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European Wine Policies and their consequences on the global wine trade

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Summary: Over the years the EU wine policy has introduced a number of instruments with the principal goal of addressing the problems of the internal market and price stability, controlling supply and farmers' incomes. Regarding trade policy, it has acted to improve its competitiveness against growing competition from Third Countries, by building both tariffs and non-tariff measures for trade policy. While continuing on the path of reform which started in the early 1990s, it was only with the 2008 and 2013 reforms that wine policy changed significantly from a policy based on subsidising production and the protection of domestic markets from non-European producers, to a policy that aims to stimulate quality production and the competitiveness of the wine sector on the international scene. The Common Agricultural Policy and the EU domestic and international contexts have (probably) played an important role in the design of strategies for wine interventions. What is going on in the EU wine sector and what are the consequences of the wine policies on the market? This paper follows the evolution of EU wine policies through three main phases that, according to the authors' point of view, have characterised the EU's aims and strategies during the years of the reforms. Specifically, the authors focus their analysis on the budget expenditures of each phase (from 1970 to 2015) and the market response in the domestic and international scenario.
The thread which runs through this paper is that the controversial aspects of the wine sector are urgent requests from wine farms to both policymakers to intervene with market laws and rules, and to the policy itself which aims to correct its own failings. EU policy has arrived late (too late) to understand the increasing threat posed by the competitive growth of third countries. After 46 years of implementation, the 'classic dilemma' between policymakers and markets, the trade-offs between markets and policy, are still the drivers of EU wine policy.

Keywords: CAP, CMO, EU, Wine Policies

JEL Codes: L51, K23, N44, N54, P13, Q13

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Introduction

Over the years, the Common Market Organisation (CMO) has been the regulatory basis of the EU wine market, covering, through quite a strong vertically ruled approach, most of the wine industry; from quantity management of production to quality appellation, from labelling rules to the third countries trade Agreements. Following, at least in part, the objectives of the Common Agricultural Policy, CAP (Article 40 TFEU), the wine policy has introduced a number of instruments designed to address the problems of income stability, controlling supply and to improve competitiveness.

The Commission's aims of the early 1970s, that CMO policies should encourage the wine sector to bring supply in line with demand in terms of both quantity and quality have almost been overturned.

The EU is still the first wine producing area with around 60% of world production, but Europe's share of the world's vineyards has declined from 63% in 2000 to 54% in 2014, the effect of EU permanent abandonment premiums, ended in 2011 (OIV, 2015). In the meantime, the share of all other world wine regions is increasing, in particular in Asia, which now accounts for 25% of the world's vineyards; wine has become one of the most globalised products in the world. Even if the globalisation phenomenon is not new for the wine sector (Anderson, 2004), its influence over the years has changed significantly. One indicator of that is the growth of wine exports from third countries, which reached 20 million hl in volume in 2015; only 20 years before, in 1995, the export was about 11 million hl. The EU wine market is still dominated by Spain, France and Italy as the main EU exporting countries, and Germany and UK are the leading importers (Eurostat, 2016). On the demand and consumers' side, globalisation has had a profound impact. Social and religious culture, diet issues and alcohol policies have contributed to major changes in the geography of consumption: with a reduction in the traditional EU wine countries versus outside the EU.

However, the quite strong, vertically ruled system mentioned above, has often been considered to be overly regulated (Anderson, 2016; Pomarici & Sardone, 2009; Sphani, 1988). The EU domestic context and international scenes have (probably) played an important role in the design of wine strategies and interventions, since their inception in 1962. Historically speaking, the EU has often been accused of having policies to achieve protectionist goals: from distortive interventions in the 1970s and 1980s to less distortive payments in the 1990s (after the MacSharry reform), to decoupled payments in the 2000s (after the Fischler Reform), to target payments from 2010 until 2013 (Anania & Pupo d'Andrea, 2015). Thus generating imbalances in the domestic context between agriculture in the north of Europe and the Mediterranean, and between the policies for supporting the agricultural incomes (I pillar) and those focused on the rural development programme (RD). As Swinnen argued

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(2015), the main pressures for CAP reforms were trade negotiations, budgetary pressures, rising food safety and environmental concerns, and the forthcoming eastern enlargement. Financial aspects and pressure from the commencement of the GATT negotiations (WTO considers most EU expenditure to be trade distorting and therefore restricting) were probably among the most important contributing factors in determining the reorientation of EU agricultural policies, including the wine sector (Josling & Tangermann, 2014; Matthews *et al.*, 2017). In addition, the recent Brexit and the negotiation of free-trade agreements (Comprehensive Economic and Trade Agreement, CETA with Canada and Transatlantic Trade and Investment Partnership, TTIP with the USA) have changed the international game. Recently, debates on CAP and the CMO have seen new decision makers involved. The EU Parliament was involved under the co-decision procedure to the last CAP and CMO (including the wine sector) reforms for the period 2014-2020 (EU Parliament, 2012b). After 46 years of implementation, the CAP and its CMOs is one of the most integrated EU policies and accounts for the largest share of the EU budget (38% by 2013[1]).

Since the beginning of the CMO, what have been the effects of EU wine policies on the domestic scenario and on the international competition? What has happened during implementation to wine policies? In what direction are the wine policy changes going?

Many economists have been addressing wine policies and their effects (such as Anderson, 2004, 2014; Anderson & Jensen, 2016; Coleman, 2010; Dal Bianco *et al.*, 2015; Malassi, 1959, Montaigne & Cohelo, 2006; Corsinovi & Gaeta, 2016; Meloni & Swinnen, 2013; Niederbarcher, 1983; Pomarici & Sardone, 2001, 2009; Sphani, 1988). This paper follows the evolution of EU wine policies through three main phases that, according to the authors' point of view, have characterised the EU's aims and strategies during the years of the reforms. Specifically, the authors focus their analysis on the budget expenditures of each phase (from 1970 to 2015)[2] and the market response in the domestic and international scenario.

1. EU wine policies: impact expected, instruments and costs

Although the foundation had been established in 1962, the true organisation of the wine market did not come about until 1970 with the passage of the

1. This is equal to 363 billion euros of the 960 billion total (EU) (50 billion euros/year). This is a significant reduction compared to the 417 billion euros (2007-2014).

2. In this paper, the *expenditures* have been collected from the EAGGF (European Guarantee and Guidance Fund) and from the Reports of the National Support Programmes declared by the Member States (annual financial report). The dataset covers the CMO's expenditures (included in the guarantee fund and the EU's own budget), but not the rural development funds and other co-financing supports from EU countries.

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CMO wine. The Commission' newsletter, which announced the entry into force of the wine policy, highlighted the objectives to be pursued "*the common wine policy sets out to do two things: to adjust supply to demand and to raise quality standards throughout*" (EU Commission N. 9/1970).

The two formal regulations were published in 1970: one related to interventions on table wines (Reg. 816/1970) and the other concerning production of quality wines produced in specific region, Qwpsr (Reg. 817/1970). These two regulations remained separate until 1999 with Reg. 1493/1999. The idea was that wines with a quality designation would be autonomous within the table wine CMO and that two markets would exist; one for ordinary wine (or table wines) and one for quality wines (Scoppola *et al.*, 1997; Pomarici & Sardone, 2001). Up until this point, quality wine was only regulated at Member State level and no EU rules existed (Meloni & Swinnen, 2013).

The policy went through the major reforms in 1987 (Reg. 822/87), in 1999 (Reg. 1493/99) as a part of Agenda 2000, in 2008 (Reg. 479/08) and in 2013 under the CAP reform (single CMO, Reg. 1308/13). The wine CMO maintained its autonomy until 2008 when the wine sector was included in the single CMO regulation covering all agricultural products.

The following table 1 shows the three phases identified by the authors, the expected impact by the EU Commission, and the main instruments adopted in force and their time of implementation. The first phase (Phase 1), referred to as "*price and income support*", has followed the objective of market equilibrium by reducing surplus wine quantities and guaranteeing the income stability of producers (such as distillations, or aid for storage or buying alcohol).

The second phase (Phase 2) could be identified as the "*quality phase*". It saw the introduction of a set of instruments to control production with the aim of adapting supply to market demand, improving production potential and management, and restructuring production potential in terms of quality and quantity (such as the aids for grubbing up and permanent abandonment; restructuring; green harvesting; harvest insurances). The third phase (Phase 3), starting mainly with the 2008 Reform, marks officially the new policy orientation focusing on the "*competitiveness*" of quality wines. Most of the instruments included in table 1 were financed through financial support from the EU. The authors have also included additional instruments implemented during the three phases and strictly connected with the EU Commission's expected impact, but without any expenditure items, (ban on planting/ and planting rights; authorisation system; quality wines and PDO and PGI; rules on oenological practices and requirements for import). Even if indirect costs (such as administrative) were incurred to the National Member States' budgets for managing their implementations.

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Table 1 - The development of EU wine policies through three main phases

Phases	Expected Impact	Instruments	Implementation
Phase 1 "*Price & Income support*"	– Market equilibrium by reducing surplus quantities – Income stability of producers – Balancing enrichment costs – Export supports –Improve production potential management	Distillation schemes* Market withdrawals Buying-in of alcohol from compulsory distillation Aid for concentrated grape must Aid for storage Export refunds Regulatory measures** Other interventions expenditures***	1976-2012 1970-1999 1970-1999 1976-2013 1987-2008 1987-2008 2008-2018
Phase 2 "*Quality wines*"	– Adapt vine supply to market demand – Improve production potential management and reduction of vine potential – Restructure production potential in term of quality and quantity – Limit the production of table wines, improve quality	Grubbing up/ Abandonment**** Restructuring & reconversion Harvest insurance Green harvesting Replanting of vineyards for health or phytosanitary reasons Ban/Planting right regime Authorization system Qwpsr (Quality wines) Rules of oenological practices PDO/PGI and Varietals wines	1976-2011 1979-2018 2008-2018 2008-2018 2014-2018 1976-2016 2016-2030 1970 - *modified* 1970 - *modified* 2008 - *on going*
Phase 3 "*Competitiveness*"	– Improve competition of quality wines – Improve development & innovation of quality wines	Promotion in third countries Investments in enterprises Innovation	2008-2018 2008-2018 2013-2018

Source: Authors' creation

Notes: * Distillation schemes covered the aid for: obligatory distillation of table wine (1982), voluntary distillation (1976 – table wine), compulsory distillation of by-products of wine-making, crisis distillations (1999), potable alcohol distillation (1999), distillation of dual-purpose grapes (1987), and preventive distillation (1987)
** Regulatory measures regarding single payments scheme SPS, and mutual funds
*** Other intervention expenditures are the sum of incentives linked to income and price support
**** Abandonment of vineyards premiums covered aid for temporary and permanent abandonment

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As indicated in Table 2 the budget destined to support the wine sector was almost 44 billion euros. In that period, the vast majority of budgetary expenditures comprised subsidies for phase 1 (almost 70%); followed by 25% phase 2 and 4% phase 3.

Table 2 - Wine policies: historical CMO phases and budget expenditures (millions of Euro)

	Total support 1970-2015	% of total budget	**Total prevision 2014-2018**	% of total budget
Phase 1	31,160,6	70.7	1,106.6	17.7
Phase 2	11,073.0	25.1	2,769.1	44.4
Phase 3	1,825.6	4.2	2,364.6	37.9
Total	**44,059.2**		**6,240.3**	

Source: Financial Report, European Commission (2016)

According to the financial scheme of the EU and Reg. 1308/2013, the wine budget for the period 2014-2018 is still almost 1 billion per year[3] (6.240 billions in total). Phase 1 will account 17% on the total budget, (with by product distillation and single payment scheme); phase 2 about 44% (with restructuring and vineyards reconversion; replanting of vineyards for health or phytosanitary reasons; harvest insurance and green harvesting) and phase 3 with 37.9% on the total with the measures linked to support the competitiveness (promotion; investments and innovation).

2. The first CMO phase: aims, instruments and costs

Phase 1 has dominated the scene for more than forty years achieving the goal to "*stabilize markets and ensure a fair standard of living for the agricultural community concerned*" (Preamble, Reg. 822/87) by finding some balance between wine production and market outlets, and provides for price support (Sphani, 1988). More specifically many forms of distillations were

3. Budget to be shared among the EU wine producing countries. From 2008 resources were distributed via national envelope (National Programme Support, NPS). The regulation was based on measures that can be achieved through national support programmes managed directly by the Member States according to their strategies.

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implemented[4], with the expectation to achieve market equilibrium by reducing surplus quantities. The objectives were to guarantee a fair price for producers and create more effective measures to tackle growing market surpluses. From 1970 to 1999 (Table 1) with the goal to remove wine and alcohol from the market, the EU introduced market withdrawals and the buying-in of alcohol from compulsory distillation. Distillations were originally intended as temporary measures designed to address short-term imbalances, however, they have promoted production of undesirable table wine, and they have encouraged the continued production of table wine. As a consequence, they have converted the wine surplus problem into the problem of alcohol surplus, generated from distillation (Kortteinen, 1984). As shown in Table 3, the spending for the distillations scheme had its peak between 1981 and 1990 and during 1991-2000. Together with the market withdrawals of wine spending has risen more than 3 billion euros between 1991 and 2000. The buying-in of alcohol from compulsory distillation amounted to more than 20% of the payments in the whole period (2001-2010) with an average cost of around 1.5 billion euros. The aids have reduced thanks to the gradual disappearance of the measures by 2011. Looking at the average annual distillations in the main wine producing countries, Table 4 shows that 21% of total EU wine production was distilled between 1981/94, and it has been reduced to 11% between 2007/11. In the same period, the volume distilled has gradually decreased until 2007/11, also due to the "phasing out" of these measures (2009-2011). France, Italy and Spain have progressively reduced the volume distilled from 1981/94 (40 million hectolitres) to 2007/20011 (14.5 million hectolitres).

Phase 1 was also represented by the aids for concentrated grape must (Table 3). It was meant to balance the increasing costs of producers in southern and northern wine growing regions: in order to compensate for the competitive disadvantage suffered due to the higher cost of enrichment using must incurred by producers who were banned from using sugar to regulate alcoholic strength. The aid had its peak between 1991 and 2000 (Table 3) with a total of about 1.3 billion euros.

4. 1) Obligatory distillation of wine from dual-purpose grapes, which originate from other grape wine varieties or dual-purpose grapes produced in excess of the normal verified quantity. 2) Obligatory distillation of by-products as wine lees and grape marc. 3) Voluntary distillation for table wine or distillation "with a guarantee of proper use" for those with long-term storage contracts. A few years later, with the Reform in 1987 three distillations were voluntary and could be chosen by the producer: 1) distillation supplementary to long-term storage contracts; 2) preventive distillation; and 3) support distillation. Whereas the remaining three were compulsory: 1) distillation of by-products; 2) distillation of wines other than table wines and 3) distillation of table wines. The '99 (Reg. 1493/99) reform provided for two types of compulsory distillation: 1) wine obtained from dual-purpose grapes and 2) by-product distillation; and two types of voluntary distillation: 3) for the production of potable alcohol and 4) crisis distillation.

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Table 3 - The budgetary cost of phase 1: share by measures (millions of Euro)

Instruments	**1971-1980**		**1981-1990**		**1991-2000**		**2001-2010**		**2011-2015**	
	Million €	*%*	*Million €*	*%*	*Million €*	*%*	*Million €*	*%*	*Million €*	*%*
Distillation schemes*	546.0	*34.5*	5,132.0	*38.4*	2,589.7	*17.0*	1,043.5	*12.9*	297.4	*4.4*
Market withdrawals	563.4	*35.6*	3,494.6	*26.1*	2,621.0	*17.2*	0.0	*0.0*	0.0	*0.0*
Buying-in of alcohol	0.0	*0.0*	1,176.7	*8.8*	1,484.6	*9.7*	1,640.2	*20.3*	0.0	*0.0*
Aid for concentrated grape must	18.2	*1.1*	868.6	*6.5*	1,328.2	*8.7*	882.8	*10.9*	426.1	*6.3*
Aid for storage*	318.1	*20.1*	1,221.5	*9.1*	1,871.3	*12.3*	147.1	*1.8*	0.0	*0.0*
Export refunds	36.9	*2.4*	270.5	*2.0*	540.7	*3.5*	198.5	*2.4*	0.0	0.0
Regulatory measures*	0.0	*0.0*	0.0	*0.0*	0.0	*0.0*	73.6	*0.9*	476.0	7.0
Other interventions expenditures*	73.6	*4.6*	942.4	*7.0*	1,726.0	*11.3*	0.0	*0.0*	94.7	*1.4*
Total Phase 1	**1,556.2**	***98.3***	**13,106.2**	***98.1***	**12,161.5**	***79.8***	**3,985,7**	***49.3***	**1,294.2**	***19.1***
Total expenditures	1,583.0		13,360.6		15,236.1		8,071.5		6,751.2	

Source: Authors' dataset (our elaboration from EAGGF annual expenditures) (2015)

Note: * See notes Table 1

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Table 4 - Annual distillations by Member States (in million hectolitres)

	Volume Distilled			**% of wine production**		
Countries	**1981/94**	**1994/07**	**2007/11**	**1981/94**	**1994/07**	**2007/11**
France	14.2	7.7	1.5	21	19	9
Italy	14	7.4	5.3	21	10	9
Spain	9	5.1	3.0	26	13	20
Total EU	**40**	**21.6**	**14.5**	**21**	**13**	**11**

Source: Report EU Commission (1987) - European Commission (2006a, 2006b)

The Commission's proposal (EU Commission 2006a, 2006b, 2006c) was to abolish the use of sugar as well as the support for the use of concentrated grape must, but the Commission's change in attitude after significant pressure from the northern European countries forced Mediterranean countries, where such practices are not permitted, to maintain their demand for compensatory measures for musts and to support the need for a stricter regulation on enrichment. As a consequence, the aid was abolished, through progressive reduction of support: a "phasing out" from 2009-2012. This aid represents an example of how the Commission has taken control of the agreement, making the reform process probably more conservative (and protectionist) than the initial more liberalist proposal, due to its will/need to meet the interests of the (northern European) Member States and sectorial representatives[5]. Aid for private storage was created in order to avoid an excessively large fall in prices when the market was saturated and to compensate for storage costs. The storage for table wine and grape musts should have encouraged producers to take surplus wine off the market, thus supporting market price stabilisation. Among the "regulatory measures" (phase 1), the authors have included two interventions in accordance with the CMO Regulation 479/2008: single payments scheme and mutual funds. Direct payments under the single payment scheme were based on reference amounts of direct payments that were received in the past or on regionalised per hectare amount. The measure is still force in the 2014-2018 programmes. The mutual funds, strongly desired by the Commission (also in Reg. 1308/2013), and introduced with the aim to generate resources to provide income support to companies in crisis situations, have not found the interest of any member country, with no subsidies allocated.

5. The EU Commission proposed to abolish from 2008, all the aids for distillations and concentrate grape musts.

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This phase, was also characterised by a series of intervention measures, some of which have since been replaced, e.g. export subsidies, import and export certificates for products, compensatory rates and the Common Customs Tariff, which was applied by all EU Member States.

The tariff protection aimed to protect the internal market from an influx of non-EEC products. It was a mixed system, made up of a customs duty and a compensatory rate that was applied only once the duty and the amount spent by the importer to get their product onto the European market dropped below the guide price. Export refunds on the other hand protected European exporters trading on the global market. This measure consisted of refunding to the exporter the difference between the guide price and the amount spent on transport, and the price received on the world market. Though less than in the early 1990s, trade measures continue to protect the competitive position of domestic wine producers in the EU market. In order to comply with GATT requirements, expenditure on export refunds had to be reduced and eliminated with the 2008 Reform.

2.1. *The markets' response to phase 1*

The wine market in the EU has been characterised for decades by what EU Commission documents typically refer to as "structural imbalances" with an increase in surpluses and decrease in consumption (EU Commission, 2006a). In the main wine producing countries (Graph 1), wine production peaked around 1980, particularly in Italy and France with more than 80 Mhl. Spain saw a more modest change in production levels up to 1990 when it reached 40 Mhl, but figures fell between 1991 and 1995. When the EU prepared the 2008 wine reform, the EU Agricultural Commission estimated the structural surplus of wine to be 18.5 million hl. Finally, the 2008-2011 grubbing up scheme has reduced EU production by an estimated 10.2 million hl per year only, largely because the assumptions on which the initial target was based did not materialise (EU Commission, 2004; 2006a; 2011; 2012; Gaeta & Corsinovi, 2014). All the main EU wine-producing countries have suffered drops in production levels, albeit to differing extents. Currently, EU wine production is likely to reach 165.8 Mhl (while global production has reached 274 Mhl): Italy has become the biggest producer in the world (49.5 Mhl), followed by France (47.5 Mhl) and Spain (37.2 Mhl).

In particular, regarding the situation in the EU domestic market for table wine (TW) it has been characterised by an excess of production over demand (Graph 2). Data for the period 1980-2003 show that production of TW in the EU has decreased from 1,250 million hl in the wine year 1980/81 to 75 million hl in the wine year 2002/03; a decrease of almost 40%. Stock

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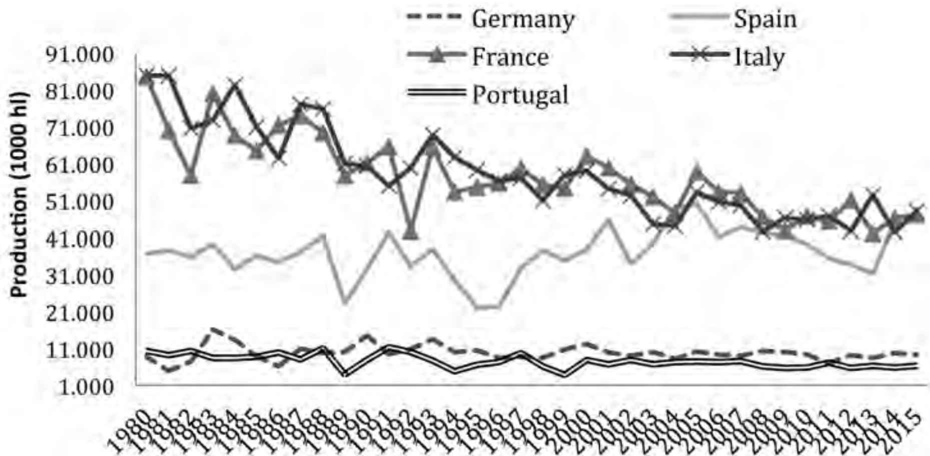
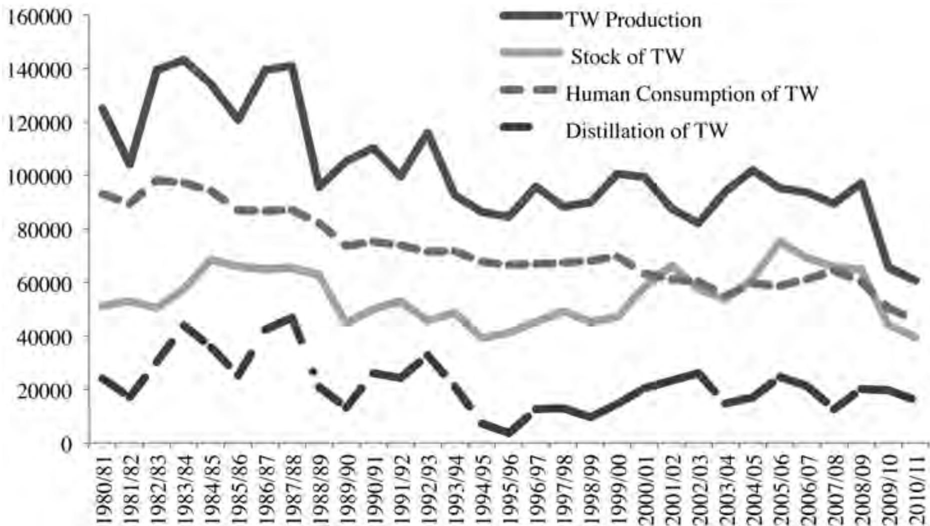
Graph 1 - Wine production: evolution in the main wine-producing countries (1,000 hl)



Source: Authors' creation from Eurostat database (2016)

Graph 2 - The dynamics of table wines in the domestic market (hl of wine)



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levels have fluctuated over the period but not always following the trend in production. In fact, some periods have witnessed decreases in production along with increases in stock and a reduction of consumption over the years. This is due to stock levels being determined by the combination of both production and consumption. Following the trend of production is distillation that has also fluctuated over the years (Innova, 2002). This was the sign that something had to change, starting a new phase.

3. The second CMO phase: aims, instruments and costs

The scenario of phase 2 was intended to improve the "*quality of wines*" (Table 1). The main interventions introduced on the vineyards have had an impact on the budgetary costs of the CMOs: a) incentive for the grubbing up vineyards located in unprofitable areas (permanent abandonment); b) restructuring and vineyards' reconversion; c) green harvesting; d) harvest insurance. During this period, regulatory measures on geographical indications (GIs), as well as on oenological practices, were implemented.

The grubbing up was introduced with the aim to create a wine sector adapted to market conditions by allowing less competitive vineyards to be permanently removed in areas where that activity was no longer profitable, giving them the opportunity to abandon agricultural production altogether.

As indicated at the top level of Table 5, between 1991 and 2000 the aid accounted for 2 billion euros (15% of the total budget). The measure was heavily criticised in the CMO Reform in 2008 for the budget dedicated to it and the huge total area to be grubbed-up (150,000 ha). The majority of final support for grubbing up (promoted by the EU Commission proposal) was in fact to cushion the consequences of the withdrawal of market measures rather than to rebalance the market. However, during the three-year grubbing-up scheme implemented between 2008/2011, a total of 161,167 hectares were grubbed-up with almost 1 billion Euro spent (EU Commission, 2011).

The EU has always considered control over vineyards a necessity in order to avoid possible production increases. Following the Commission's proposal, the Council decided to introduce a ban on any new plantings, in order to limit the production of table wines and prevent structural surpluses (EU Consilium, 2012; EU Parliament, 2012a). The ban was one of the main components of the CMO as it interacts with other instruments: the premium for permanent abandonment and the conversion scheme that could not be introduced without control on the vineyard area planted. This ban was initially set for the period between 1 December 1976 and 30 November 1978, but the expiry date for the planting rights regime was extended ten times

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between 1976 and 2008 always on a transitional basis. The justifications were most frequently the permanent risk of "*structural surpluses affecting the sector*", or "the *tendency in the next few years for production to exceed foreseeable needs*" (EU Commission, 2012).

The new wine policy (Reg. 130/2013) abolished the total ban on the planting of new vineyards and replaced the transitional planting rights from 2016 to 2030 by a new system of authorisations for vine planting, for which Member States shall make available each year authorisations for new plantings corresponding to 1% of the total area actually planted with vines in their territory (as measured on 31 July of the previous year). The scheme of authorisations for vine plantings is based on the outcome of the High Level Group on Vine Planting Rights organised in 2012 (High Level, 2012). As a replacement, personal authorisations are granted free of charge, which are no longer transferable to the market. Although this measure does not represent a cost item for the EU, it is increasing bureaucratic costs (Corsinovi *et al.*, 2013; Deconinck & Swinnen, 2015; EU Parliament, 2012a; Meloni & Swinnen, 2016). In addition, the flexibility given by each Member State to decide their authorisation parametric is creating more restrictions to the wineries. Differently from what happened with the milk quota regime that has come to an end on 31 March 2015 and the sugar quotas scheme, which will come to an end on 30 September 2017, the wine reform brought a reversal of a decision which had already been taken to liberalise planting rights (Anania & Pupo D'Andrea, 2015). The EU Commission proposal of liberalization was overturned and the agreement reached in 2013, was the result of an intense lobbying campaign and difficult political discussion at EU Council level. In this sense, the protectionist's position of the historical wine producing countries (Italy, Spain and France) to maintain a regulated system has prevailed over the liberalist position of the EU Commission.

The restructuring and conversion of vineyards has become the cornerstone of the EU wine policies. The aim was to improve the quality of wines and by adapting their vineyards to market demand (varietal changes) through paying compensation for the loss of revenue while a vineyard is being adapted, and as a contribution to the costs of restructuring and conversion.

Restructuring of vineyards has been designated with a budget in the decade 2001-2010 of 2.7 billion euros and 2.7 billion during 2010-2015 (Table 5). Graph 3 shows the share of expenditures in the main EU wine producing countries (France, Italy, Spain, Portugal and Germany) and (in the right column) the total expenditures for all Member States. The fall registered in 2009, is due to the interim period across the two Reforms (Reg. 1493/99 - 479/2008) and the new programming scheme in the EU countries.

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Table 5 - The budgetary cost of phase 2: share by measures (millions of Euro)

Instruments	**1971-1980**		**1981-1990**		**1991-2000**		**2001-2010**		**2011-2015**	
	Million €	*%*	*Million €*	*%*	*Million €*	*%*	*Million €*	*%*	*Million €*	*%*
Grubbing-up/Abandonment	0.0	*0.0*	214.4	*1.6*	2,330.9	*15.3*	939.0	*11.6*	258.7	*3.8*
Restructuring & reconversion	26.8	*1.7*	40.0	*0.3*	743.7	*4.8*	2,743.3	*33.9*	2,613.4	*38.6*
Green harvesting	0.0	*0.0*	0.0	*0.0*	0.0	*0.0*	147.8	*1.8*	805.4	*11.9*
Harvest insurance	0.0	*0.0*	0.0	*0.0*	0.0	*0.0*	40.3	*0.49*	169.3	*2.5*
Total Phase 2	**26.8**	***1.7***	**254.4**	***1.90***	**3,074.6**	***20.1***	**3,870,4**	***47.8***	**3,846.8**	***56.9***
Total expenditures	**1,583.0**		**13,360.6**		**15,236.1**		**8,071.5**		**6,751.2**	

Source: Authors' dataset (our elaboration from EAGGF annual expenditures) (2015)

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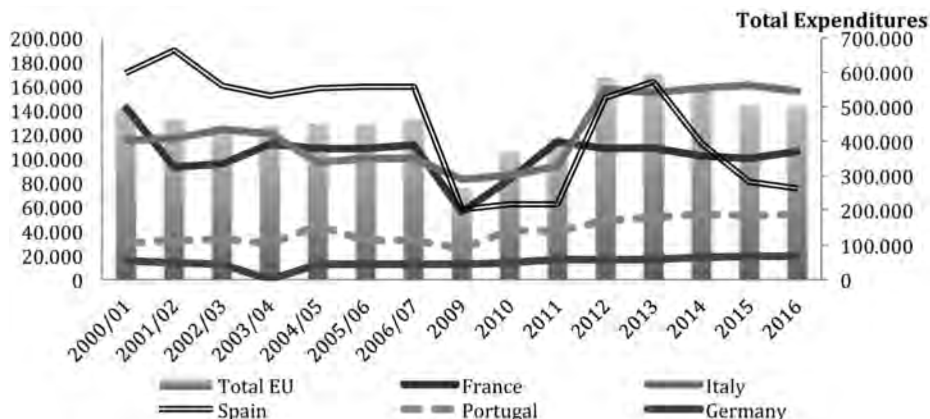
Graph 3 - Restructuring & vineyards reconversion: expenditures (in 1,000 Euro)



Source: Financial Report, European Commission (2016)

Among the instruments introduced to support quality wines, the "harvest insurance" introduced in the set of measures of the National Support Programme, contributes to protecting the producers' financial status if affected by natural disaster, adverse climatic events, diseases or pest infestation. Harvest insurance has absorbed a limited amount of resources partly due to the fact that it can be funded using other CAP measures.

One of the relevant aspects of the Phase 2 is represented by the inclusion of the quality regulation in the whole CMO from 1999 and the new EU wine classification from 2008. The Commission's reform proposal started with some incontrovertible facts: communication relating to wine labelling needed to be simplified due to the complex designation system that assumed knowledge of the quality system. During this time the Commission heaped praise on the international model, but there were too many complexities and disparities between the two worlds. The first deregulation came in the form of clear labels, which were easy to remember. The second introduced different rules depending on the DO with complex and confusing labels that were difficult to read and remember.

The new system reunited wines with origins in two categories, PDO and PGI. For wines with no origin as table wines, it proposed the categories varietal wines and non-varietal wines respectively. As regards PDO/PGI, the new rules implemented were in line with the aims of the WTO-TRIPS Agreement as well as the other agricultural products and foodstuffs PDO/PGI regime (EU Commission, 2012). Who knows whether the real trade-off, which led to the adoption of the new classifications, was in fact the request for Appellation wines to receive greater protection within the WTO.

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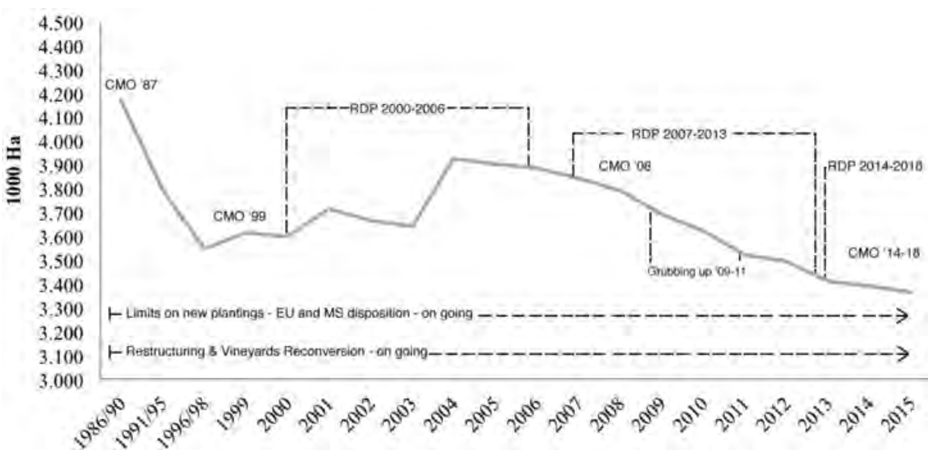
3.1. *The markets' response to phase 2*

In the twenty-five years from 1990, the total EU vine production area fell by 19% (from 4,168 million ha between 1986 and 1990 and 3,362 million ha). The downward trend visible on Graph 4 from the mid-1980s to the mid-1990s can, in part, be attributed to the continued block on new plantings, due to both EU provisions and individual Member State choices, as well as to the incentives for distillation and private storage measures. However, the increase in area starting from 2003 was probably linked to the introduction of the 2000-2006 programming period for the rural development plan (RDP), which characterised the second pillar of the CAP with the introduction of measures linked to support the development of farms.

Graph 4 - Evolution of EU area under vine and the effect of policy interventions



Source: Authors' creation from Eurostat database (2016)

The increase in quality wine production and its consumption (Graph 5) has probably paved the way to the third CMO phase (2008-2013). The year 2008 was selected due to the new wine classification that included within the "Quality Wines" the "Geographical indication" wines, which were previously only indicated as table wine or IGT. Initially they were implemented to ease the production of cheap wines for daily consumption; over the years they become an important factor in providing a framework for innovative developments in the sector (Innova, 2002).

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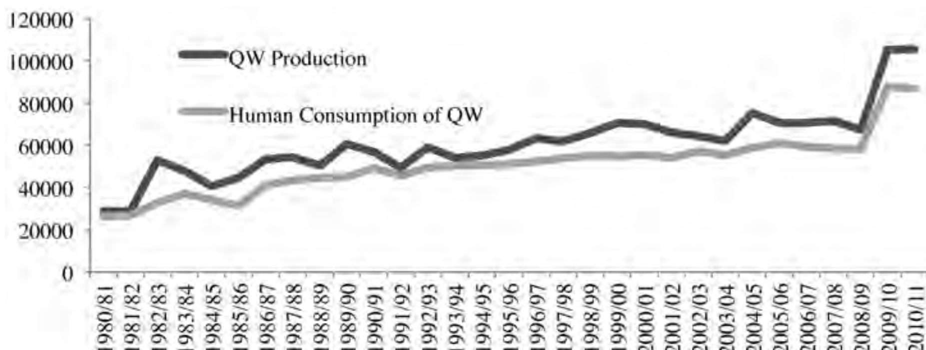
Graph 5 - The dynamics of quality wines in the domestic market (hl of wine)



Source: Authors' creation from Eurostat database (2016)

4. The third CMO phase: aims, instruments and costs

After more than thirty-eight years since the first (1970) CMO for wine, the third phase policy could be identified. Phase 3 was geared towards increasing the competitiveness of the EU wine sector in a worldwide market, mainly to counter the growing competitiveness of third country producers. One of the greatest fears for the EU Commission was the 'incursion' of new wine players on the EU market. Imports from New World wine countries have increased substantially, while the EU wine market has been confronted with a reduction in the demand for domestically produced wines as overall consumption of wine has decreased, especially in the most important wine procuring countries (EU Commission, 2006a). The importance of tackling the issue of consumption was one of the EU Commission's "*missions*", especially during the years of the second and third CMO phases. The UE introduced the promotion of quality wines in third countries as a real opportunities for improved competitiveness.

Looking at the distribution of subsidies destined to support phase 3 (table 6), promotion in third countries is the first largest expenditure category: between 2001-2010 122 million euros of EU funding has been spent to subsidise promotion and almost 750 million (11% of the budget) in the last six years. Regarding investment and innovation aids, implemented during phase 3 (Table 6), these essentially cover the similar scope as the Rural Development Programme investment aid measures of "modernization of agricultural holdings" and "adding value to agriculture and forestry products". Demarcation problems with similar operations in rural development programmes have caused major problems during implementation and distribution. Here, the different interests within the wine lobby have

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Table 6 - The budgetary cost of phase 3: share by measures (millions of Euro)

Instruments	**1971-1980**		**1981-1990**		**1991-2000**		**2001-2010**		**2011-2015**	
	Million €	*%*	*Million €*	*%*	*Million €*	*%*	*Million €*	*%*	*Million €*	*%*
Investments and Innovations	0.0	*0.0*	0.0	*0.0*	0.0	*0.0*	93.0	*1.1*	851.9	*12.6*
Promotion in third Countries	0.0	*0.0*	0.0	*0.0*	0.0	*0.0*	122.4	*1.5*	758.3	*11.2*
Total Phase 3	**0.0**	***0.0***	**0.0**	***0.0***	**0.0**	***0.0***	**215.4**	***2.6***	**1,610.2**	***23.8***
Total expenditures	**1,583.0**		**13,360.6**		**15,236.1**		**8,071.5**		**6,751.1**	

Source: Authors' dataset (our elaboration from EAGGF annual expenditures) (2015)

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probably played an important role in the distribution of support within the EU States, that represents 12% of spending (on the total budget) from 2011 to 2015.

Table 7 - Promotion in third countries: financial expenditures (in 1,000 Euro)

Year	Total EU	France	Italy	Spain	Portugal	Germany
			Financial execution			
2009	**35.18**	18.42	4.86	6.98	2.95	462
2010	**87.20**	27.00	25.11	24.43	3.28	31
2011	**111.65**	20.05	48.51	29.69	6.11	1.02
2012	**142.52**	29.01	60.67	36.99	8.19	1.14
2013	**145.43**	17.09	73.58	38.00	9.22	1.22
2014	**170.07**	43.70	72.07	39.44	6.16	1.14
2015	**188.69**	44.47	84.39	44.34	6.99	1.18
Total 2009/15	**880.74**	**199.74**	**369.19**	**219.87**	**42.90**	**6.47**

Source: European Commission, wine statistics database (2016)

Among the distribution in the main wine producing countries (Table 7), Italy is the first country with the highest value of spending (369 million Euro), followed by Spain (219 million Euro) and France (199 million Euro). The main beneficiaries were the Appellation of Origin as well as the temporary associations of businesses and producer groupings. For the most part, the resources were used by companies working in the United States, Canada, China and Japan to strengthen the markets. The majority of projects concentrated on joint participation in trade show events, contact with journalists from the countries of origin, and training activities for operators in the sector.

4.1. *The market response to phase 3: the consequence on the global wine trade*

International competition has been booming since the end of the 1990s, although its roots run deeper, and EU policies were very slow to realise the growing threat posed by this.

The increase in areas under vines between 1995 and 2010 in third countries is significant and the global trend has been steady growth between 2010 and 2012. Argentina, Chile, Australia and China represent the first

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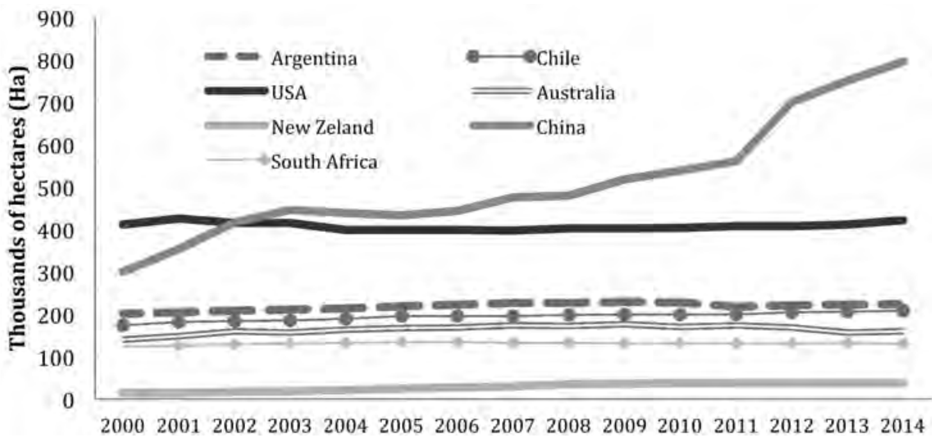
Graph 6 - The EU's competitors: evolution of area under vine (1,000 ha)



Source: Authors' creation from OIV dataset (2016)*

Note: * 2014 – provisional and 2015 – forecasts. Vines for wine grapes; table grapes or dried grapes in production

major sign of change in wine geography. China is one of the newcomers to the global wine scene and over the past 15 years it has seen its production area increase significantly (Graph 6). This country is the main driver of growth of the world area under vines and thus confirmed its position attained in 2014 as the country with the second largest vineyard area worldwide (830,000 ha), even if the data include the production of table grapes, which are very popular in China (OIV, 2014, 2016). On the production side, between 1990 and 2010 (Graph 7), non-EU countries such as Chile, South Africa, Australia and China saw their now famous supply increase. The US was the first confirmed wine producers outside the EU (22.1 Mhl) that have seen some reductions since 2011-2012, followed by Argentina (13.4 Mhl), Chile (12.9 Mhl), Australia (11.9 Mhl) and China (11 Mhl) (Graph 7).

The scenario of the EU and the rest of the world's consumption showed two situations: on one side, domestic consumption trends showed a decline (especially for table wine) in the main EU wine-producing countries (France 43%; Italy 36% and 45% in Spain in the last fifteen years from 2000-2015) with only a few positive trends in Germany 0.8% and the UK with 28%. On the other side, there was a remarkable growth in wine consumption outside the EU (USA 32%, Canada 49%, China 49%, Russia, 53% and Australia 27% from 2000-2015) (OIV, 2014, 2016). However, the consumer attention has generated different reactions and sensitivity in the world market.

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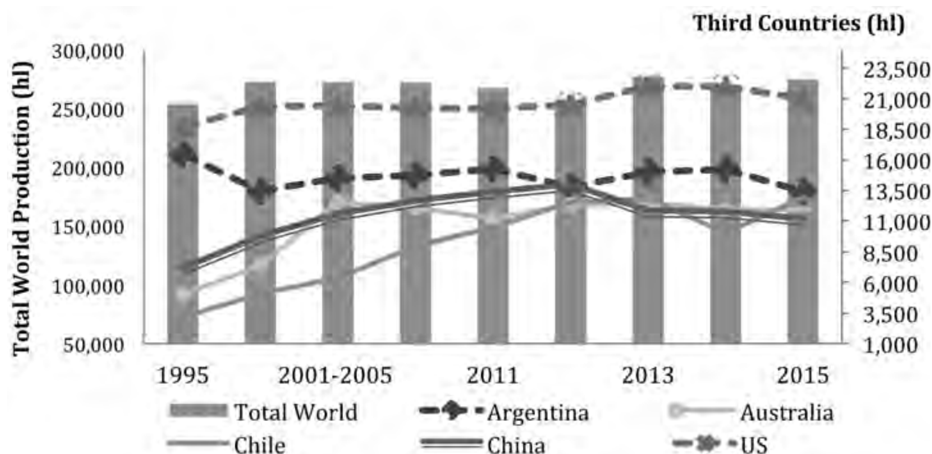
Graph 7 - Dynamics in wine production in third countries (1,000 hl)



Source: Authors' creation from OIV dataset (2016)*
Note: * 2014 – provisional and 2015 – forecasts

The positive trend of exports to third countries of Quality wines (QW) compared to TW before the implementation of the competitiveness measures is shown in graph 8. Since 1980, there has been a rise in terms of quality wines, until 1995/96 and 1998/99 when the difference between the typologies was very low. From 1999, the gap between QW and TW was again pronounced in favour of quality.

In trying to answer whether the promotion has achieved its expected impact within the EU, we can argue that the promotion was probably the best solution that the EU could imagine for its development, in accordance to the market trend of quality wines (Graph 8). The measure, as already stated, was implemented only in 2008 and a positive trend in exports was visible (Graph 9) especially in the US market. Since the beginning of the 1990s, international trade in wine has increased at a surprising rate both in traditional producer and consumer countries and in emerging markets. Over the last decade, there has been the biggest increase in wine traded. Since 2000, the international scenario has been dominated by the USA (3 Mhl) followed by China (2.8 Mhl in 2014), Russia (2.4 Mhl) and Switzerland (1.7 Mhl) (Graph 9). However, some consideration regarding the implementation of new policy oriented to promote wine in the EU should be undertaken considering the trend "Intra EU import" that, in 2015, reached 46 Mhl (the volume imported by EU countries as CN 2204 traded): Germany (12.67 Mhl – in 2015) and the UK (7.19 Mhl) represent by far the leading destinations for EU wine imports (Graph 10) followed by France (6.67 Mhl).

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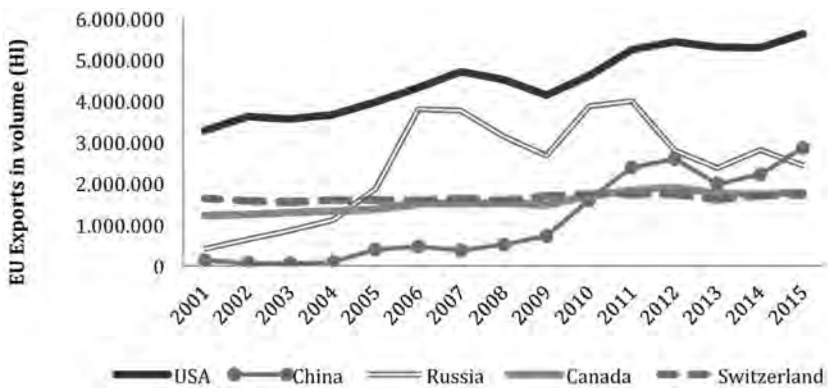
Graph 8 - Quality and Table wines: export before promotion in third countries

Source: Authors' creation from Eurostat database (2016)

Graph 9 - Dynamics of EU exports (in volume) by destination



Source: Eurostat Comext (2016)

The dynamic growth of the wine traded and the increase of export have been driven by a number of external and internal factors including policy interventions. The third phase was also characterised by an EU intervention towards bilateral and multilateral negotiations with the main commercial partners in order to facilitate trade between the EU and third countries. Before the 1994 Agreements resulting from the Uruguay Round of the GATT, the EU's wine sector has been protected from imports from outside the EU through a variety of import restrictions (tariffs, the reference price system with its variable levies, relevant oenological measures and other non-tariff barriers). The growth of international trade and the progress of the WTO have contributed to the progressive reduction of tariffs in the wine sector

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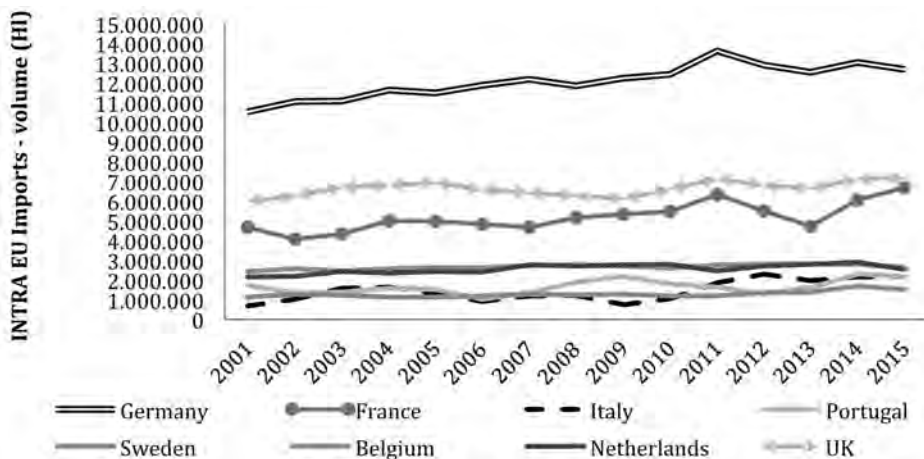
Graph 10 - Dynamics of intra-EU imports (in volume) by destination



Source: Eurostat Comext (2016)

(Dal Bianco *et al.*, 2016; Mariani *et al.*, 2012; Innova, 2002; Josling & Tangermann, 2015). The 1994 WTO required the abolition of traditional variable import levies and of other measures and import charges provided for at the time. This meant the conversion of all measures restricting imports of agricultural products into customs duties and the prohibition of such measures in the future (Matthews *et al.*, 2017). Today, tariff on wine depends on the importing countries and how they classify them: a) ad valorem (according to the price of the wine); b) volume based; c) alcohol contents; d) typologies (still, sparkling, bottled and bulk). They are very heterogeneous across the countries and they have changed over time, especially with the implementation of free trade agreements (FTAs). Anderson (2010), regarding the different level of tariffs, argues that tariff protection is quite low in countries with a long tradition of imports with respect to those that have recently experienced growing imports (as Asia).

For example, considering the USA market, the general import duty rate applied in USA for import wine (including wine from EU) is 6.3 cent per liter ($ 0.063) for container size of two liters or less of bottled wine by volume not over 14 %. For bulk containers (holding over 4 liters) duty rate is 14 cent per liter ($0.14). For several emerging markets those rates are still high with China at 14%, Russia at 20%, Brazil at 27%, Vietnam at 50% and India at 150%[6] (Sumner *et al.*, 2011). Additional federal taxes are applied whether

6. www.wineinstitute.org/international_trade_policy.

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the wine is imported. The rate of taxations determined by alcoholic contents of product and the quantity and source of its effervescence. Importers of EU wines (with a registered license for import and the sale) are responsible for all applicable Federal excise taxes and duties on wines traded in USA.

The duties on wine in EU are governed by Reg. 1031/2008. EU legislation splits trade in wine into three categories: bottled wine; bulk wine; and sparkling wine; with a separate nomenclature for grape musts and grape juice. These classifications are managed by the customs authorities making it possible to trace their trade flows with a high degree of precision The reason for these continued variations can be found in the duty applied to the various tariff lines. In recent years, many regulations have laid down rules for bottled wine tariffs and now use the international HS coding system, which is progressively reducing the pressure from sampling. The conventional rates of duty are applicable from 1 January 2010: the customs duties applicable to imported goods originating in countries which are Contracting Parties to the General Agreement on Tariffs and Trade or with which the European Community has concluded agreements containing the most favoured nation tariff clause shall be the conventional duties shown in the following table.

In the EU excise duties for alcohol are regulated through the Directive 2008/118/EC, covers the general excise duty scheme and established a general regime for goods subject to excise duty with the aim of guaranteeing their free circulation and, therefore, the good functioning of the EU internal market. The excise duty levied by EU Member States on wine is fixed by volume of finished product. Member States may apply reduced rates of excise duty to any type of still wine and sparkling wine of an actual alcoholic strength by volume not exceeding 8,5% vol. having an actual alcoholic strength by volume exceeding 1,2% and 15 % vol., provided that the alcohol contained in the finished product is entirely of fermented origin. The motivation for taxing wine consumption is simply revenue seeking (Fogarty, 2010).

However, experts observed that technical barriers are of increasing importance and there has been a growing use of them by governments in order to protect domestic markets. Non Tariff Measures, NTMs are of increasing importance and there has been a growing use of them by governments in order to protect domestic markets. NTMs represent a major challenge for the multilateral trading system as the "modern" forms of protectionism. Among the NTMs there is a great heterogeneous range of policies among countries including the protection of human health and the environment – the fact that trade is affected is a normal and legitimate consequence of such regulations.

NTMs include technical measures to trade (such as ore shipment inspectation, technical barrier to trade, sanitary and phytosanitary rules) or

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non-technical measures like to intellectual property or rules of origin[7] (such GIs). A great debate that has characterized the last years of wine policies agreements has regarded the reduction of NTMs with the request to reduce the standard and import requirements and the protection of intellectual property.

On March 10, 2006, the United States and EU signed a bilateral agreement on trade of wine for protection of wine names, recognition of winemaking practices and labeling. Thee agreement did not resolve the issue about the possibility of using names, which at that point were considered to be "semi-generic" and were then promoted to "generic". As a consequence of this, American producers who in the past had marketed their wine under the names in question (such as Californian Chianti) could continue to do so. In this case, the problem is mostly linked to the incomplete nature of the TRIPS agreement (Trade Related Aspects of Intellectual Property Rights) signed during the Uruguay Round of the GATT which introduced the issues relating to intellectual property rights (including geographical indications) still created confusion in the protection and recognition of GIs. The 2006 Agreements seems not to be the definitive solution with a strong opposition among the parties for guarantee the protection of GIs. Hopes of a transatlantic trade deal (TTIP) between EU and USA have been abandoned following Trump's election to the US presidency. After more than three years of negotiations and 15 rounds, negotiations with the US seems to be in stand by (or even failed). The EU has agreements awaiting adoption and under negotiation (Comprehensive Economic and Trade Agreement with Canada; Singapore; Vietnam) for the abolition of wine duties, the recognition of GIs and the reduction of non-tariff measures (such as regulations and requests for standards, certifications, labelling and packaging characteristics).

EU is also call to addressing the UK's decision. How the EU and the UK will interact with each other when the UK will become a third states? After Brexit commercial relations between EU and UK will have to be renegotiated. EU companies may have to pay duties to export in the UK market, like in USA. Therefore, although the UK will be free from the constraints of the EU to trade with non-EU wine-producing countries such as South Africa, Australia and the US (De Filippis, 2016).

Globalisation should leads to free trade between countries, however after the recent changes in the world scenario, the EU wine trade policies seem to be arrive late (or too late) to understand the competitive growth and the effects of globalisation. EU looks more a bystander still anchored to its protectionist's policy and interests.

7. http://unctad.org/en/PublicationsLibrary/ditctab20122_en.pdf.

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Conclusion

Summarising the best and worst EU wine decisions, is the following concluding remark,

The wine example is an illustration of the tedious but largely unsuccessful attempts by the EU institutions to move toward a modern market policy focused on identified market failures and to be less captive to the farmer organisations (Bureau & Mahé, 2015).

During more than 45 years of wine reforms, both internal and international measures described in the paper in three different phases, represent an example of compromise between protectionist and liberalist policy, with obviously different effects on the market.

Concerning EU internal policy decisions, there can be no doubt after more than thirty years that the move to eliminate and reduce economic funds to market measures, like distillations (phase 1), was well intentioned; it aimed to increase the efficiency and competitiveness of the European wine sector. This move may have been too late with millions of Euro thrown in the garbage basket of a privileged lobby made of cooperatives and farmers who survived without a real market and only with the dedicated help of their deputies in the EU Parliament in phase one.

Again, there is no doubt that a concrete step forward in expenditure efficiency and policy response to the market was brought about by phase two, through the separation of quality wine regulation from table wine, which increased and strengthened, with PDOs and PGIs production, the characteristics of the EU quality wine on the world market. Restructuring and reconversion measures were probably the best and most efficient policies ever made, both by helping vine growers to rebuild their quality vineyards and readapt the grape varieties to consumer trends,

Even the more controversial measure of grubbing up, aimed at the 'EU chimera' of market equilibrium, has helped the quality policy, by eliminating vineyards, especially in those areas that should not be allowed to be quality wine (PDO and PGI) production areas anyway. The question in this regard concerns the number of hectares used under this measure. The initial aim of the Commission to grub up 400,000 hectares was probably more efficient than the final figure of only 120,000 hectares. Another consequence was, indeed, that the EU holy mission of market equilibrium between supply and demand, based only on quotas or production, was strongly controlled, creating a bureaucracy over cost of production. A return to a protectionist regulation is obvious in the EU's wine policy where the 2008 decision to liberalise the vineyard planting rights system was overturned in 2013 and a new set of regulations (authorisation) was implemented.

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Concerning the international EU policy interventions and the effect of what is defined as globalisation on the world wine market (Anderson & Golin, 2004), it is true that the wine sector is increasingly becoming an export oriented industry (Dal Bianco *et al.*, 2016). Therefore, special evaluation of the EU international wine policy should be undertaken.

International free-trade agreements continue to occupy Brussels's bureaucrats without reaching any final agreements. Indeed, the world wine market has been over-regulated, and the effective level of protectionism has probably not changed at all (Foster & Spencer, 2002; Dal Bianco *et al.*, 2016).

The EU is still moving from the administration of protection – quotas, tariffs and subsidies – to the administration of precaution – security, safety, health and environmental sustainability. This is the new version of the old divide between tariff and non-tariff measures (Lamy, 2015)[8].

We have witnessed the progressive growth of the so-called New World producers, who were considered weak competitors until the EU markets started to exhibit on their shelves wine from Australia and USA. But the problems, as we showed in the paper, had a long story related to their birth. After analysing the vineyard areas and wine production growth of third countries over the last 20 years, it is safe to say that the third phase of EU policy, aimed at correcting (or perhaps remedying) its own failings was implemented, and luckily has arrived, even if it may be too late. The CMO promotion measure (from 2008) was probably the best solution that the EU could imagine. Even if the ability to dispense the budget and the typical Eurocratic bureaucracy have made this policy difficult to use, the interest of wine farmers is increasing daily – as it should be as a result of this measure. The results of public allocation and measures seem to be identified in Rausser definitions about the PERTs and PESTs policy (Rausser, 1983). The policies that are generated to correct market inefficiencies and failure that have the aims to improve a hypothetical collective welfare system, PERTs policy, finish in configuration as PESTs intervention made for private interest of the decision makers (Rausser, 1983). It is also true to say that the European legislator created significant complications for the sector. In many cases, the legislator also granted the Member States the ability to implement important simplifications and it was national bureaucracy, which resulted in these not being introduced. Often when this kind of possibility is granted, people are concerned with how institutions and civil servant positions will continue to exist once there is no longer any reason for them and it is always nicer to be able to pass the buck. According to this, Tullock (1965) shows that a bureaucrat's main interests lie in expanding bureaucracy. For individual

8. www.ecipe.org/app/uploads/2015/02/PLamy-Speech-09.03.15.pdf.

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bureaucrats, this development has advantages in terms of power, respect, consideration from public decision-makers and influence on decisions.

The classic dilemma between policymakers and markets, the trade-offs between markets and policies, still remain the drivers of the EU wine policy.

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