European Wine Market Issues and Prospects in the Context of the Changes to the Common Market Organization for Wine

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The European Union introduced its new Common Market Organization (CMO) to reduce production, reduce government disposal, and increase market demand for low-priced wines. It is not clear if European wine exports will decrease as a result of the CMO.

The European wine market has undergone two recent economic dislocations. The first started in 2004, with oversupply of wine on world markets, and the impact of this oversupply continues to affect mainly low-cost wines. The second slump started in 2008, with the global financial crisis and recession in Europe and America, which reduced incomes and increased uncertainty. The high-quality wines, such as Champagne and the famous wines of Burgundy and Bordeaux, were the most significantly affected by this "demand shock."

The long-evolving changes to the European Union (EU) Common Market Organization for wine (CMO) were finally agreed to in 2008 in the context of these severe market concerns. These policy and program changes have not yet been fully implemented, but are intended to improve the economic prospects of EU producers by reducing overproduction and increasing the competitiveness of EU wines on the world market. Under the CMO, member states in the EU that produce wine, such as Spain or France, choose a set of specific mechanisms among a common "menu."

The most important program is the replacement of up to 175,000 hectares of winegrapes with other crops in just four years. Currently, planting of vines is tightly restricted to specific parcels of land in most regions. Therefore, this removal of winegrape acreage, by removing vines, is designed to lead to smaller harvests.

The CMO will also include support programs aimed to increase the competitiveness of the European wine industry through promotion, a single-payment program, and increased investment. New regulatory measures in the CMO are also intended to help revitalize the European wine industry.

Supply, Demand and Trade Background

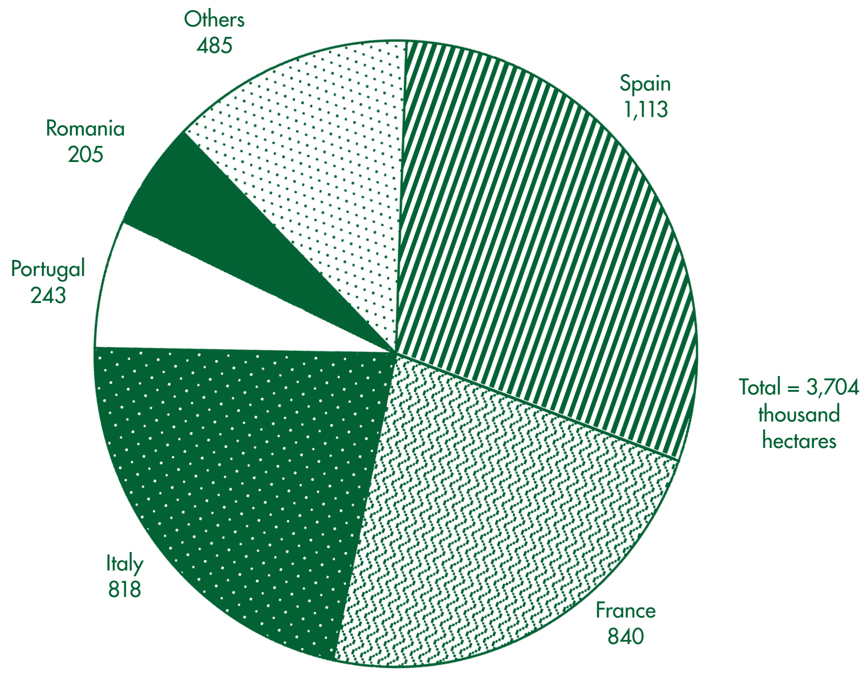
Viticulture is a traditional and important European agricultural activity, particularly in the south of Europe and in the new member states of the southern central and Eastern European countries. In the EU, Spain has about 30% of the European winegrape area, whereas France has 20%, and Italy 22% (Figure 1).

The gap between European wine production and consumption has widened in recent years. In the 2008/2009 wine year, the EU produced 17.3 billion liters, including about 10.5 billion liters of ordinary wine and 6.8 billion liters of higher quality wines. That year, EU consumption amounted to 13.5 billion liters of wine.

In 2006, the last year for which consistent data are readily available, the EU wine industry exported 6.2 billion liters of wine, of which about 4.5 billion liters were shipped within the EU, and about 1.7 billion liters were exported to countries outside the EU. In 2006, countries in the European Union imported 5.8 billion liters, of which 1.2 billion liters came from non-EU countries.

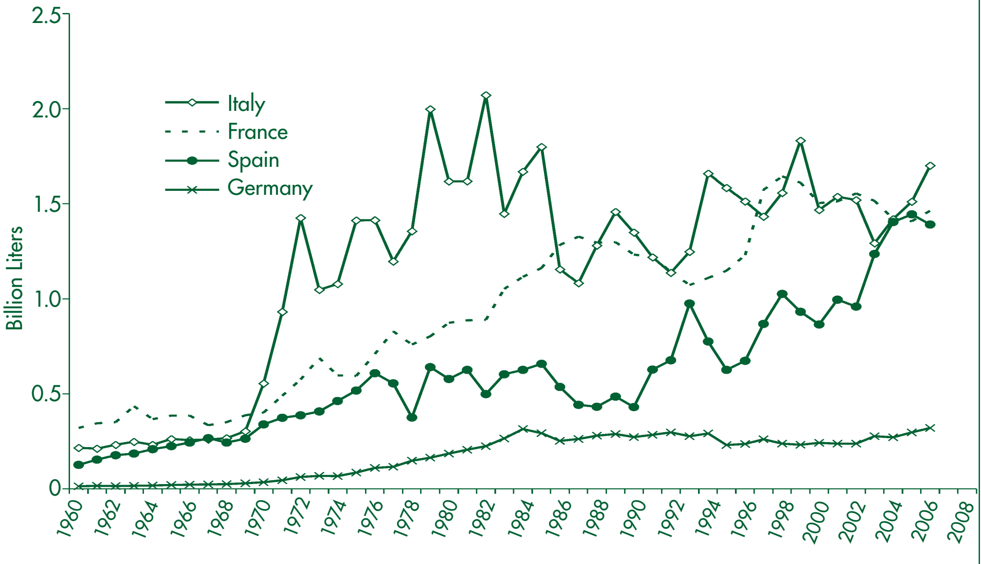
European viticulture is facing global competition and the wine industry must adapt to a changing world. During the last half-century, vineyard area has been decreasing in Europe, but still the large Mediterranean countries account for most of the winegrape area. (The

Figure 1. Area Occupied by European Vineyards, in Thousand Hectares, 2009



Source: OIV 2010.
Note: Includes vat vines, table wines, dried grapes, in production or awaiting production.

Figure 2. European Wine Exports by Country, 1960–2008



Source: OIV 2010. Note: Including trade within Europe.

changing role of Europe and countries within Europe in global wine production and consumption was highlighted in the Sumner article in this issue.)

As shown in Figure 2, wine exports from France and Italy have stabilized over the last decade, while exports from Spain have almost tripled. Looking beyond these countries, however, one can see that among the most important supply issues facing European producers is the increasing role of imports from outside Europe.

The European wine industry is also facing changes in demand for wine. Two trends characterize observed per capita consumption patterns. Many traditional wine-producing countries of the southern EU have greatly reduced per capita and total consumption of wine. Conversely, other European countries, including Germany, continue to show rising per capita wine consumption.

Although European wine production has been falling, consumption has fallen more rapidly, contributing to the large European and global gap between wine production and consumption. As a result, there has been no commercial market for many wines at any acceptable price consistent with costs of production.

Changes in EU Wine Policies

In response to the continuing demand and supply situation that has left many producers with market losses, and to help prevent market "oversupply," the European Union introduced changes in the CMO for wine. The new CMO for wine was implemented during the council meeting on agricultural and fisheries policy in December 2007, and is specified through the two official texts which offer guidelines for implementation. As noted above, the new policy includes policies to remove winegrape acreage, eliminate product removal, support demand, and revise regulations.

The proposal to remove winegrape vineyards from production is voluntary and gives grape growers a financial incentive to pull their vines. The subsidy is available to all EU producers in member countries that produce more than five million liters of wine and targets an area of about 175,000 hectares (or about 5% of EU winegrape area) to be removed from wine production. The 2009 budget for this removal plan was €464 million—about 5% of the value of total EU wine exports in 2008, or €2,650 per hectare, or $1,400 per acre. Clearly, this is a relatively low one-time incentive and will attract only relatively low-yield areas that produced low-priced wines, and areas that might have shifted out of grape production in any case. These funds were provided to member states to distribute according to their own national specifications to meet the purposes of the new policy. Given its large acreage of low-priced wine and low-yielding vines, Spain alone received half of the program's budget in the first year. Italy received about one-fourth of the funds, consistent with its grape area within the EU (Figure 3).

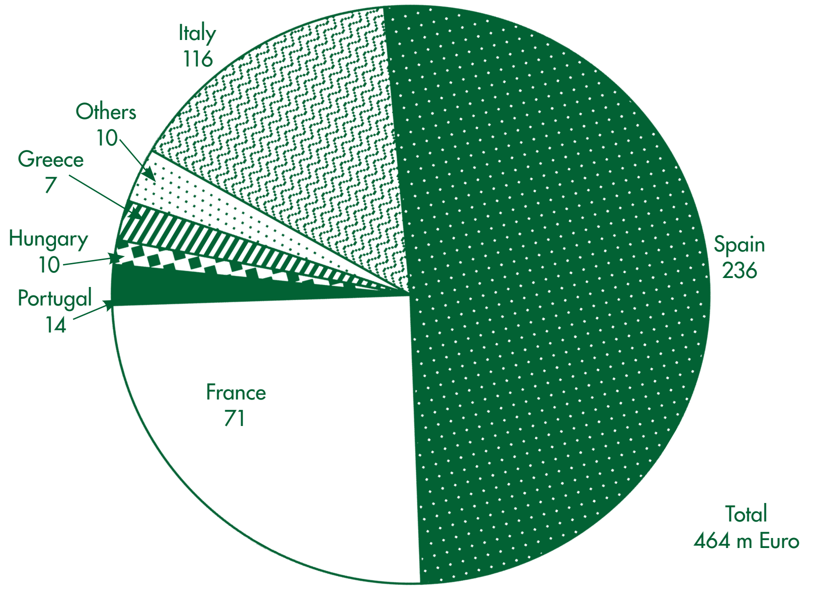
Another aspect of the new CMO is support programs with a budget of €5.3 billion between 2009 and 2013. During that period, the most important components of the support programs are restructuring, promotion and investment, which make up a combined 60% of the program's budget. Distillation and other programs to remove wine from the market have a reduced role in the new CMO and account for about 21% of the support programs budget before the scheduled phase-out of distillation by 2013. Currently, the budget provides about €910 million for potable alcohol distillation, by-product distillation, or crisis distillation. In the past, these distillation plans have utilized up to 5% of wine volume in member states (FAS 2004), diverting this amount from the wine market. The Single Payment Scheme (available across essentially all crop areas and designed to be compatible with World Trade Organization (WTO) commitments), together with harvest insurance, mutual funds, and green harvesting (removal of immature grapes), are limited to 15% of the support budget.

The choice among support programs allows member countries to select different paths towards adjustment. The Single Payment Program support is utilized mainly by Spain, while support for concentrated grape must, which removes wine from the market, is utilized by France and Italy. There are payments for green harvesting, which also removes production from the market and occurs primarily in Italy.

Overall, the CMO allows each member state a large degree of freedom in spending its budget, which may be thought of as a form of "nationalization" of the common wine policy. There is also a large historical effect on reform, in the sense that former budget amounts that were devoted to wine remain in place. The new CMO for wine did not achieve budget savings for the European Union.

The CMO reform also includes new regulatory measures. Among these measures, the planting-rights regime is one of the most controversial. There is currently a prohibition of new plantings of vines until December 31, 2015. The new planting rights will allow wine producers to plant vines after the moratorium expires, but this decision was postponed until 2016. Growers who produce wines in delimited areas with protected designation of origin believe that uncontrolled and unlimited wine-grape plantings will result in overproduction and a fall in perceived quality.

Figure 3. EU Budget for Removal of Land Under Wine Grape Cultivation, 2008–2009



Source: European Commission 2008.

Conclusions

The new wine CMO represents a set of compromises between the 27 member states. The CMO is not really a unified policy, and every member state is attempting to obtain as much as it can from the new policy and budget. The CMO is a step towards a common agricultural policy for wine in Europe that is "WTO compatible." Nonetheless, the CMO allows a degree of "nationalization," and member states can influence policy by demonstrating the relevance to their own situation. At the same time, many of the most controversial aspects of the CMO have been delayed for the transition.

The new CMO has succeeded in encouraging the removal of many vineyards from production, allowing other crops to be grown on this acreage. Moreover, the politics and some of the economics of the new CMO are now more "agricultural" than specific to wine.

Since the 1980s, the European wine industry has faced increased production against a declining demand in European countries. Exports from European wine producers increased during this period, but increased competition from producers outside of Europe limit this expansion.

The CMO is intended to achieve a better balance between supply and demand on the European market. However, it is difficult to estimate the overall effects of these policies on European wine exports and production. Some measures of the CMO will likely reduce wine production. Removal of vineyards from production and the reduced role of some support programs decrease the incentive for growers to overproduce.

However, other measures of the CMO stimulate production. These include domestic and export promotion, and changes to the planting-rights-regime. In addition, phasing out (or down) the distillation program allows more wine to enter the market. Uncertainty regarding the impacts of these counteracting measures means it is impossible to know whether European wine production and exports will increase or decrease as a result of the new CMO.

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For further information, the author recommends the following:

U.S. Department of Agriculture, Foreign Agricultural Service 2009. EU-27 Wine Annual Report 2009. GAIN Report Number: E49021. www.fas.usda.gov/gainfiles/200903/146327359.pdf.

Brunke, H., R. Mueller and D.A. Sumner. 2008. "California Wine and the EU Wine Policy Reform." AIC Issues Brief no. 34. Available at: http://aic.ucdavis.edu/pub/briefs/brief34.pdf.