

The Reform of the EU's Common Market Organization for Wine: an Early Appraisal

Henrich Brunke, henrich.brunke@ae.uni-kiel.de,

Department of Agricultural Economics

Christian-Albrechts University, Kiel, Germany

Since establishing a Common Market Organization (CMO) for wine in the 1960s, there has been, until 2007, only one major reform of European wine policies. This happened under the Agenda 2000 reform and in it the EU reformed its CMO for wine mostly in response to the Uruguay Round and for which reform proposals had been pending since its implementation in 1994. The 2000 reform, among other changes, introduced the crisis distillation program and made the CMO more transparent by replacing 23 separate regulations previously in force with one. Then in late 2007 the EU Commission again agreed on a profound reform of its CMO for wine, partly in order to address some of the rules that had been created in 2000. While some of the new regulations under the 2007 reform will be phased in until 2016, most new rules became effective immediately in 2008 and in 2009.

The reform's main objective is to increase the competitiveness of EU wine producers worldwide, by lifting some of the burdensome regulations that have plagued the EU industry in previous decades and to deal with the chronic problem of overproduction that have led to so-called wine lakes in a number of EU member countries. Two measures that kicked in immediately in 2008 aimed specifically at dealing with the overproduction issue. The first is the grubbing up scheme, which aims at removing about 5 per cent of European wine area over a three-year period. The second is the phasing-out until 2012 of the various EU intervention programs that remove un-marketable wine from the market.

The purpose of this research is to assess the early impacts of this reform, in particular the unanticipated large success of the grubbing up scheme in reducing the quantity of wine produced and aiming at a more balanced European market for wine. After providing some background information on the European market condition in the years prior to the reform, we detail the

specific elements of the reform. Aside from the grubbing up scheme and the phasing out of the intervention measures, the reform also introduces other elements that are being implemented over a longer period such as support payments for the restructuring and conversion of vineyards and the elimination of planting rights for vines in 2016.

We focus on the early elements of the reform because data are available that allow us to analyze the impacts to date of the grubbing up scheme and the phasing out of the intervention safety net. The EU publishes figures on the adoption rates of the grubbing up program, which tell us that the popularity of the program was so high so that the criteria defining beneficiaries had to be modified. During the second year of its existence, participation in the program was limited to producers willing to grub up their entire vineyard and leave the business of wine production for good and then to producers that are more than 55 years old. These new selection criteria replaced the initial first come first serve intent of the reform when it became effective in 2008. EU data further document the over-subscription to the program and detail that in the wine year 2009/10 only slightly more than 50 percent of the area requested for grubbing up was actually accepted in the program. So, on the one hand, vineyards are being ripped out and therefore the overall quantity of wine produced is decreasing. On the other hand, additional quantities of wine are left in the market, because the distillation scheme is being phased out simultaneously. Producers that have not entered or are not accepted into the grubbing up program may not be able use the intervention measures anymore in order to get rid of their surplus. Based on the participation rates of producers in the different programs, we can calculate the actual decrease in EU wine production.

We develop a simple model to illustrate these developments in the European wine market and to evaluate if and when the reform will become true in its objective to deal with its wine lakes and bring the wine market into an equilibrium. We apply different scenarios, depending on future popularity of the wine removal schemes under the CMO reform for wine grape producer and taking into account recent trends in EU trade as well as important changes in domestic consumption of wine in EU members. Furthermore, we are able to conduct country-by-country comparisons on participation in the grubbing up scheme and evaluate which EU members are most successful in addressing their problem of overproduction. In respect to the time horizon we look at the period until 2016, which is the year when the last element of the CMO reform comes

into play. This is the elimination of the planting rights, which until now limit the area under wine in Europe, and it is likely that it bring about major changes to the EU's wine market.