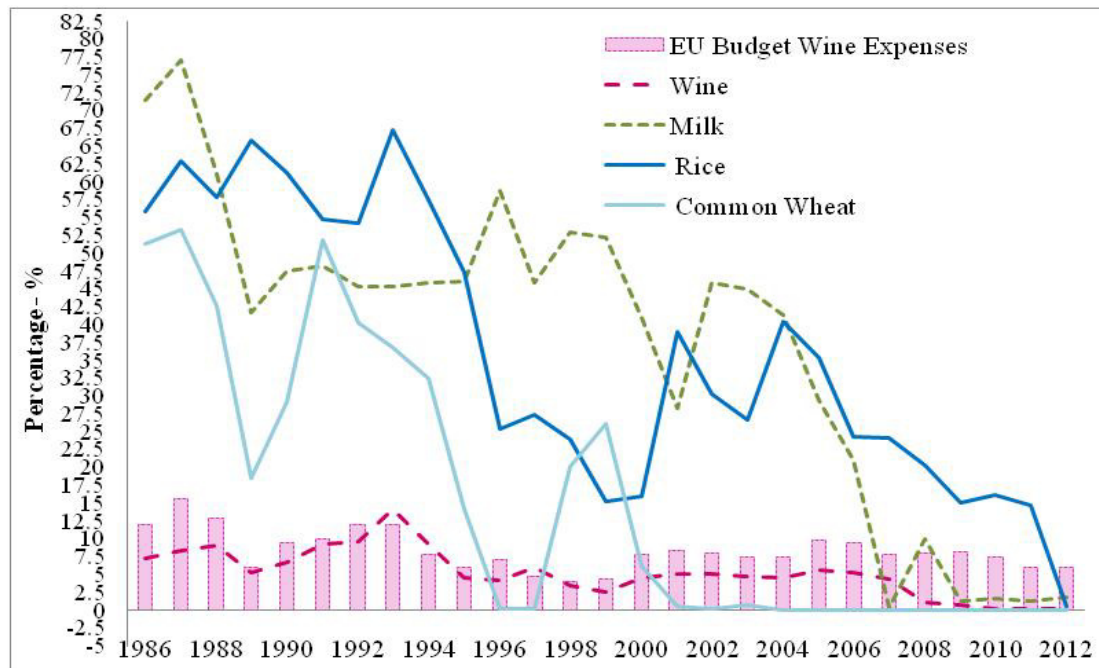
Source: Authors' own creation from OECD Producer and Support Estimates database, 2014, European Commission, 2007-2012.

particular, the PSE for wine is less than half the average support enjoyed by the other agricultural products. The graphic 2, demonstrates comparing wine with others three agricultural PSTC: common wheat, milk, and rice. The

Table 2. Total Value of Production at farm gate and Agricultural Support Estimate, 1986-2012

EU 27	Unit	Average Value					Years	
		1986 1990	1991 1995	1996 2000	2001 2005	2006 2010	2011	2012
Total Value of Production	**000 tons**	219,451.09	242,921.07	239,815.19	257,163.60	315,749.52	358,175.46	370,525,15
of which, Share of MPS commodities	(%)	74.84	73.92	73.96	72.93	72.69	74.55	74.28
Producer Support Estimate (PSE)	**ECUmn**	83,873.99	91,359.12	96,463.32	99,548.36	89,357.69	76,505.08	83,227.78
PSE Wine		**996.33**	**1,152.15**	**804,42**	**864.07**	**617.64**	**32.5**	**35.1**
A) Support based on commodity output								
a1) Market Price Support	**ECUmn**							
Wheat	**ECUmn**	5,712.50	4,776.49	1,133.41	13.06	16.97	0	0
Milk		18,248.56	15,386.54	18,385.88	12,249.36	2,443.13	0	137.13
Wine		749.83	1,051.69	527.85	252.6	108,85	2.17	0
a2) Payments based on output	**ECUmn**							
- *National output payments for wine*	**ECUmn**	0	0	0	0.73	0.48	0.03	0.02

Source: Authors' own creation from OECD Producer and Support Estimates database, 2014.

choice of comparing different agricultural products is to highlight the high difference support and measures, including different types of pressure group (Gaeta and Corsinovi, 2014). All of them were strongly supported by the CAP. In the EU support is notoriously concentrated on products such as cereals, sugar, beef and veal, and dairies, which are also the most important products in terms of the value of production. Until the Mac Sharry reform in 1992, common wheat and rice were sustained through "coupled" payments to the quantity produced. The decoupling introduced by the reform market the passage from price support to direct income, which translated into a transfer of costs from consumers to the Community budget. Until 1990' there was an overall increase in expenditure from the EAGGF of 70% accompanied by an increase in the quantity produced of 20%, a fall in prices of 27% and a drop in value-added per employee of 30%. Of that spending, nearly 45% was intended for the dairy sector alone, with just under 15% for cereals, 9-10% for sugar and 7-8% for beef. Wine was afforded a low level of protection with its impact on EAGGF expenditure being around 4.5 % (Fanfani, 1990).

This definitive abandonment of coupled support, on which the EU had founded its original policy, put an end to the agricultural model based on production and paved the way for a new model based on the market and on the sustainability of rural development.

Looking graphic 2 EU transfers to wine producers went from around 7.21 percent in 1986 to 9.40 percent in 1991, were 5.05 percent in 2001 and 0.21 percent in 2012. Milk, however, showed values almost ten times higher. In 1986 EU transfers to milk producers were around 72 percent, whereas they were 48.18 in 1991, 28.35 percent in 2001,

and 1.90 percent in 2012. Analyzing the rice support, the value seems to be even higher than that of common wheat. However, from 1988 to 1995 and from 2004 to 2014 the percentage values are higher than milk. In details, in 1986 EU transfers to rice producers were around 55.92 while 51.40 percent for common wheat; whereas they were 54.87 percent in 1991, for rice and 51.79 percent for wheat 28.35 percent in 2001 and almost zero for both in 2012 (Gaeta and Corsinovi, 2014b). The PSE show in table 2 is an indicator of the value of the transfers from domestic consumers and taxpayers to producers resulting from a given set of agricultural policies, at a point in time. Thus the PSEs are aggregate measures of the total monetary value of the assistance to output and inputs on a commodity-by-commodity basis, associated with agricultural policies. The measure of PSE and PSCT are most meaningful as an indicator of relative, not absolute, levels of transfers and in showing the transfers resulting from changes in policies (OECD, 2000). As shown also by Meloni and Swinnen (2013) on the comparison between the wine PSCT and EU budget for wine, PSCT calculations do not include much of the EU wine budgetary support. These $\sum$ do not include: the incentive for the grubbing-up scheme, the premium for abandonment area, aid for the use of must, national support programs, buying-in alcohol from compulsory distillation (considered within the classification of payments based on non-commodity criteria), and general service support estimates. In this $\sum$ PSTC calculations do not include much of the EU wine budgetary support. These budget expenditures were on average around 1 billion euros per year over the same period—with a peak in 1988 of 1.5 billion euros and corresponding to 11% of the production value. However, within the subsidies, the OECD

does take into consideration the consumer support estimate (CSE). As a consequence, PSCT value of wine is lower than what one would expect. One of the reason of this reduction is also (probably) due to negotiations in the WTO – Uruguay Round of the GATT, which required a reduction in protection (tariff and non tariff barriers) aimed to eliminate all agricultural policies with a distortive effect on trade flows and export subsidies. Financial aspects and pressure from the commencement of the GATT negotiations were probably among the most important contribution factor to determining the reorientation of EU agricultural policies. Concluding, the PSE and PSCT used in the present paper, even if they don't perfectly represent the set of producer support for the wine sector, could be used as policy indicators especially if compared with other commodities insight the PAC.

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