

# Wine and Europe: A new model for the old world?



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## A Reform Both Expected and Dreaded

After over a year and a half of robust exchanges, the Commissioner for Agriculture and Rural Development presents her reform proposal for the Common Market Organisation for wine (wine CMO) on 4<sup>th</sup> July 2007. The sector has been left to languish economically since the 90s. This, together with the failure

of the May 1999 reform, calls for a CMO reform ambitious enough to drag the industry out of crisis for good. The options for reform presented by the European Commission on 22 June 2006, caused worry and even naked hostility of from winegrowers and the representatives of producing countries.

### The Wine CMO Reforms

The CMO regulates and aims to maintain the balance on the European wine market. Over the last 50 years, it has implemented four reforms in order to respond to changes in the supply and demand equilibrium.

**1962:** Stable market. The CMO is liberal with only a few regulatory instruments. It is the broadest and most complex legislation package of the CAP.

**1970:** Serious structural surpluses brought about by the principle of freedom of plantings and virtual guaranteed sales. The CMO becomes interventionist, imposing the ban on planting (in 1976) and the obligation to distil the surplus.

**80s:** Drop in consumption and growing demand for quality wines. In the face of a depressed market, financial incentives towards the abandonment of vine plots are increased.

**90-2000:** Production surpluses cause a European crisis; the world market is also over-supplied. A range of reforms are initiated but fails to achieve the supply and demand equilibrium.

## A sector facing a deep and polymorphous crisis

### An Overview of the European Vineyard

European vineyards cover today 3.6 millions hectares – that is 45% of the world area under vines. The vine, Europe's "plant of civilisation", grows on large stretches of the EU 27 territory. France, Italy and Spain are the top three world producers. Germany, Luxembourg to the North, Portugal and Greece to the South and Hungary and Romania to the East also rate as major producing countries. Products, methods

and reputation vary from one wine-producing region to another. European winegrowing, shaped by the peculiarities of climate and tradition, yields a diversity of products unparalleled in the world. European wines are not equal on the global market: Great wines and prestigious European appellations are sheltered from fluctuations whereas the others are, on the whole, more exposed to changes in trends of consumption.

The European Union is the most important wine producer (180 million hl), consumer (140 million hl), exporter (13 million hl) and importer (12 million hl) in the world.

### Structural crisis in the 90s

Since the 90s, the European market has been destabilized by a structural crisis, resulting from a drop in consumption, an increase in imports from third countries, and the growth in demand for quality wines. The rise in stocks conjures the spectre of European "wine lakes". Producers in the vineyards most hit by the crisis – table or ordinary wine – are driven to abandon their vines. In 2005, 65% of the wine CMO budget (€ 1.2 billions) was spent in intervention measures (distillation, storage, aids to enrichment).

### The reform: a rescue operation

The failure of the 1999 wine CMO reform prompted the idea for a new reform. In

its 22 June 2006 communication, the Commission proposed, as a way out of the crisis, a drive for quality and competitiveness, with an emphasis on responding to the market and consumers' expectations. It sets the CMO three aims:

- 1 - (Re)conquer market shares at both European and global levels on the basis of strong competitiveness and the sustained reputation of quality European wines (rated "the best in the world").
- 2 - A common regime, provided by simple, clear and effective rules, which ensure a supply/demand equilibrium.
- 3 - Preserve what is best in the European winegrowing tradition and reinforce its social and environmental role in rural areas.

## The future of European winegrowing under discussion

### Stages in the reform: "towards a sustainable European Wine sector"

**16/02/06:** The European Commission consults the sector's actors  
**22/06/06:** Communication from the Commission on the wine CMO reform  
**18/09/06:** The Agriculture ministers give their support by a majority to an ambitious reform  
**February 2007:** Adoption of K.Batzeli's own initiative report by the European Parliament  
**22-23/04/07:** Meeting of the Assemblée des Régions Viticoles Européennes - Stuttgart  
**8/05/07:** Meeting between COPA-COGECA and the Commission  
**4/07/07:** Presentation of the proposed reform legislation by the Commission  
**Fin 2007\*:** Adoption of the reform by the Council of Ministers under Portuguese Presidency  
**2008 vine harvest\*:** Implementation of reformed CMO

\* Estimations

The aims of the reform may well be accepted in all quarters but the means to these ends led to serious divisions between the EU wine actors.

### The Commission starts the debate

On 22 June 2006 after consultation of the actors in the sector, the Commission set forth four scenarios for the future of the wine CMO and stated its preferences. It rejected outright the status quo (1), the complete deregulation of the market "which would have a devastating impact on the sector" (2) and the integration of the CMO into the reformed CAP (3). In order to put paid to the deterioration of the sector and to use the wine budget as an economic lever rather than as a "social remedy" – *i.e.* by boosting the offer – the Commission has opted for an in-depth reform of the wine CMO (4). The first stage in this

two-phased reform would consist of a swift stabilisation of the market. The second would aim at a restoration of the sector's competitiveness. Several measures that would drastically alter the wine CMO have thus been envisaged: massive grubbing up over five years, on a voluntary basis and subject to generous incentives (originally planned at 400.000/ha); labelling rules simplification; ending of planting restrictions; abolition of market management measures (*e.g.* distillation) and a ban on wine enrichment (chaptalisation and use of concentrated grape musts).

The reform proposals put up for legislation on 4 July 2007 should amend the initial proposals notably with regards to the extent of the grubbing up, which has been the most criticised measure since June 2006.

## Virulent Criticism

The winegrowers (represented by COPA-COCEGA), the States (mainly France, Italy and Spain) and the winegrowing regions have accepted some of the measures set forth by the Commission but fiercely opposed the thinking behind the reform. Branded a "brutal, wholesale liberalisation" of the sector, it is seen as a shift towards the New World winegrowing model (Australia, Chile, Argentina, South Africa). States, regions and producers dispute in particular the overproduction diagnosis, which the Commission sites as the cause of the crisis. The actors responded negatively to the proposal to grub up 400.000 ha and were unanimous in disputing the wisdom of this "sacrifice". The grubbing up would open a gap on the market, through which New World wines would stream in.

## The Batzeli Report Alternative

The European Parliament, which has a consultative role on farming issues, adopted by a broad majority Katerina Batzeli's (PSE-EL) own-initiative report. Averse to the sweeping nature of the reform and questioning several measures, including grubbing up, the MEPs advocate a prudent and progressive reform of the CMO. They warn against the dangers of a brutal reform which could expose European wines to product concentration and standardisation, and represent a threat to the diversity and assets of the winegrowing regions. The report recommends holding back on the standardisation of production methods in order to maintain the authenticity of the wines. It further advises the switching of expenditures currently allocated to crisis distillation to the reinforcement of promotional campaigns and aids towards the marketing of European wines.

EU winegrowing: more than 2.4 wineproducers, 5.4% of farming output (in value) and 2% of the AA. It accounts for only 2% of the EAGF expenditures.

## The wine CMO caught between CAP reform and globalisation

Beyond the sector's endogenous problems, the Commission's proposals keep in mind two structural changes: the CAP reform and the globalisation of the wine market – i.e. the opening of the market, the competition from New World wines and the emergence of new consumers in third countries.

### The Implementation of the Reformed CAP

The Commission's initiative comes in the wake of the overall reform of the CAP in 2003 and of the more specific reforms in 2004 (of tobacco, hops, olive oil and cotton), 2006 (sugar), 2007 (fruit and vegetables).

The possibility of fully integrating the wine CMO into the reformed CAP was

excluded by the Commission as early as 2006 for technical and financial reasons. The Commission also intends to stick to its general principles, including enhanced market orientation, greater respect for the environment and due consideration to the rural developmental needs of winegrowing regions.

### Globalisation of the Wine Market

The Uruguay round in 1995 has deeply affected the sector, by reducing subsidised exports and increasing the access of third-country wines to EU markets. The CMO can no longer control either volumes or prices. Confident of the long history of wine culture on their continent, the majority of European winegrowers are favourable to the opening of

The EU: 60% of the world wine production and consumption.

Major wine consuming countries in 2004		Major wine producing countries in 2004	
1-France	33 141	1-France	57 386
2-Italy	28 300	2-Italy	53 000
3-United States	24 308	3-Spain	42 988
4-Germany	19 593	4- United States	20 109
5-Spain	13 898	5-Argentina	15 464
6-China	13 286	6-Australia	13 811
7-Argentina	11 113	7-China	11 700
8-United-Kingdom	10 729	8-Germany	10 047
9-Russia	10 159	9-South Africa	9 279
10- Romania	5 800	10-Portugal	7 481

Sources: graphs created on the basis of "Situation and statistics of the world vitiviniculture sector 2004" OIV (International Organisation of Vine and Wine)

the market. They denounce tariff barriers, administrative protectionism and tax barrier to trade (AREV, Stuttgart, April 2007).

Yet competition from New World wines, together with new trends of demand and consumption, is also causes Europeans to redefine their approach to wine in or-

der to conquer 21<sup>st</sup> century markets. The heir to an ancient agrarian and wine-growing tradition, the Union, represented by the Commission at the WTO, must affirm and most particularly obtain from its trading partners the recognition of data on geographic origin and appellation for wines and spirits.

## Propositions

### Privilege and uphold the European winegrowing model

Faced with the competition of branded wines, European wines enjoy the huge advantage of a rooted-in-the-soil, age-old reputation. Reproducing in Europe New World oenological practices in order to face down the competition is a tempting solution; it is certainly simpler for the producers (less restrictive specifications, etc.). However, the evidence suggests that the future of European wines lies precisely in upholding the link between product and "terroir", and in reinforcing the intellectual property rights system in so far as it embraces this link.

One would be much mistaken in thinking that New World producers are not aware of the marketing

potential of European wines on the world market. Several trends show that our post-modern societies favour differentiation over standardisation; there are rich pickings to be made from marketing strategies that privilege particular wine-growing regions – those which hark back to the know-how and the personality of a human group. But this potential has yet to be proactively mined.

The reinforcement of the European winegrowing model thus calls for strong political will. It supposes that the appellations of origin are made meaningful, in that they assert the quality of their wines. Then, it will be necessary to reactivate the collective manage-

ment of these production areas, the "terroirs", by means of three-tier governance – involving the national government, the inter-branch organisation and the local producers' unions (Hinnenwinckel-2004). Finally, the vindication of the European model requires the continuation of the international negotiations undertaken by the Commission on intellectual property rights.

Wine and wine culture hold symbolic and identity potential. The wine issue offers European decision makers a unique occasion to capitalise on sympathetic support as they defend the sustainability of a model which reconciles culture with trade, membership to a supranational community with local roots.

### Wine and Europe: the Metamorphoses of a Land of Choice

*Notre Europe* is dedicating a component of its research programme "What binds us together: European Identity" to the study of questions dealing with food and territory in Europe.

In this study, Aziliz Gouez and Boris Petric take on the case of a highly symbolic product: wine.

Wine is not just a product like any other. It is a "totemic drink", a symbol of civilisation, which conveys the rich diversity of Europe's landscapes, climates, social structures, lifestyles and savoir faire. The analysis of the upheavals affecting both the consumption and production of wine is thus particu-

larly enlightening. It helps us grasp the identity issues at stake in the European construction process and in the exponential growth of exchanges at the global level, at a time when vine, traditionally the Mediterranean's 'plant of civilisation', has prospered in countries far remove from its cradle. ■



"Wine and Europe: the Metamorphoses of a Land of Choice"