Common organisation of the market in wine

2007/0138(CNS) - 04/07/2007 - Legislative proposal

PURPOSE: to reform the common organisation of the wine market.

PROPOSED ACT: Council Regulation.

BACKGROUND: the European Union is the world's leading producer, consumer, exporter and importer of wine. In 2006 wine accounted for 5% of the total value of the EU's agricultural production. For economic as well as employment purpose the wine sector is vital. At the same time, however, the volume of wine exported since 1996 has been increasing at a much slower rate than imports and there has been a distinct deterioration in the balance between supply and demand in the wine sector. Third country imports are putting European producers' income and prices under pressure.

The current common organisation of the wine market or CMO is regulated through Council Regulation (EC) No 1493/1999. (See: CNS/1998/0126). Not all of the Regulation's instruments have proved effective and their continued use is preventing the EU wine sector from gaining a competitive momentum. For example, "crisis distillation" has proved cost-inefficient to the extent that it has encouraged structural surpluses without requiring improvements in the relevant competitive structures. It can therefore be concluded that the current legal framework is not able to attain the Treaty objectives of stabilising the wine market whilst ensuring a fair standard of living for the agricultural community concerned.

Prior to presenting this proposal the Commission held a wide-ranging consultation process based on the publication of its 2006 Communication "Towards a sustainable European wine sector". (See INI/2006/2109).

CONTENT: the purpose of this proposal is a fundamental reform of the Community's wine regime. The objective of the reform is to:

- increase EU wine producers' competitiveness;
- strengthen the EU's wine reputation globally;
- recover old markets and win new ones, both globally and within the EU;
- create a new wine regime based on clear, simple and effective rules that are capable of balancing supply with demand;
- preserve the best traditions of Community-wide wine production methods;
- reinforce the social fabric of rural areas; and
- take account of environmental considerations when producing wine.

To achieve these stated objectives, the Commission is proposing, in summary, the following measures:

Support measures: The Commission proposes that a budget envelope be given to each wine-producing Member State, calculated according to three objective criteria, namely shares in area, production and historical expenditure. Using their envelope, every Member State will be allowed to finance measures according to their preference and from a given menu. That menu being:

- new support for wine promotion in third countries;
- vineyard restructuring and conversion schemes;
- support for green harvest; and
- new crisis managements measures (for example, insurance against natural disasters and administrative costs of setting up a sector-specific mutual fund).

Regulatory measures:

More adaptable oenological practices: Responsibility for approving new, or modifying, oenological practices will be transferred to the Commission, which will assess the oenological practices accepted by the OIV and incorporate them into the list of accepted EU practices. For the purpose of exports, the EU will authorise those practices that have been agreed internationally. The ban on imports of musts for vinification and on blending EU wines with imported wines will be maintained.

Designation of origin and geographical indications: The Commission proposes to confirm, adapt, promote and enhance the concept of EU quality wines based on a geographical origin approach. In order to do so, the Commission proposes establishing a clear framework for wines with Geographic Indications (GI); these can be further sub-divided into wines with a protected geographical indications (PGI); and wines with a protected designation of origin (PDO). These indications will be compatible with the horizontal provisions set out in Council Regulation (EC) No 510/2006 on the protection of geographical indications and designations of origin for agricultural products and foodstuffs. (See CNS/2005/0275).

To maintain quality standards the Commission is also proposing to maintain the ban on over-pressing grapes and to expand the role of inter-professional organisations in order to control and manage the quality of wine produced. Control instruments will be reinforced for the production of *" vin de cépage"*. In addition, the Commission is proposing to ban the use of sugar for enriching wine on the day that the reform comes into force. In future, all wine will be made purely from grapes and unsubsidised must.

Labelling: The Commission proposes to simplify the labelling of provisions by setting up a single legal framework that applies to all the different categories of wine and particulars relating to them. This will involve the use of a single legal tool for all wines by complementing the rules and provisions set out in Directive 2000/13/EC on approximating laws relating labelling, presentation and the advertising of foodstuffs. (See COD/1999/0090).The new labelling provisions will also take account of WTO policies by removing the distinction between the rules on labelling wines with and without protected designations or origin or geographical indications and to fully inform the consumer about the origin of the product through appropriate labelling rules on traceability.

Trade with third countries:

Bearing in mind that WTO negotiations are still ongoing and that their outcome remains unknown, the proposal does not touch on the current legal framework relating to external trade. The proposed reform does, however, touch upon the impact and the role of export refunds. The economic impact of wine exports has decreased. Indeed, exporters with refunds represents less than 15% of total exports in volume. The value of export refunds represents 3.4% of the value of the products eligible for export refunds. The Commission is, as a result, proposing to abolish export refunds.

Unlawful plantings, transitional plantings and the grubbing-up scheme: These measures are being proposed in a bid to help less competitive wine-growers leave the sector with dignity. The surplus production of wine in the Community has been aggravated by violations of the transitional prohibition on new plantings. A significant number of unlawful plantings continue to exist in the Community, constituting a source of unfair competition and exacerbating problems for the wine sector. To address this challenge, the Commission is proposing a definitive abandonment regime.

Thus, growers who wish to leave the sector will be offered a voluntary grubbing-up premium. In year one, the premium will be 30% higher than current levels. To encourage uptake from year one, it will decrease over the five years of the scheme. To avoid social or environmental problems, the Member States affected will be allowed to limit grubbing-up in mountains and steep slope vineyards and in environmentally sensitive regions.

Grubbing-up will be stopped if the total reaches 10% of a country's area under vines. The total amount of grubbing-up should be about 200 000 hectares. The budget for this will fall from EUR 420 million in year one to EUR 59 million in the fifth and final year. The average premium will decrease from EUR 7, 174 /hecrate in year one to EUR 2,938/hectare in year five.

Given that a market balance still needs to be found and given that the grubbing-up scheme will take time to take affect, the prohibition on planting will be kept in place until 31 December 2013. At the end of this deadline, the ban on new plantings will be lifted to allow competitive producers the chance to respond to market conditions.

The agricultural area, previously used for vine growing, once grubbed up, will qualify as an eligible area under the Single Payment Scheme and be granted the average regional decoupled direct payment, as set out in Regulation (EC) No 1782/2003. (See CNS/2003/0006).In order to qualify for the Single Payment Scheme, environmental standards under cross compliance will be applied more widely. Cross compliance will apply for all grubbed-up areas. Minimum environmental requirements for grubbing-up, restructuring, green harvesting and increased funds for agri-environmental schemes in Rural Development programmes will be made available.

Rural development measures: The proposed reform of the Community's wine sector links into Regulation (EC) No 1698/2005 on support for the rural development by the European Agricultural Fund for Rural Development of EAFRD. (See CNS/2004/0161). As a result, the Commission proposes that funds be transferred from the wine sector budget to the EAFRD, rising from EUR 100 million in 2009 to EUR 400 million in 2014. The money thus transferred will be ring-fenced for the wine producing regions. The kind of programmes eligible for EAFRD funding on this scheme would include: helping young farmers to establish themselves in the reformed wine market; vocational training; information and promotion support for producers' organisation after entering a quality scheme; and early retirement for farmers who decide to stop all commercial farming activity for the purpose of transferring the holding to other farmers.

Promotion and information: The Commission also proposes a responsible promotion and information campaign as well as setting EUR 120 million aside from the national envelopes for promotion measures in third countries. The measures will be eligible for 50% Community financing. There will be new information campaigns within the EU on wines with Geographical Indications as well as on responsible /moderate wine consumptions.

Budgetary implications: The proposal will not increase costs and the recently agreed wine sector budget amounting to EUR 1.3 billion will not be effected. The budget will be used for national envelopes (including promoting EU wines in third-countries and grubbing up); to allow a transfer of funds to Rural Development measures for wine producing regions and to allow transfer to the single payment scheme according to the areas grubbed-up. The Commission suggests that the reform will lead to a more efficient use of the current EU budget.