

The reform of the European Union's Common Market Organisation for Wine. Rationale, key points and expected impacts

SUMMARY

The EU wines face a crisis of competitiveness. The EU is not well prepared to compete with the New World. The EU market regulations, or Common Market Organisation of Wine, are part of the problem. The CMO-wine is the key market structure in the European Union, which includes all regulatory and support elements. The CMO-wine reform is a necessary first step to face the EU wine's crisis of competitiveness.

On 29 April 2008 the European Council of Ministers approved unanimously the reform of the Common Market Organisation (CMO) for wine.

The purpose of this dissertation is to present the rationale for a reform, to highlight its key points and to propose an evaluation of the expected impact on the market of such a reform.

The European Union (EU) is the world's leading producer, consumer, exporter and importer of wine. The world wine consumption increases year after year, despite the relevant consumption decreases in the largest producer and consumer EU countries. As a consequence, wine world trade values increase year after year, but the world trade share of the EU exporters is being reduced in favour of New World countries. The erosion of the market share of EU wines relative to competing wines is also taking place in domestic markets. Because of that each year several million hl of unsold and unsaleable wine are distilled. This is the sign of a **loss of competitiveness** of EU wine sector, particularly in the low and medium-price segments.

The proposal for a reformed wine CMO was set to achieve inter alia the following objectives:

- increase the **competitiveness** of European wine,
- enhance **market orientation**,
- safeguard **producers' incomes**,
- ensure a better **balance between supply and demand**,
- respect **international obligations**,

The most relevant measures commented in the dissertation are:

- Phasing out private storage, distillation schemes, must aid for grape juice
- Decoupling public support from production: Single payment schemes
- Abolition of the planting right system
- Rural development
- Grubbing-up vines

- National envelopes
- Oenological practices
- Promotion of EU wines in third countries
- Simplified labelling
- Regime concerning protected names

The expected impact in the short-term of such a reform will be negative in social terms, although the business as usual scenario could have been even worse. Depressed prices, reduced agricultural incomes and additional surpluses are to be expected at least during the initial period, until production falls in line with demand. The abandonment of vineyards, rural development grants, and promotion activities are not likely to compensate for that cost.

Then, the possibility of planting new vineyards without rights should increase competitiveness. The smoother system for adopting oenological practices, now more in line with the World Trade Organisation practices, the simplified labelling, allowing for the first time to indicate vintage and/or grape varieties in table wines, and the improved systems to protect names are all elements that must result in reinforced competitiveness.

The reform addresses some of the handicaps for the EU wine industry. Other handicaps, such as the **fragmented structure of the EU wine industry**, with higher production costs and smaller volumes for the needs of large-scale retailers, or the **poor understanding** of market trends and consumer demands, are left for the market actors to act.