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European Wine: A Better Deal for All

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References in the text of the Report are as follows:
(Q) refers to a question in oral evidence

FOREWORD—What this Report is about

This is an interim report in which we set out the emerging conclusions from our inquiry into the EU wine sector and, more specifically, the European Commission's proposals for reforming it.

Support for wine production costs EU taxpayers nearly £1 billion a year. Despite this, there are chronic wine surpluses and the industry is increasingly losing out to competition from wines imported from the so-called New World. There is no doubt that the EU wine sector is in crisis and that serious reform is needed of the conditions under which it operates. We therefore welcome the European Commission's initiative to deal with the problem.

Though we have reservations about some specific aspects of the Commission's proposals, we believe they are moving the wine sector in broadly the right direction and we support their overall thrust. The present system is encouraging (by its subsidies) the production of wine for which there is no longer a market and inhibiting (by over-regulation) the development of a wine industry which has the potential to compete successfully with those of New World countries. We fully recognise that the process of reform will not be easy and that for some areas of the Community it will involve painful adjustment. For this reason we support not only the Commission's proposal that there should be an end to subsidised distillation but also the parallel proposals that substantial support should be given to rural economies which are heavily dependent on wine production both to restructure their industries to help them to become more competitive and, where necessary, to enable those who are engaged in unsustainable wine production to be resettled into other fields of rural activity.

We are clear, however, that such support, necessary as it is, must not become a way of life. It should be short-term and designed to improve the competitiveness of the EU wine industry while at the same time easing the transition of some producers to other areas of employment. While we recognise that the primary purpose of wine sector reform should be to make the industry more competitive rather than simply to save money, we should not lose sight of interests other than those of producers, in particular taxpayers and consumers. Appropriate short-term financial support should be provided to help get the industry on its feet again, but there is a need to recognise that reform is not about finding other ways of spending the substantial sums of taxpayers' money currently invested in the industry. Support should be time-limited and invested carefully in projects which will enable the industry to connect with its customers and to increase its market share.

The Commission's proposals were published on 4 July 2007 and we have not yet had the opportunity to hear the Government's view of them. However, as it is now five months since we began our inquiry and as the House is about to rise for the Summer recess, we have decided to present an interim report setting out our emerging conclusions in the light of the evidence we have received and of a first reading of the Commission's proposals. We expect to publish our final report in October.

This interim report is necessarily focused on specific legislative proposals for reform. We have discovered however in the course of our inquiry that there are a number of more general issues which lie at the root of the present malaise in the EU wine industry. As examples, there appears to us to be an absence, in some areas at least of the EU wine industry, of coordination between wine growing, wine production and wine marketing, which is having the effect of isolating the producer from the consumer; and we feel that the European wine industry has been slow to recognise the significance of important changes which have taken place over the last 20 years or so in public perceptions of wine as a beverage. Linked to these is a tendency which we have encountered in some quarters to regard wine production almost as an end in itself rather than as a commercial activity. We propose to explore these and other similar issues more fully in our main report in the autumn.

In the course of our inquiry we have heard, on many occasions and from wine-growers and traders both within and outside the Community, that EU wine has an unbeatable heritage and a worldwide reputation for quality. However, these strengths are not being exploited sufficiently in the market place and new consumers are tending to favour wine produced outside the Community. The present regime of subsidies and regulations is clearly not working. We believe however that the Commission's proposals, if accepted, could set the industry on the path to a brighter future.

European Wine: A Better Deal for All

CHAPTER 1: THE EXISTING REGIME

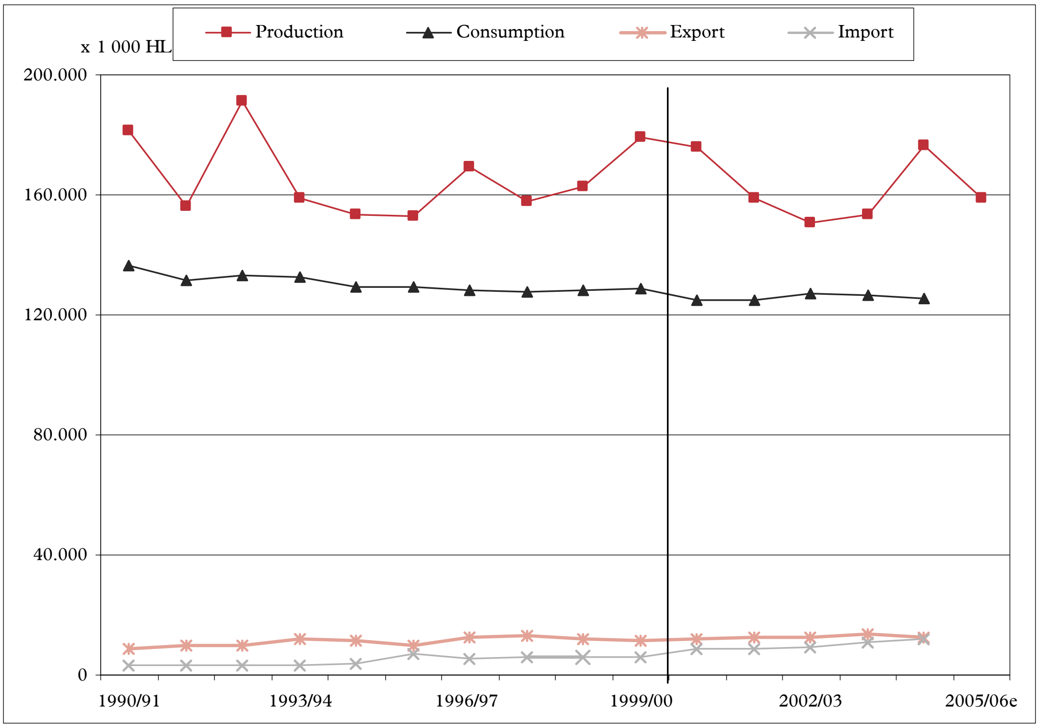
Introduction

1. The European Union produces 60 per cent of the world's wine, more than four fifths of it being produced in three Member States—France, Italy and Spain. The EU is also the world's largest exporter of wine, with over €15 billion worth of exports annually. Across the Community, the wine sector provides employment for around one and a half million people—some 15 per cent of the agricultural workforce. This overall figure, however, masks significant national and regional variations. For example, half of all those employed in wine-growing are to be found in two Member States—Italy and Portugal; while in the French region of Languedoc/Roussillon nearly half of the agricultural workforce is engaged in wine-growing. At the other end of the scale, the UK wine industry employs no more than about 1,000 people, though wine-growing is a thriving industry in Britain.

2. Wine consumption is on the increase in some parts of the EU, including Britain. Within the Community as a whole, however, and especially in those Member States where most EU wine is produced, demand has fallen. Moreover, while exports of wine to non-Member States have been steadily rising and are generally healthy, imports to the Community from so-called New World countries (in particular, the United States, Australia, South Africa and Chile) have been rising more sharply in recent years and are now almost on a level with exports. This, together with a succession of good wine harvests, has resulted, in four out of the last six years, in a significant surplus of wine produced in the EU. These trends are illustrated in the chart at Figure 1:

FIGURE 1

Wine—Supply/Demand and Import/Exports



As a result market intervention measures have been activated under the terms of the Community's Common Market Organisation in Wine (the Wine CMO). These intervention measures, the rules for which were last revised in 1999, were designed to ensure market stability between years of good and poor harvests. It is now becoming clear, however, that the recurrent surpluses have deeper structural causes and it is argued in some quarters that the Wine CMO itself, with its system of subsidies and regulations, is a major factor of the current malaise.

3. In 2006, therefore, the European Commission launched a consultative process leading to the issue, in June of that year, of a Communication[1] entitled "Towards a Sustainable European Wine Sector". This set out a number of options for reform and commended one of them (described as "profound reform") for consideration. The Commission's Communication provided the starting point for our inquiry, in the course of which we have taken evidence from the Government, the European Parliament and Commission, a number of Member States and EU-wide organisations representing wine producers and traders. We have also received an external perspective of the EU wine regime from the Australian and New Zealand wine industries and a commercial assessment from two leading British supermarkets. Finally, we have visited two major wine-producing regions—Languedoc/Roussillon and Bordeaux—in order to see at first hand the challenges and opportunities of wine production in the EU and to hear the views of local wine-growers and regional development bodies. All the evidence collected in the course of our inquiry can be seen in Volume II.

4. In July 2007 the Commission published a Legislative Proposal[2] containing specific measures for reform. This Proposal is the main focus of our report. But, before we can come to consider it, it is necessary to explore what the current wine regime is and how it operates. That is the purpose of this Chapter.

The Existing Regime in Outline

5. The Common Agricultural Policy (CAP) contains a number of Common Market Organisations (CMOs) which set out the rules for the operation of particular sectors of the agriculture industry. Wine growing, production and marketing is just one of these. The first Wine CMO was established in 1962 and was geared to reconciling different oenological practices and wine-producing strategies among the six Member States of the then European Economic Community. The CMO has been revised on a number of occasions since then, most recently in 1999, when it was reconstituted under Council Regulation (EC) No 1493/1999. It is important to note that the Wine CMO was not included in the CAP reforms introduced in 2003 and, therefore, the rules governing the EU wine industry remain essentially as set out in the 1999 Regulation.

6. The Regulation itself recognises that "the rules governing the common organisation of the market in wine are extremely complex"[3]. Broadly speaking, however, it may be said that the existing regime consists, on the one hand, of a range of subsidies to support the EU wine industry and, on

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1 Com(2006)319 dated 22 June 2006

2 Com(2007) 372/Final

3 Council Regulation (EC) No 1493/1999 dated 17 May 1999, Recital 10

the other, of a series of regulations to control the ways in which wine is produced and marketed. The 1999 Regulation contains detailed rules covering both the administration of the subsidies and a number of other aspects of the wine industry, including the planting of vineyards, wine-making practices and wine classification.

7. A recent European Commission Working Paper[4] described the Wine CMO as "one of the largest and most complex common market organisations". Within the compass of this short Chapter we can do no more than highlight its main features. Much of the Council Regulation is technical in nature. We will attempt therefore to explain the operation of the wine regime in layman's language, though we recognise that this may on occasion result in some unavoidable over-simplification. We consider below each of the main features of the CMO under the two principal headings of Subsidies and Regulations.

Subsidies

8. The actual cost of the subsidies in any one year depends on the volume of the harvest and the prevailing market situation. According to the European Commission[5], in 2005 total expenditure on the wine sector came to €1.27 billion, and we were told by Robin Manning, Head of the Cereals and Wine Branch at the Department for Environment, Food and Rural Affairs (Defra) that "the budget for 2007 has now been adjusted down to €1.4 billion" (Q 16). In other words, subsidies to the wine sector are costing EU taxpayers the equivalent of nearly £1 billion a year. We were also told by officials from Defra that the wine sector accounts for between 2.5 per cent and 5.5 per cent of the CAP budget each year (Q 16).

9. The subsidies provided for under the 1999 Regulation fall under three main headings: market intervention measures, including various forms of subsidised distillation to remove wine from the market; financial support for the restructuring of wine production to make it more competitive; and the provision of premiums for the grubbing-up of vineyards in order to reduce production capacity.

Distillation

10. Distillation involves the processing of wine in order to separate out the alcohol. Subsidies for distillation, together with the storage of distilled wine, cost the EU some €630 million a year and account for the major part of spending under the Wine CMO. According to the Commission's 2006 Working Paper, "the objective of wine distillation is to withdraw production surpluses from the market at a guaranteed minimum producer price"[6]. Since 2000 an average of some 10 per cent of wine production has been distilled with the aid of EU subsidies every year.

11. The 1999 Regulation provides for three main categories of subsidised distillation[7]. They are:

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4 Wine Common Market Organisation, February 2006, Section 1

5 Commission Press Release 06/245 "EU Wine Reform: Background Information on the Wine Sector", 22 June 2006

6 Wine Common Market Organisation, February 2006, Section 2.6

7 There is a fourth category, known as dual purpose distillation, which is applied to wines (mainly from Charente) which are considered to have a dual purpose and which, beyond a certain quantity, must be

(a) Distillation of the by-products of wine (the marc and the lees) in order to protect the quality of wine by preventing the over-pressing of grapes;

(b) "Crisis" distillation, which is designed to remove pockets of surplus from the market in order to protect prices;

(c) Potable alcohol distillation, which supplies the spirits industry and producers of brandy and liqueurs with wine alcohol.

Distillation of by-products ((a) above) is compulsory. Wine growers must surrender for distillation all by-products of wine-making and these must contain a minimum amount of alcohol: if they do not, wine has to be surrendered. According to the Commission, compulsory distillation of by-products costs between €200 million and €230 million a year. "Crisis" distillation (b) and distillation to supply the potable alcohol industry (c) are optional. They cost around €180 million and €250 million a year, respectively. EU subsidies comprise aid to distillers to compensate them for the guaranteed price paid to producers and storage costs. In addition to subsidies for distillation, there is also a substantial subsidy for the use of concentrated grape must in the enrichment of wine (see Paragraph 19 below)

Restructuring

12. The 1999 Regulation refers[8] to "wine-growing areas where production is not aligned to demand but where production could be better aligned through restructuring of vineyards by varietal conversion, relocation of vineyards or improvement of vineyard management techniques". Subsidies are available for this purpose, and in 2005 the funds spent in this way accounted for €446 million (35 per cent of Wine CMO spending). The purpose of the subsidies is to compensate wine growers for loss of earnings during a period of conversion and to make a contribution to the costs of implementing the measures concerned. Whether restructuring has been fully effective in bringing supply and demand into balance is another question—see, for example, Paragraph 68 below.

Grubbing-Up

13. To help bring supply and demand into balance, the 1999 Regulation offers premiums to farmers in certain regions who agree permanently to abandon wine-growing. The management and administration of such "grubbing-up" schemes rests with the Member States concerned. They are able to designate the regions where premiums are offered and to set the level of the compensation. In 2005 expenditure on grubbing-up amounted to €31 million (2 per cent of the wine sector budget). Substantial grubbing-up of EU vineyards took place in the 1980s and early 1990s, but the persistence of surpluses indicates that the process did not go far enough.

Regulations

14. The 1999 Regulation includes a ban until 2010 on the planting of new vines for wine production. This is seen as a logical corollary to the various other market support measures, such as distillation subsidies and subsidised grubbing-up. The ban applies, as do the grubbing-up subsidies, only to wine

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distilled. Expenditure on this category is, however, small compared with the other three—around €25 million per annum.

[8] Council Regulation No. 1493/1999, Recital 28

production in Member States whose total annual production of wine exceeds 25,000 hectolitres. The UK wine industry is currently operating just below this threshold, but at the current rate of growth UK wine growers could find themselves by 2010 within the ambit of this regulation.

15. Undoubtedly the most complex of the regulations under the present regime are those which are concerned with wine classification and labelling. The complexity derives to a large extent from the fact that the regulations divide EU wines into two main groups—quality wines and table wines. This dichotomy is important because the classification of a wine can determine its eligibility for subsidies (most of the intervention measures apply only to table wines) and because it determines what may be written about the wine on the bottle label (for example, table wines may not show the year of vintage or the grape variety).

16. However, while the Wine CMO sets out the broad parameters for identifying quality wines, the responsibility for recognising and controlling wine quality within their borders rests with Member States. They are required to lay down specific rules concerning the regions in which quality wine may be produced, the vine varieties considered suitable, wine-growing and wine-making methods, minimum natural alcoholic strength and the maximum yield permitted per hectare. They are also responsible for recognising Geographical Indications (GIs), such as the French *Appellations d'Origine Controllee*s, which may be used in the marketing of EU wine.

17. In these circumstances it is perhaps not surprising that there is considerable variation within the EU wine market as regards classification. According to the Commission[9], there are now over 10,000 EU wines marketed under a GI of one sort or another, some of which are highly regarded by wine experts while others are judged to be of indifferent quality. The labelling restrictions also pose difficulties for the marketing of some types of wines. The regulations do not apply to New World wine entering the EU. New World producers do not divide their wines into "quality" and "table" wines but tend to classify their wines by grape variety (e.g. Shiraz, Cabernet Sauvignon, Sauvignon Blanc) or brand name (e.g. Jacob's Creek, Turning Leaf) or, in some cases, region (e.g. Napa Valley). The current EU system of classifying wine into "sheep" and "goats" has undoubtedly been a factor of the penetration of New World wines into the Community market place. New World producers have, in effect, exploited a gap in the market by offering wine tailored to customer preferences, informatively labelled, at competitive prices and, in many cases, blended in order to guarantee consistency of taste. The Wine CMO's complex and restrictive regulations, however, make it difficult for EU producers to compete.

18. Yet another area of regulation under the 1999 CMO concerns the way in which wine is produced. The Regulation lays down a list of permitted oenological (wine-making) practices, including the type of grapes which may be used and the extent to which additives may be employed to enrich wine—i.e. to increase its natural alcoholic strength. There is, in fact, an international organisation—*Organisation Internationale des Vins (OIV)* (See Box 1)—of which most wine-producing countries[10] are members and which, as one of its functions, sets global wine-making standards and assesses and

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9 Wine Common Market Organisation, February 2006, Section 2.4.1

10 Though not the UK

approves wine-making practices. The EU list of approved practices is, however, more restrictive than the OIV list, to which most New World wine producers adhere.

BOX 1

Organisation Internationale des Vins (OIV)

The OIV replaced the former International Vine and Wine Office in 2001. It is an inter-governmental scientific and technical body concerned with the production of wines. Its declared aims are to assist producers, consumers and others with technical information on wine and wine products and to contribute to international harmonisation of wine-making practices and standards. Its General Assembly adopts resolutions, normally by consensus, of a general, scientific, technical, economic or legal nature

19. The detailed EU wine-making regulations are intended to take account of differing production conditions across the Community, in particular climate. Thus, for example, wine-growers in the North and Centre of the Community are permitted to increase alcoholic strength by more than are growers in the Mediterranean region, where the climate is such that little or no enrichment is considered to be required. Enrichment may be carried out by the use of either sucrose (beet or cane sugar) or concentrated grape must. Wine producers in the Mediterranean may use only the latter, but as this is significantly more expensive than sucrose a subsidy is made available from the Wine CMO with the aim of promoting a level economic playing field between growers in different areas. This subsidy currently costs some €156 million annually.

Summary

20. To sum up therefore, under the existing Wine CMO there are subsidies (in round figures) as follows:

Distillation (all forms)	€630 million
Grape Must	€150 million
Restructuring	€450 million
Grubbing-Up	€30 million
Total	€1,260 million

There is also a complex network of regulations dealing with the classification of wine and the rules for making it.

21. We make this report to the House for debate.

CHAPTER 2: THE PROPOSALS FOR REFORM

22. The Commission's proposals[11] for reform were published on 4 July 2007. Box 2 summarises the main proposals. The Commission believes that a separate Wine CMO should be retained but that the existing regime "must, without doubt, be fundamentally reformed"[12].

BOX 2

The Commission's Proposals

(i) Subsidies for all forms of distillation should cease.
(ii) Vine growing areas and land grubbed up from vine growing should be brought within the ambit of the Single Farm Payment.
(iii) Funds should be transferred from the Wine CMO Budget to support Rural Development in wine-producing regions.
(iv) There should be a voluntary and subsidised grubbing-up programme.
(v) The current ban on new plantings should be extended until 2013.
(vi) The system of wine classification should be brought into line with that in use within the Community for the classification of other agricultural products.
(vii) Wine labelling rules should be relaxed to enable more information to be provided to consumers.
(viii) Wine-making practices endorsed by the OIV should be regarded as the benchmark for those to be used by EU wine producers.
(ix) Subsidies for the use of concentrated grape must for the purpose of wine enrichment should cease and the use of sucrose for enrichment should be prohibited.
(x) "National Envelopes" should be allocated to wine-producing Member States from the Wine CMO Budget to enable them to fund a range of approved support measures within their national boundaries.

Distillation

23. The Commission has proposed the abolition of EU subsidies for all categories of EU wine distillation and for the associated storage costs. It is clear from the evidence we have received that distillation subsidies have encouraged the over-supply which the Community has seen in recent years. A number of our witnesses were clear that over-production was to some extent deliberate. According to Eva Corral, Head of the Wine Sector Division at COPA-COGECA[13], the possibility had to be faced that some farmers were using crisis distillation subsidies in order to generate additional revenues (Q 218). Luigi Polizzi, the Italian SCA[14] representative, told us that in Italy "we have some regions that produce just for distillation" (QQ 382,

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11 COM(2007)372/Final

12 COM(2007)372/Final, Section 3

13 COPA-COGECA is the European representative body for wine growers and cooperatives

14 The Special Committee on Agriculture, which is an official-level body of national representatives who prepare the work of the Council of Agriculture Ministers

384), while his German counterpart took the view that "the wine which is distilled is produced for distillation, not for wine consumption, and we are therefore spending money to get rid of surpluses when we think it is better to spend the money for development in that region" (Q 422). We concur with this view.

24. It may be argued, however, that distillation has other purposes—to supply the potable alcohol industry and to maintain the quality of wine by preventing over-pressing of grapes. It is not clear to us why, if there is a market for potable alcohol, the Community should be subsidising it by enabling the industry concerned to obtain one of its raw materials more cheaply than would otherwise be the case. Lene Naesager, a Member of the Agriculture Commissioner's Cabinet with responsibility for wine reform, said: "For our producers of port and sherry it is important to have access to potable alcohol. They have an implicit subsidy, because the potable alcohol that they buy from the distilleries is a bit cheaper than what they would see without the subsidy" (Q 290). Asked what would be the effect of a removal of the EU subsidy, Ms Naesager told us that according to the Commission's calculations it might add ten cents to the price of a bottle of port (Q 291). Lars Hoelgaard, Deputy Director-General for Agriculture at the Commission, felt that the subsidy could be resulting in some distilling operations being kept alive artificially. "If we do away with this systematic type of distillation," he told us, "there will only be those who are able on the one hand to process it efficiently and on the other can obtain a market" (Q 285). He added: "There is a limitless market. As long as the Commission and the Community taxpayer are willing to finance and subsidise it, there is no limit. But we cannot continue to go down that road" (Q 286). We agree that there is no need to subsidise a product for which a commercial market exists.

25. The case for distillation to maintain wine quality depends to a large extent on whether there is considered to be a case for defining wine quality without reference to the disciplines of the market, which is essentially what the CMO in its present form is attempting to do. The logic of the market is that, if consumers regard wine as being of inadequate quality, they will not buy it; and, if there are no market-distorting measures (such as subsidies) in place, producers will cease to produce it and either produce better-quality wine or cease production altogether. Underlying the 1999 Regulation, however, is a notion that quality in wine is something which exists apart from the market and needs to be regulated by administrative rather than market means. As witnesses from the UK Wine and Spirits Trade Association put it, "there is a danger often in wine that we think it is different from you or I going to buy a stereo or a piece of furniture" (Q 123). We return to the subject of wine quality in our comments on the Commission's proposals on wine classification. Suffice it to say here that we are not persuaded of the validity of the case for retaining an expensive subsidy designed to preserve a notional concept of wine quality which is increasingly at variance with the realities of the market.

26. **We strongly support the Commission's proposal to end all subsidies for distillation and for its associated storage.**

Single Farm Payment

27. The Single Farm Payment (SFP) was a key element of the 2003 CAP reform. Whereas previously farmers had received funds from the CAP Budget to compensate them for shortfalls in the prices of different commodities being grown, the SFP is a single payment based on the size of land holdings which leaves farmers free to produce according to the demands of the market. One of the conditions for receipt of the SFP is that of cross compliance, meaning that farmers in receipt of the payment must comply with a number of broader requirements, including the maintenance of minimum environmental standards. As the Wine CMO did not form part of the 2003 reform package, wine producers have not been eligible for the SFP. The Commission has proposed that all vine-growing areas should in future qualify for the SFP and that land taken out of wine production under the proposed grubbing-up scheme (see Paragraphs 32 to 38 below) should come automatically within its ambit. A minimum environmental requirement is to be attached to the grubbing-up premium to avoid land degradation.

28. The aim of this measure is partly to bring about decoupling of wine-growing from CAP support and partly to promote conservation of the environment. These are fair objectives. Bringing vine-growing within the scope of the SFP should encourage wine producers who cannot find a market for their product to consider switching to other crops for which a readier outlet exists. The rules of cross compliance should also help to protect the landscape and environment in wine-growing regions, especially where land is taken out of wine production under the grubbing-up scheme.

29. **We support the inclusion of vine-growing areas and of land withdrawn from vine-growing within the ambit of the Single Farm Payment and its rules concerning cross compliance.**

Rural Development

30. It is proposed that there should be a substantial transfer of funds from the Wine CMO to support a range of Rural Development schemes. These include investments in technical facilities and marketing, vocational training, support to cover the additional costs of agri-environment measures and early retirement grants to farmers who opt to cease wine-production in order to transfer their farms to others. The funds transferred would be substantial (around one third of the Wine CMO Budget) and would be ring-fenced to ensure that they were spent only in wine-producing regions. Moreover, as the schemes concerned would form part of national Rural Development programmes, they would be co-financed by the Member States concerned. This should exert some discipline over the amounts and duration of the spending involved. With one exception, we support the proposed transfer of funds for Rural Development. The exception concerns the use of transferred funds "to provide investment support to wine producers who have to change from the use of sugar for enrichment to the use of must"[15]. For reasons which we give later under the heading of Enrichment (see Paragraphs 54 to 58 below), we do not support this specific proposal.

31. **We support the transfer of funding from the Wine CMO Budget to provide for a range of Rural Development schemes on the basis of co-**

[15] COM(2007)372/Final, Section 3.3

financing by Member States, but we do not support the employment of Rural Development funds to compensate for changes in the rules governing wine enrichment.

Grubbing-Up

32. The Commission is proposing that there should be a substantial programme of aid to encourage the grubbing-up of vineyards producing wine for which there is poor market demand. The decision to grub up will be left to the individual wine grower, though there will be some constraints to avoid regional economic imbalances or detriment to the environment. For example, Member States will be permitted to halt the process within their national boundaries if grubbing-up should exceed 10 per cent of their area under vine; and vineyards in mountainous regions and on steep hillsides, where grubbing-up could lead to adverse environmental consequences, will be exempted.

33. Those who opt to grub up some or all of their vineyards will receive two sets of benefits, comprising a grubbing-up premium for each hectare grubbed up and, if they are intending to cease production altogether, a retirement grant designed to ease the transition from wine growing to other forms of activity. Those who grub up just part of their vineyards but are planning to remain in wine-growing will receive the Single Farm Payment. Grubbing-up premiums are to be funded from the Wine CMO Budget under Pillar 1 of the CAP, while the intention is that retirement grants should be funded under Pillar 2 (under the heading of Rural Development) from funds transferred from Pillar 1. A five-year programme is envisaged, and grubbing-up premiums will be heavily front-loaded in order to encourage early take-up. The Commission believes that these measures should result in some 200,000 hectares of vineyards being taken out of production.

34. We found that the Commission's original (2006) grubbing-up proposal, which was rather more ambitious than the present one, generated strong feelings among many of our witnesses. A prime concern, particularly among those wine-producing Member States whose representatives gave evidence to us, was that grubbing-up should not become a free-for-all measure and that the Member States themselves should have some control over the process. Luigi Polizzi, for Italy, stressed that "it is important to give Member States the instruments to manage this measure" to ensure that national economic and environmental concerns were respected (QQ 382, 384). Similarly, Zoltan Somogyi, for Hungary, suggested that "some control should be given to the Member States in order to have an influence on the uptake of grubbing-up" (Q 360). He feared lest wine growers in his country, even if not faced with surplus production, might be tempted to grub up simply as a means of making easy money (Q 349). Betrand Guillou, for France, was concerned about the emergence of imbalances between the wine industries of Member States or of regions within States (QQ 483, 487, 489).

35. Dietrich Guth, for Germany, took a rather different view. He felt that grubbing-up was "a very expensive instrument" and that it would be more cost-effective to spend the money on restructuring of the European wine industry (Q 423). He also called into question the need for a grubbing-up programme if distillation were to be abolished (QQ 425, 426). And he felt that Member State control of grubbing-up could actually make the problem of over-production worse rather than better because the States themselves

might well select as candidates for grubbing-up premiums those regions where the yield per hectare was low.

36. The Commission itself was clearly aware of these tensions. Lars Hoelgaard told us that the wine-producing Member States did not want to see grubbing-up at the discretion of individual wine growers because "they know that there are so many of their farmers, the wine producers, who are just sitting and waiting for this possibility to get out … It is really not the farmers that they have in mind. It is the dependency on that activity in the rural areas—the processors, the distillers, the employment" (Q 306). This is, no doubt, a reason why the Commission has modified its original proposal both to achieve a lower overall take-up and to give Member States an element of control of the process (see Paragraph 32).

37. Our own views of this proposal are somewhat mixed. We recognise the force of Dr Guth's observation that grubbing-up is expensive and that, if subsidised distillation is abolished, capacity will adjust automatically to the market. On the other hand, we are conscious that there is heavy dependence in some regions of the Community on wine production and we therefore feel that some assistance is appropriate in order to allow those who decide to reduce or cease production to have what the Commission described to us as a "soft landing" (Q 306). While we also note the concerns of wine-producing Member States lest a grubbing-up programme should get out of control and result in unintended adverse economic or environmental consequences, we believe that these concerns should not be over-stated and that the Member State controls which the Commission has incorporated in its latest proposals should prove adequate. We believe that economic and environmental concerns are best addressed through Rural Development policies rather than by standing in the way of much-needed adjustments in production capacity. Our main concern with regard to the Commission's proposal is lest the exemptions envisaged should prove over-elastic in the hands of Member States and the measure frustrated as a result. We consider therefore that the exemptions should be tightly drawn.

38. **We support the Commission's proposed grubbing-up programme but we consider that there is a need for tight definition of the exemptions from it which Member States may invoke.**

The Planting Ban

39. The Commission is proposing that the current ban on new plantings of vines for commercial production should be extended from 2010 to 2013. The argument here is that, if there is going to be a five-year subsidised grubbing-up programme, there has to be restriction on new plantings over the same period to ensure that the objectives of the programme are not frustrated. Many wine-producing Member States not only support extension of the ban but would like to see it extended for longer. Luigi Polizzi, for Italy, told us: "We would like … to maintain the ban for ten years … It is important to give the producers who remain in activity the opportunity to safeguard their investment" (Q 392). Bertrand Guillou, for France, argued that "it is necessary to decrease production but, if in five years it is possible to plant as we want, then it is paradoxical to pay for grubbing-up now" (Q 489).

40. The Commission itself seems to be somewhat ambivalent in its views on the subject. In its 2006 Working Paper it recognises that planting bans can distort competition with non-EU wine producers, who are not subject to

such restrictions, and that with advances in wine-growing technology leading to increased yields per hectare planting bans have become an obsolete means of reducing the volume of wine production[16]. Jose Ramon Fernandez, Secretary-General of *Comite Europeen des Entreprises Vins*[17], endorsed these arguments (Q 177). In written evidence to us, New Zealand Winegrowers observed that "controls on production potential, no matter how sweeping, are never likely to achieve long-term equilibrium between supply and demand while producers continue to receive incentives to produce wine for which no market exists. Conversely, if market interventions were removed, then equally controls on production potential could be removed"[18].

41. In our view, extension of the current planting ban would mask the symptoms rather than tackle the causes of the current malaise within the wine sector. While short-term crisis management measures, such as grubbing-up payments, might perhaps be justified in order to ease the departure of some producers from the industry, a lasting solution to the problem must be to improve the industry's competitiveness. An extension of the ban on new plantings, however, would run counter to this. Witnesses from Defra described the planting ban as "a double-edged sword" (Q 24) and pointed out that it "has a perverse effect of stopping good producers—as well as the bad ones—expanding their operations" (Q 23).

42. **We do not support the proposal to extend the ban on new plantings beyond 2010. We consider that, with the removal of subsidised distillation, production capacity will adjust itself to demand as the result of market forces, especially if the subsidised grubbing-up programme proposed by the Commission goes ahead.**

Wine Quality Classification

43. The Commission is proposing that the regime for wine classification should be aligned with existing Community rules governing other agricultural and food products. Under Council Regulation 510/2006, a named food or drink, if registered at EU level, can be awarded a "Protected Designation of Origin" or a "Protected Geographical Indication" and safeguarded against imitation. Producers can seek to take advantage of the resulting market profile on the basis of quality attributes which have been tested and registered. It is therefore proposed that the current classification of wines with a Geographical Indication (GI) should follow a similar pattern, with such wines being grouped under two new headings—Wines with a Protected Geographical Indication (PGI) and Wines with a Protected Designation of Origin (PDO). A registration system will be introduced, at Member State and Commission level, under which the necessary technical data will have to be submitted for examination. In addition, the distinction will be removed between the rules governing the labelling of wine with a GI and those applying to other wines. So, for example, it will be possible for non-GI wine producers to show the vintage year and grape variety on the label.

44. The proposal to align the classification of wines with that of other foodstuffs is to be welcomed. In recent years there has been a proliferation of wines with GI status and the proposed registration system should help to bring

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16 Wine Common Market Organisation, February 2006, Section 2.5.1

17 This organisation, abbreviated hereafter to *Comite Vins*, is the EU wine traders federation

18 Volume II, Page 172

authenticity to the process. Even more welcome is the proposed ending of labelling restrictions for non-GI wines. Jose Ramon Fernandez, from *Comite Vins*, was critical of the existing labelling regime. "The rules in the European Union for labelling," he told us, "are that the only wines that are able to provide interesting information to the consumer are the wines in the Geographical Indication scheme … With table wine you have to put 'table wine', which is a pejorative message, and the only thing you have there is the brand and whether it is red or white … so you are not really stimulating the possibility of valuing this segment of products. That is why we say that in the new rules there should be more flexibility for all wines to provide accurate, objective and verifiable information to consumers" (Q 188). We fully endorse Mr Fernandez's comments. Indeed, we would go further and argue that wine producers should be free to decide what to put on their labels provided that what they say is accurate and truthful.

45. However, while we see the changes which are proposed as a useful step in the right direction, we are not convinced that they will deal adequately with the underlying problem of the existing classification system—namely, the concept that wine quality is linked to geographical factors. The Commission's proposals state that "the concept of EU quality wines is based on a geographical origin approach … The EU wants to confirm, adapt, promote and enhance this concept worldwide"[19]. Perpetuation of the linkage between quality and geography fails to recognise that the mass consumer nowadays is more interested, when purchasing wine, in such factors as the grape variety and the taste of the product than in the precise location where the grapes were grown. Philip Gregan, Chief Executive Officer of New Zealand Winegrowers, made the point forcefully:

"If you look at most consumers, it does not matter whether they are in France or in Italy or in Spain or Korea—they do not care one inch about whether [wine] was produced on the north side of the hill or the southern side of the hill. At the very top end of the market—the top three or five per cent—yes, they are vitally interested in that, but the rest of the market is not. Europe has deluded itself into thinking that the rest of the market is interested in all that flawed theology. The whole regulatory system is based on the fact that it is interested in it and it has perpetuated the production of wines on that basis. The problem is that the market does not see it that way" (Q 707).

46. We do not wish to be misunderstood. We are not suggesting that EU wines should not be produced and marketed on the basis of their place of origin or that there should be a free-for-all in which wine producers are permitted to put whatever they wish on their labels. If wines can be sold on the basis of their geographical origins, fair and good. And those who produce wines for sale on this basis must, like the producers of other foodstuffs based on areas of origin, such as Parma Ham, be given adequate regulatory protection against their brands being abused by imposters. But it seems to us that the changes which are proposed in this area, welcome as they are, will do little to put EU wines onto a level marketing playing field with those from the New World. We believe it is unlikely that the mass consumer—as distinct from the connoisseur—will be able to derive any meaningful benefit from the new system.

[19] COM(2007)372/Final, Section 3.1

47. **We welcome the proposed relaxations in the current regulations on wine labelling. While we also regard the proposed new rules governing the registration of wines with a geographical indication as a step in the right direction, we do not believe that the proposed changes will be effective in raising the market profile of EU wines vis-à-vis their New World counterparts.**

Wine-Making Practices

48. The Commission is proposing that those wine-making practices (WMP) approved by the *Organisation Internationale du Vin* (OIV) should become the benchmark for oenological practices approved within the Community; that the filtering of approved practices into the Wine CMO should, subject to some exceptions, become the responsibility of the Commission rather than the Council; and that oenological practices which have been agreed internationally should be authorised for wines produced for export to countries outside the Community.

49. The case for this change was made to us by the Commission in evidence. Lars Hoelgaard put it this way:

    "We should give our wine producers the same opportunities in terms of methods, modern techniques, etc, that they have in the third countries. If a producer organisation, a protected denomination of the Geographical Indication, says 'I do not want to use those methods because it will infringe on the reputation of my wine', fine, then let him do so. But at least that opportunity should be available for other wine growers to make use of" (Q 309).

50. Some witnesses drew our attention to the need to preserve the natural character of wine. Jose Ramon Fernandez, for example, said that "of course we have to be open to technical and commercial innovation. We should not prevent ourselves from accepting oenological practices. That goes with the philosophy of ameliorating the natural qualities of the product. But we do not want to be in the position of explaining to consumers that they are drinking something which has lost completely its natural aspect" (Q 194). This issue—that the "natural" characteristics of wine must be preserved from contamination—is one of the underlying questions to which we will return in our main report. Suffice it to say here that most of those who gave evidence to us were supportive of treating the OIV as the benchmark for EU oenological practices.

51. New Zealand Winegrowers voiced some reservations to us about the OIV. According to Philip Gregan, "the OIV is an organisation that is struggling with the internationalisation of the wine industry. It was a European body and it is struggling to come to terms with its role, not as a European body, but as an international body". He added that "it has a very important role to play, but that is as long as it operates as an international body and not as a functionary of the European Union". Enlarging on this, he suggested that the delegates to the OIV tended to be those "who have a vested interest in maintaining those wine-making practices which are permitted in their individual regions" (Q 729).

52. Mr Gregan also drew our attention to another body—the World-Wide Trading Group (WWTG)—which was formed in 1998 and which operates on the basis of a Mutual Acceptance Agreement on Oenological Practices.

What this means in effect is that each signatory accepts that the others have in place adequate systems for ensuring that its wine industry produces wine which is safe to drink and is labelled accurately. Mr Gregan expressed the wish that the EU might sign an agreement with the WWTG and operate on the basis of reciprocity rather than prescription. "What we want," he told us, "is a vibrant, vital, exciting wine market through competition. If you believe in your product, you can carve out your niche and succeed in that. If you do not, then go and ask a regulator for help, but we believe in our product" (Q 712). We commend the WWTG to the Commission's consideration.

53. **We support the Commission's proposal that the OIV list of recommended WMP should be adopted as the benchmark for EU oenological practices and that the filtering of individual WMP into EU regulations should be the responsibility of the Commission. We suggest also that consideration should be given to the establishment of reciprocal arrangements between the EU and the WWTG**.

Enrichment

54. The current position on enrichment is summarised in Paragraph 19 above. The Commission is proposing to withdraw EU subsidies for the use of concentrated grape must to enrich wine and, at the same time, to ban the use of sucrose in wine-making. The effect will be to increase the cost of producing wine both for those Member States—in the Mediterranean region—who already use grape must and who will no longer receive the subsidy and for others—in Central and Northern Europe—who will have to use the more expensive grape must instead of cheaper sucrose.

55. This proposal was defended to us by Lars Hoelgaard in terms of removing a distortion of the internal market: if some producers had to pay more for must, that would hand an unfair competitive advantage to those who use sucrose (Q 330). We also encountered the suggestion that the use of sucrose was, perhaps, not a proper oenological practice on the grounds that wine is defined in the regulations as "a product obtained exclusively from the total or partial alcoholic fermentation of fresh grapes" (Q 331). This view was, however, disputed by others, who also pointed out that sucrose was added to wine by non-EU wine producers, so a ban on its use would create a distortion of competition between the EU and the New World (Q 374). It was also suggested to us that one motivation for the proposed ban on sucrose and greater use of concentrated grape must was a desire to use this measure to help mop up wine surpluses in must-producing States (QQ 436, 613).

56. Most of our witnesses took the view that there was nothing unnatural about the addition of sucrose to wine. Robert Beardsmore, General Secretary of the UK Vineyards Association (UKVA), countered the suggestion that the addition of sucrose was not an OIV-authorised oenological practice. He told us that, in response to a query from the UKVA, the OIV had stated that the addition of sucrose is neither authorised nor banned by the organisation and that the OIV took no view on the issue of sucrose versus grape must (Q 610).

57. Dietrich Guth, for Germany, suggested to us that the ban "was a gift to the Italians and to the Spanish and the French to reduce their over-capacity in the vineyards in order to produce expensive sugar for use in wine production" (Q 436). Be that as it may, we do not subscribe to the Commission's logic about the need for this measure in order to remove an internal trade distortion. We can see no valid reason why those producers

who currently use grape must to enrich their wine cannot switch to using sucrose if the subsidy for grape must is withdrawn. The result would be a levelling-down rather than a levelling-up of production costs within the Community and at the same time the creation of a level economic playing field with wine producers outside the EU. If, on the other hand, the Commission's proposal is accepted, it would have adverse consequences for wine producers in a number of Member States, including Germany, Hungary, the UK and even parts of France. Using concentrated grape must to enrich wine, we were told by the UKVA, costs more than five times the cost of using sucrose. As we have noted above (see Paragraph 30), it is proposed that Rural Development funds might be used to provide "investment support" to farmers faced with higher production costs as a result of this measure. We see no case for spending money in order to correct the effects of a misguided proposal which will create unnecessary costs for many wine producers.

58. **We do not support the Commission's proposals on enrichment. We agree that the existing subsidies for concentrated grape must should be removed but we consider that a requirement on producers to use grape must rather than sucrose will unnecessarily increase production costs and at the same time create a distortion in the market vis-à-vis non-EU producers.**

National Envelopes

59. The Commission is proposing a decentralisation of some two thirds of the Wine CMO budget. Each wine-producing Member State will be allocated an "envelope" of money with which to fund, within its boundaries, the various measures provided for in the reforms of the wine sector. Envelopes will be allocated to Member States on the basis of a formula deriving from a combination of each State's area of land under vine cultivation, the volume of wine produced and historical expenditure from the Wine CMO budget. Once allocated, envelopes may be used at the discretion of Member States for a range of approved policy instruments, including crisis management, "green harvest", the restructuring of wine industries and the promotion of wine sales. In the following paragraphs we address the concept of national envelopes and the four uses to which they may be put.

The National Envelope Concept

60. We do not have difficulty with the concept of national envelopes. As Eva Corral, from COPA-COGECA, pointed out to us, "the wine sector is very different from one Member State to another, from one region to another—the type of product, the type of organisation of the sector in each region or in each country, the size of the sector" (Q 214). It could well be that individual Member States are best-placed to know where resources are most needed to improve the competitiveness of their wine industries. Our concern is with the practical implementation of the concept. In particular, we do not want to see either the amount of money from the Wine CMO which is divided up into national envelopes or the formula for its allocation among wine-producing Member States become permanent fixtures; and we wish to see clearly-defined rules to govern how the money allocated to Member States in national envelopes may be spent.

61. It is important that the overall sum for allocation to Member States should be fixed in an objective manner, reflecting the needs of the reform process rather than being simply a continuation of current Wine CMO funding. The Commission's proposals state that "the impact of the proposed reform does not increase costs with respect to the current level of €1.3 billion devoted to the sector … It is expected that the changes and innovations in the regime will lead to the budget being used more efficiently"[20]. While we agree that the majority of the proposals put forward will make better use of taxpayers' money, we are concerned lest the objective of controlling Wine CMO costs overall is being overlooked. In our view, the Community should be looking to see a reduction in the medium term in EU taxpayer support for the wine sector.

62. Lene Naesager foresaw that the allocation of national envelopes would be a contentious issue when she gave evidence to us—that those Member States whose producers have been in receipt of large distillation subsidies will be looking to receive large envelopes, while others whose wine growers have received little or no subsidy will get nothing (Q 341). The result of such an allocation system could be to institutionalise the status quo. We recognise, of course, that the lion's share of available EU wine sector funding must go to those Member States with problems to resolve within their wine industries and that these tend to be the large producers of EU wine. The formula proposed by the Commission would appear to be designed with this objective in mind. Be that as it may, it will be necessary to find an allocation formula which does not result in a fixed annual subsidy to Member States with underperforming wine industries and to put in place arrangements to ensure that allocations are delivering the efficiency gains which they are designed to produce and that ongoing levels of support are modulated to reflect changes in performance.

63. **We support the concept of national envelopes but we consider that there is a need for care to ensure that the size of the dividend and the formula for its allocation among Member States reflect the objectives of the reform process and do not result in a perpetuation of either the current Wine CMO Budget or the current pattern of subsidies across Member States and wine regions. We would wish to see spending on the wine sector reduced over the medium term. To achieve this, both the overall sum and the individual allocations to Member States should be reviewed prior to the adoption of the EU's multi-annual financial perspectives[21] in order to audit the results which have been obtained from the funds provided and to determine what, if any, further EU funding may be needed in order to revitalise the wine industry**.

Utilisation of National Envelopes

64. The Commission sought to reassure us as to the utilisation of national envelopes. Ms Naesager told us that "we have really tried to make the national envelopes restrictive and, of course, there will be definite criteria that will need to be respected. Member States will need to make [up] the national envelopes. They will have to be communicated to the Commission,

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20 COM(2007)372/Final, Section 4

21 The current financial perspectives run from 2007 to 2013

of course, and there will be a check on how they spend the money" (Q 341). Such restrictions will be particularly important if we are to avoid re-creation of the present problems of the wine sector, particularly through a re-introduction of subsidised distillation.

Crisis Management

65. We were pleased to hear what Ms Naesager had to say about the spending of funds from national envelopes on "crisis management" measures. She told us: "It can be to set up a mutual fund, it can be to pay farmers for the loss of income, and it can also be insurance against natural disasters. This is one thing. When we say 'crisis management', we do not talk about crisis distillation. That is out, even though some Member States would like to see it in" (Q 341). **On the understanding that it is focused on harvest insurance and will not allow the reintroduction of subsidised distillation through the back door, we support the use of national envelopes for crisis management measures. We urge the Commission, however, to stand fast on this restriction and to ensure that the new regulations make clear that the purpose of crisis management support is to help the industry to manage its own crises, not to remove the risk from commercial decisions. Wine sector funding for this purpose should be regarded as a short-term measure.**

Green Harvest

66. "Green Harvest" is a different matter. What is proposed here is that, where there is an excess of supply over demand, wine growers should be able to pick the grapes from their vines in an unripe state and receive funding, from national envelopes, for disposing of them. We see no difference of principle between this and subsidised distillation: it is just another means of intervening in the market and buying up a crop for which there is no demand. To abolish distillation but to permit "Green Harvest" would leave open the way to intervention subsidies by the back door and thereby negate an important element of the proposed reforms. **We do not support the use of national envelopes for "Green Harvest" measures.**

Restructuring

67. Restructuring, to improve the efficiency of the wine industry and to make it more responsive to the market, is already a substantial element of the Wine CMO budget (See Paragraph 12). According to Emmanuel Jacquin, Head of the Wine Reform Unit at the European Commission, to date some 150,000 hectares—5 per cent of the EU area under vine—have been restructured in this way (Q 295). It has included such measures as the planting of new varieties of grape which are better suited to the market and the amalgamation of holdings to improve efficiency of production.

68. According to Robert Lindo, Chairman of the UK Vineyards Association, restructuring—which he defined as "improving the quality of production, investment in equipment, investment in training and knowledge and marketing"—should be the priority area for EU expenditure on the wine sector (Q 591). Other witnesses shared this view. Eva Corral, of COPA-COGECA, believed that the process needed to be more market-focused. Referring to restructuring as "the connection of all the sectors", she continued:

"Until now the reform has just been addressing the producers but has not been linked to the market. We have been having a lot of restructuring but the restructuring is not linked to whether these products or these varieties have a market. In some places we have found ourselves with, for example, a lot of white wine because there was a demand for white wine, and sadly there has been too much re-conversion to white wine and now there is no market" (Q 223).

69. While we support the continuation of grants to improve the competitiveness of the wine industry, we consider that, if the interests of EU taxpayers are to be protected, such grants need to be both tightly defined and audited. There is already substantial investment in restructuring—some €450 million (about £300 million) a year, accounting for more than a third of Wine CMO spending. Yet it is clear to us that little has been achieved as a result in terms of improving efficiency and competitiveness and reducing the dependency of the industry on EU subsidies. That the problem of over-production persists suggests that results commensurate with the investment have not been obtained. It is important therefore that any future investment should be conditional on the demonstration by the applicant of a sound business case, a key element of which should be an improvement in the connection between production and the market. Robust post-investment audit arrangements should also be put in place.

70. **We support the continuation of grants for restructuring of the wine industry, but we would wish to see such assistance restricted to projects for which a sound business case can be made and robust arrangements made for audit of the results.**

Promotion

71. The Commission is proposing that more than a tenth of the funds to be allocated to Member States as national envelopes should be reserved for promoting the sale of EU wine outside the Community. We have heard much support from all sectors of the industry for greater investment in promotion. Eva Corral believed that it was "fundamental if we are going to open markets and we want to reconquer markets" (Q 246), while Giusseppe Castiglione, a Member of the European Parliament and Rapporteur-Designate for the Commission's Legislative Proposal, drew attention to the imbalance of investment in promotion between the EU and New World wine industries. "Our competitors," he said, "really have massive advertising campaigns … 70 per cent of young English people do not really know much about European wine. It may be better quality, but nevertheless they know Australian wine better" (Q 266).

72. While we support the intentions behind this investment—i.e. to boost sales of EU wine—we believe that this objective will not be achieved unless the concept is drawn more widely. In a word, what we should be talking about here is marketing rather than promotion—i.e. linking the production of EU wine more closely to the market rather than simply advertising the perceived qualities of EU wine. Marketing includes, for example, efforts to foster vertical integration of the wine industry, so that growers and wine-makers are able to forge effective links with wine buyers, enabling them to structure their production with the market in mind. The absence of this linkage was highlighted as a problem by Jean-Louis Alaux, President of the Independent Winegrowers Association of the Aude region of Languedoc/Roussillon, when

he told us that “the producers that bring wine to the cooperative are never in contact with the market” (Q 796). Alain Vironneau, President of the Inter-Professional Council of Bordeaux Wine Growers, reinforced the point: “The wine producer is a producer: out there with his vines he is somewhat removed from the world of consumption. Trends and tastes change every six or seven years and we are still not in there … Europe has to take on board the realities and to create a situation whereby there are genuine criteria adapted to the change in consumption and not just pinned to the producer and his vines” (Q 807). He summed up his message with the words: “marketing means adaptation” (Q 820).

73. Closely linked to this is a need for the EU wine industry’s marketers to be proactive in seeking potential buyers for their product. Julian Dyer, Senior Wine Buyer for Sainsburys, drew attention to a contrast here between the EU and New World wine industries: “The Australian Wine Bureau organises the buyers’ visits, gets us all out there, hosts conferences and has done a tremendous job over the last ten years in terms of working with the industry jointly to develop wine sales. There is no such body in Europe” (Q 668). The problem, it seems to us, is that the wine industry in the Community in its present form is too fragmented and producer-orientated. Jean-Francois Solere, of the French Agriculture Ministry Regional Office in Languedoc/Roussillon, told us that “we are working on the production side of things, whereas the competition is very much targeting the market side”; and his colleague, Bernard Clarimont added: “We consider ourselves producers of raw material but we have not been able to develop brand networks, and therefore we have a very weak footing at the wine merchant level of trading” (Q 755). No promotion campaign will be successful unless it is able, in addition to making the producer aware of what the consumer wants, to develop active trading links with wine buyers. We are not alone in taking this view. Jean-Louis Alaux told us in Languedoc/Roussillon: “We have been used to marketing our wines in a certain way but that no longer corresponds to what the world expects. We need the means to take our products to the market in the conditions the market expects” (Q 770).

74. We have some concerns also about the markets to be targeted. The Commission’s proposals envisage funding allocations which are heavily weighted towards sales to non-EU countries. While this is obviously an important objective, we are puzzled that only a small allocation of funding is envisaged to promote sales of EU wine within the Community. Wine consumption may be falling in the traditional wine-producing Member States, but it is increasing in many others, including Britain, where New World wines have captured a substantial share of the market. We recognise concerns over alcohol consumption and we support the Commission’s proposal for an information campaign within the Community to encourage responsible and moderate wine drinking. However, promoting the sale of EU wines within the Community does not mean encouraging higher alcohol consumption. It is about encouraging those who are drinking wine (often in preference to other beverages, such as beer) to drink EU wines instead of, or in parallel with, those produced outside the Community. There is a potentially large market on our own doorstep which should not be ignored.

75. Finally, while we believe it is acceptable to use national envelopes to prime the marketing pump, we regard this activity as one which beyond the short term should be funded by the industry itself. Promotion of the sale of Community wine is not an activity which EU taxpayers should be expected

to fund on an ongoing basis. We are pleased therefore to note the Commission's proposal that the wine industry should provide at least half the funding for promotion activities. Nonetheless, there should be movement towards total industry funding. Funding from national envelopes should be used to support the preparation and launch of a new marketing strategy, including connecting wine producers with the requirements of their consumers and putting in place the necessary marketing networks. Once that is done, the funding of marketing activities should become the responsibility of the industry itself.

76. **We support the inclusion, as an eligible measure for funding from national envelopes, of activities designed to boost the sales of EU wines, but we do so on the basis that promotion is interpreted as marketing, that it covers more than simply advertising and that it includes action to promote vertical integration between producers and buyers and the creation of proactive marketing networks. Marketing should be targeted at consumers within as well as outside the Community, especially in those Member States where wine consumption is increasing. Support for promotion from national envelopes should be a short-term measure and should be designed to enable the industry to market itself rather than to have an ongoing subsidy from the EU taxpayer for the purpose.**

CHAPTER 3: CONCLUSIONS

77. In this Chapter we repeat, for ease of reference, the conclusions which we have reached in our preliminary consideration of the Commission's proposals. Before doing so, however, we wish to address the proposals as a package and to make some general comments.

78. The Commission's proposals appear to us to point the way to a brighter future for the EU wine industry and we are prepared therefore to give them as a package our broad support. They contain however a number of important pluses and minuses. We strongly support the proposal that subsidised distillation should cease. Without this fundamental change, reform of the wine sector has little chance of success. The ending of distillation also contains the key to the vexed issue of planting bans, on which we comment below. We are also pleased to see the proposals that the current restrictions on wine labelling should be lifted and that the OIV should provide the benchmark for the authorisation of wine-making practices within the Community.

79. We cannot however support the proposals to extend the planting ban until 2013 and to prohibit the use of sucrose in wine making. We recognise that some may see a *prima facie* contradiction between launching a subsidised grubbing-up programme on the one hand and lifting the current ban on new plantings on the other. However, if subsidised distillation is abolished, there is no need of planting bans to control production capacity, as there will then be no incentive for anyone to embark on new plantings for which a clear market outlet cannot be foreseen. Nor can we accept the argument which is being advanced in favour of a ban on the use of sucrose in wine-making—that the removal of subsidies for grape must requires such a prohibition in order to remove internal trade distortions. This argument simply does not hold water. There is a more logical way of removing trade distortions, and that is to permit the use of sucrose in wine-making throughout the Community. This would have the added advantage of levelling the EU wine market not only internally but also in relation to third countries, who are not subject to such a restriction.

80. Some might perhaps argue that the proposals to subsidise grubbing-up and to provide retirement aid are not strictly necessary in order to bring supply and demand into balance, as the ending of subsidised distillation will of itself achieve that objective. We are however prepared to support these measures on the basis that we are dealing here with an industry which is not evenly spread across the Community, or indeed across individual wine-producing Member States, and that there is a short-term need for support to help those whose livelihoods centre on wine-production to adjust to a new market situation. The problem of displacement should not be over-stated. Many of the Community's wine-growers do not rely solely on wine production for a livelihood. We were told by the French Agriculture Ministry that more than half of the wine-growing concerns in Languedoc-Roussillon were run by people who had other jobs but who had inherited vineyards and who "keep their few hectares alive producing grapes and deliver their grapes to the cooperative" (Q 754). Nonetheless we recognise that there will be problems of adjustment and we concur with the need for transitional measures to help those who will be displaced from the wine industry. We are clear however that such support should be carefully defined and time-limited.

81. National envelopes have been presented as an extension of subsidiarity and as providing Member States with flexibility to tailor Community support to the particular demands of their own wine-producing regions. While we have no difficulty with the principle of such decentralisation, we remain concerned that the rules governing it should be tightly drawn. Funding from national envelopes must not become a way of life. In the medium term the industry itself must take onto its own shoulders responsibility for restructuring production, for insuring itself against crisis and for marketing its own products. The reformed Wine CMO must recognise the interests of consumers and taxpayers as well as those of producers.

82. We will leave the last words with two wine growers from France—Jean-Louis Alaux, President of the Independent Wine Growers Association (FVIA) of the Aude region of Languedoc-Roussillon, and Alain Vironneau, President of the Inter-Professional Wine Council of Bordeaux Wine Growers (CVIB). M Alaux told us, when we took evidence from the FVIA in Narbonne: "This CMO must be the last but it must be very efficient. We need to stop this situation, we need to do it once and for all and take a position on the market as it is in its own reality" (Q 769). And M Vironneau told us in evidence at CIVB Headquarters in Bordeaux: "We do not want subsidies, we want to hold our head high" (Q820). These words eloquently sum up our essential message.

83. Our conclusions, as recorded in Chapter Two, are:

(a) We strongly support the Commission's proposal to end all subsidies for distillation and for its associated storage. (Paragraph 26)

(b) We support the inclusion of vine-growing areas and of land withdrawn from vine-growing within the ambit of the Single Farm Payment and its rules concerning cross compliance. (Paragraph 29)

(c) We support the transfer of funding from the Wine CMO Budget to provide for a range of Rural Development schemes on the basis of co-financing by Member States, but we do not support the employment of Rural Development funds to compensate for changes in the rules governing wine enrichment. (Paragraph 31)

(d) We support the Commission's proposed grubbing-up programme but we consider that there is a need for tight definition of the exemptions from it which Member States may invoke. (Paragraph 38)

(e) We do not support the proposal to extend the ban on new plantings beyond 2010. We consider that, with the removal of subsidised distillation, production capacity will adjust itself to demand as the result of market forces, especially if the subsidised grubbing-up programme proposed by the Commission goes ahead. (Paragraph 42)

(f) We welcome the proposed relaxation in the current regulations on wine labelling. While we also regard the proposed new rules governing the registration of wines with a geographical indication as a step in the right direction, we do not believe that the proposed changes will be effective in raising the market profile of EU wines vis-à-vis their New World counterparts. (Paragraph 47)

(g) We support the Commission's proposal that the OIV list of recommended wine-making practices (WMP) should be adopted as the benchmark for EU oenological practices and that the filtering of individual WMP into EU regulations should be the responsibility of the Commission. We suggest also that consideration should be given to the establishment of reciprocal arrangements between the EU and the WWTG. (Paragraph 53)

(h) We do not support the Commission's proposals on enrichment. We agree that the existing subsidies for concentrated grape must should be removed but we consider that a requirement on producers to use grape must rather than sucrose will unnecessarily increase production costs and at the same time create a distortion in the market vis-à-vis non-EU producers. (Paragraph 58)

(i) We support the concept of national envelopes, but we consider that there is a need for care to ensure that the size of the dividend and the formula for its allocation among Member States reflect the objectives of the reform process and do not result in a perpetuation of either the current Wine CMO Budget or the current pattern of subsidies across Member States and wine regions. We would wish to see spending on the wine sector reduced over the medium term. To achieve this, both the overall sum and the individual allocations to Member States should be reviewed prior to the adoption of the EU's multi-annual financial perspectives in order to audit the results which have been obtained from the funds provided and to determine what, if any, further EU funding may be needed in order to revitalise the wine industry. (Paragraph 63)

(j) On the understanding that it is focused on harvest insurance and will not allow the reintroduction of subsidised distillation through the back door, we support the use of national envelopes for crisis management measures. We urge the Commission, however, to stand fast on this restriction and to ensure that the new regulations make clear that the purpose of crisis management support is to help the industry to manage its own crises, not to remove the risk from commercial decisions. Wine sector funding for this purpose should be regarded as a short term measure. (Paragraph 65)

(k) We do not support the use of national envelopes for "Green Harvest" measures. (Paragraph 66)

(l) We support the continuation of grants for restructuring of the wine industry, but we would wish to see such assistance restricted to projects for which a sound business case can be made and robust arrangements made for audit of the results. (Paragraph 70)

(m) We support the inclusion, as an eligible measure for funding from national envelopes, of activities designed to boost the sales of EU wines, but we do so on the basis that promotion is interpreted as marketing, that it covers more than simply advertising and that it includes action to promote vertical integration between producers and buyers and the creation of proactive marketing networks. Marketing should be targeted at consumers within as well as outside the Community, especially in those Member States where wine consumption is increasing. Support for promotion from national envelopes should be a short-term measure and should be designed to enable the industry to market itself rather than to have an ongoing subsidy from the EU taxpayer for the purpose. (Paragraph 76)

84. We will review these conclusions in the light of evidence which we shall be taking from UK Agriculture Ministers on 25 July. Our final report will be made to the House after the Summer recess.

APPENDIX 1: SUB-COMMITTEE D (ENVIRONMENT AND AGRICULTURE)

Sub-Committee D

The members of the Sub-Committee which conducted this inquiry were:-

Lord Bach
Viscount Brookeborough
Lord Cameron of Dillington
Lord Greaves
Baroness Jones of Whitchurch
Baroness Miller of Chilthorne Domer
Lord Moynihan
Lord Palmer
Lord Plumb
Lord Sewel (Chairman)
Viscount Ullswater

Declarations of Interest

A full list of Members' interests can be found in the Register of Lords Interests:

http://www.publications.parliament.uk/pa/ld/ldreg.htm

APPENDIX 2: LIST OF WITNESSES

The following witnesses gave evidence. Those marked * gave oral evidence.

- * Mr. Jean-Louis Alaux, President of the Independent Wine Growers Association of the Aude region of Languedoc/Roussillon
- Australian Wine and Brandy Corporation
- * Ms. Katerina Batzelli, Member of the European Parliament, EP Rapporteur for the Commission 2006 Communication, European Parliament
- * Mr. Jacky Bonotaux, Economic Specialist, Agricultural Ministry Local Office, Montpellier
- * Mr. Philippe Casteja, former President of *Conseil Interprofessional du Vin de Bordeaux* (CIVB)
- * Mr. Guiseppe Castiglioini, Member of the European Parliament, EP Rapporteur for the Commission 2007 Legislative Proposal
- * Senator Gerard Cesar, Member of the French Upper House
- * Mr. Bernard Clarimont, Regional Directorate of Agriculture and Forestry, Bordeaux
- * Ms. Eva Corral, Head of Wine Sector Division, COPA-COGECA
- * Department of Environment, Food and Rural Affairs
- * Mr. Dooley, Deputy Wine Reform Head of Unit, European Commission
- * Mr. Jean-Marie Fabre, Secretary General of the Independent Wine Growers Association of the Aude region of Languedoc/Roussillon
- * Mr. Jean-Luc Fabry, Director of the Independent Wine Growers Association of the Aude region of Languedoc/Roussillon
- * Mr. Jose Ramon Fernandez, Secretary General, Comité Européen des Enterprises Vins (CEEV)
- * Food Standards Agency
- * Mr. Bertrand Guillou, French SCA Spokesman
- * Mr. Dietrich Guth, German SCA Spokesman
- * Mr. Lars Hoelgaard, Deputy Director General, DG Agriculture, European Commission
- * Mr. Emmanuel Jacquin, Head of Wine Reform Unit, European Commission
- * Mr. Denis Johnston, President of the CIVB Economic Commission and Member of the Board
- * Mr. Claude Magnier, Regional Director, Directorate of Agriculture and Forestry, Montpellier
- * Mr. Claude Mailleau, Department Delegate, Agriculture Ministry Regional Office, Bordeaux
- * Ms. Lene Naesager, Member of Commissioner's Cabinet (European Commission) with responsibility for wine reform
- * New Zealand High Commission

* New Zealand Winegrowers
* Mr. Luigi Polizzi, Italian SCA Spokesman
* Mr. François Solere, Regional Directorate of Agriculture and Forestry, Montpellier
* Mr. Zoltan Somogyi, Hungarian SCA Deputy Spokesman
* United Kingdom Vineyards Association
* Mr. Alain Vironneau, President CIVB
* Wine Intelligence
* The Wine and Spirit Trade Association

World Wildlife Foundation

APPENDIX 3: CALL FOR EVIDENCE

The House of Lords European Union Committee will be conducting an inquiry, via its Environment and Agriculture Sub-Committee (Sub-Committee D), into the current situation of, and the options for reform of, the EU Wine Sector. The purpose of the inquiry is to acquire evidence regarding the arrangements which currently exist within the European Union governing the planting, growing, making, distillation and marketing of wine products and, against this background, to assess proposals for reform which are expected to be put forward by the European Commission in the Spring of 2007. The inquiry will therefore commence early in the 2007 New Year and aim to report before Parliament rises for the Summer Recess in July.

The inquiry will be evidence-based. That is to say, its purpose is to acquire evidence from those involved—including the UK Government; the European Commission; UK, EU and Global Wine Trade and Marketing Organisations; and others with relevant experience and/or expertise in the subject—on the current situation and its problems and on the options for reform.

The Issues

Against this background the Committee hereby invites you to submit written evidence to the inquiry. The Committee would find it helpful if, in addition to any general issues you may wish to raise, you would focus on a number of specific questions. It is recognised that those submitting evidence will not necessarily have an interest in all the questions and may therefore wish to be selective. The questions are:

A. The Need for a Regulation

1. What is the nature of the case for having a wine regime at all—i.e. as distinct from allowing the industry to adjust itself to competitive pressures (e.g. via increased efficiency, rationalisation, diversification, etc)?

2. Why should wine quality—e.g. relating to Geographical Indication—be regulated? Why cannot consumers choose between wines as they do between other products—e.g. on the basis of brand names or other information which might provide a guide to quality?

B. The Market

3. Given the existence of a wine regime, how might a better balance be achieved between the supply of and demand for wine and wine products produced within the EU?

4. Is the EU wine industry, within the current regime, sufficiently competitive within the global wine market? How can it be made more so?

5. Is it to be expected that barriers to trade in wine will continue to diminish as the result of WTO negotiations? If so, what impact can this be expected to have on the cost of the EU wine regime and/or on its effectiveness in protecting farm incomes?

C. Structural Measures

6. Are current measures (e.g. grubbing up, restrictions of planting rights) an appropriate means of bringing supply and demand into balance? What further measures need to be taken in these or other areas?

7. How significant an issue is illicit planting for the supply situation?

8. Is there a case for the continuance of remedial measures (“crisis distillation”) to deal with exceptional market conditions?

9. What alternative outlets (i.e. other than wine sales) exist for excess production?

10. What is the potential impact on wine producing areas of liberalisation of the market? How sensitive are these economies to change?

11. How effective have current arrangements been in supporting diversification of rural economies away from the wine sector? What contribution will the European Agricultural Fund for Rural Development make, post 1 January 2007, to development of the rural economies of wine-producing regions? What further measures might need to be taken?

D. Marketing

12. Given continuance of an EU wine regime, what are your views on labelling and quality issues? Are current arrangements conducive to consumers understanding what they are buying? Is there scope for rationalisation and simplification?

13. What part has marketing played in the rise in sales within the EU of wine produced outside the Community?

14. What lessons might be learned from the penetration of non-EU wines into the EU market?

E. Wine Making Practices (WMP)

15. How suited are current regulations on WMP to a competitive global market in wine? What changes would you like to see?

16. How should enrichment (with sugar or must) be regulated? Should there be financial aid for enrichment?

F. Environmental and Social Impact

17. To what extent does the wine sector have an impact—favourable and unfavourable—on the EU environment? Are measures needed to support good environmental impact? Should they be selective?

18. To what extent and how should reform of the EU wine regime take into account concerns over the potential for alcohol abuse?

Guidance for Those Submitting Evidence

Submissions of evidence should be sent to:

Robert Preston
Clerk to the EU Environment & Agriculture Sub-Committee
House of Lords
London SW1A 0PW

Tel. (020) 7219 4579
Email: prestonr@parliament.uk

Submissions should be copied to:

Alistair Dillon
Committee Specialist
House of Lords
London SW1P 0PW
Tel. (020) 7219 8646
Email: dillona@parliament.uk

Emailed submissions in Word format are preferred.

The deadline for receipt of submissions of written evidence is **7 February 2007**. Please ensure, when submitting evidence, that you include relevant contact details, that your evidence is dated and that you make clear whether it is submitted on a personal basis or behalf of an organisation.

Short submissions (6 pages of A4 size type or less) are preferred. Longer submissions, where these are judged necessary, should be accompanied by a summary. Paragraphs should be numbered. If drawings or charts are included, these should be black and white and of camera-ready quality.

All evidence submitted becomes the property of the Committee and may be printed and published. You may publish your evidence yourself, but in doing so you should indicate that it was prepared for the Committee.

The Committee will invite some of those submitting written evidence to appear before it in order to give oral evidence, usually at Westminster and in public session. Oral evidence sessions are expected to be held between February and April 2007.

This is a public Call for Evidence and you are invited to bring it to the attention of other groups or individuals who may not have received it and who may have a contribution to make to the inquiry. It is open to any individual or group to submit written evidence, subject to the guidance set out above.

APPENDIX 4: RECENT REPORTS

Recent Reports from the Select Committee

Session 2006–07

Evidence from the Minister for Europe on the Outcome of the December European Council (4th Report, Session 2006–07, HL Paper 31)

Government Responses: Session 2004–05 (6th Report, Session 2006–07, HL Paper 38)

The Commission's 2007 Legislative and Work Programme (7th Report, Session 2006–07, HL Paper 42)

Evidence from the Ambassador of the Federal Republic of Germany on the German Presidency (10th Report, Session 2006–07, HL Paper 56)

Recent Reports prepared by Sub-Committee D (Environment and Agriculture)

Session 2005–2006

The Future Financing of the Common Agricultural Policy (2nd Report Session 2005–06, HL Paper 7)

European Union Fisheries Legislation (7th Report Session 2005–06, HL Paper 24)

The United Kingdom Presidency: Defra's Priorities, (12th Report Session 2005–06, HL Paper 36)

Too much or too little? Changes to the EU Sugar Regime (18th Report Session 2005–06, HL Paper 80-I and 80-II)

Managing nuclear safety and waste: the role of the EU (37th Report Session 2005–06, HL Paper 211-I and 211-II)

The EU Strategy on Biofuels: from field to fuel (47th Report Session 2005–2006, HL Paper 267-I and 267-II)