Title
The EU wine policy orientations through the budget expenditure analysis (1970-2015)

I want to submit an abstract for:
Conference Presentation

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Keywords
CMO, competitiveness, European Union, expenditure, income support, quality, prices, wine sector

Research Question
A new EU wine policy strategy? After 45 years of interventions and supports, is still the wine policy towards a protection system or is it more competitive?

Methods
Analysis of the EU wine expenditure, through three main policy orientations. The data has been collected from the Guarantee Section of the EAGGF and National Support Programs (annual financial report).

Results
Among the three different wine public policy orientations, 1) price and income support had represent 70 % of the total expenditures followed by 2) quality (24%) and 2) competitiveness (6%).

Abstract
The objective of this work is to analyze the main political drivers that have characterized the European (EU) wine policy from 1962 (Reg.24/1962) until the last regulation in 2013 (Reg. 1308/2013). The authors try to explain the history of the EU Common Market Organisation (CMO) of wine through the analysis of budget expenditure that has characterized the public interventions in forty-five years (1970-2015). The paper attempt to identify three main different public policy orientations and strategies that occurred in those years. The first identified as “price and income support”, the second as “quality of wine” and the third as “competitiveness”. The data on expenditure has been collected from the EAGGF (European Guarantee and Guidance Fund) and National Support Programs (annual financial report). The dataset created by the authors, cover the CMOs expenditures (included in the guarantee fund and EU own budgetary), and not the Rural Development funds and......
the co-financing from the Member States. Over the years the EU has introduced a number of measures/instruments designed to address the problems of income instability and supply control: until the middle of ‘80, the principal goal of the EU wine policies was to ensure the development of productivity, create market stability and provide income support (Eu Commission, 2002, 2006). The first orientation strategy (n.1), identified as “price and income support” program where the most of the interventions were addressed to help and stabilize the income of the wine producers and defend the internal market of the EU. Orientation 1 has dominated the scene for more than thirty years. Respect to these aims and their instruments adopted, the EU wine has suffered from issues relating to its recurrent overproduction, which had first developed in the 1970s, had worsened and by the early 1980s. The case of distillation schemes and buying-in of alcohol from compulsory distillation were significant (Gaeta and Corsinovi, 2014). The expenditure for distillation schemes were more than 9.60 billion euros in the period 1970-2015. Together with the market withdrawals of wine, as political consequences, has risen more than 6.6 billion euros in the same period. It represented more than 1/3 of all the wine budget expenditure used in 45 years (45.0 billion euros). Supporting wine producers’ incomes through guaranteed buying-in prices for distillation and aid for storage table wine, had perpetuate structural surpluses and had generated high budgetary costs. The buying-in of alcohol from compulsory distillation amount more than 9% of the expenditure in the whole period with average cost around 1.5 billion euros (every 10 years). While, the aid for concentrated grape must was around 3.5 billion euros in 1970-2015 (7.8 % of the total). CMO policies should have encouraged the wine sector to bring supply into line with demand in terms of both quantity and quality (EU Commission, 2002). As a consequence, EU recognized the need to adopt a more quality of wines and consumer-oriented approach to production and development a quality policies (orientation 2). Meloni and Swinnen, 2013 provides interesting analyses of the political economy mechanism trough the historical origins of the EU quality policies. The scenario of orientation 2 was imagined to develop the “quality of wine” trough rules designed to address the management of production potential: from 1976 introducing the ban on new planting, the planting rights system (Deconinck and Swinnen, 2013) and the incentive for the grubbing up the vineyards located in unprofitable areas (permanent abandonment). Almost 8 % (3 billion euros) of the total EU wine expenditure (1970-2015) was designated to support this intervention. However, the restructuring and conversion of vineyards has been a cornerstone of the policy orientations n.2. The objective of the measure is to increase the competitiveness of wine producers through paying compensation for the loss of revenue while a vineyard is being adapted, and as a contribution to the costs of restructuring and conversion. The necessary restructuring of old vineyards was done on the basis of increasing production quality, using machinery and introducing all the innovative processes offered by modern technology. Re-structuring and reconversion accounted for 13.7% of the total wine budget. Substantial EU resources have been allocated to the measure 6.1 billion euros over the time 1970–2015 with a pick in decade 2001-2010 of 2.7 billion euros. Following the aim of supplying grape management and improve more quality, the green harvesting measure was introduced from 2008. This provides for the total destruction or removal of bunches of grapes while still at an immature stage, thereby reducing the yield to zero. These two measures are considered by the authors the main budget expenditure of orientation 2.

While the EU debated how resolve the high budgetary costs and the consequences of overproduction on the hand; the international competition was becoming ever stiffer (in 2005 accumulated wine stocks represented the equivalent of one year of production and the structural surplus was estimated at approximately 14.5 million hl, equivalent to 8.5 % of the total production – EU Commission, 2002). The EU wine producers were finding themselves at a disadvantage compared to those from third countries, who were often represented by a few restrictive production and markets rules, large multinationals and massive marketing operations. One of the greatest fears for the EU Agriculture Commission was the “attack” of new wine players on EU market: the imports from New World wine countries have increased substantially and the EU wine market was confronted with a reduction in the demand for domestic produced wines as overall consumption of wine has decreased especially in the most wine procuring countries (EU Commission, 2006). After thirty-eight years from the first CMO wine, the third policy orientation could be recognized. Orientation n.3 was geared to increase the “competitiveness” of the EU wine sector in a worldwide market and mainly against the growing of the third producing countries. This orientation was characterized by intervention linked to support the investments and innovation activities for the EU wine enterprises and support the promotion of quality wines in third countries.
Approximately 12.6% of the budget or 851 million of euros was allocated from 2011 to 2015 for investments and innovation. Analyses of these measures highlight a clear correlation between wine support programs on the one hand and rural development interventions on the other. This is most probably due to the nature of the measures themselves. For example, the investment measure essentially covers the same scope as the Rural Development (RD) investment aid measures “modernization of agricultural holdings” and “adding value to agriculture and forestry products”. Furthermore, the investment measures under the wine CMO and RD were running in parallel from wine year 2008/2014 onwards. The obligation for the EU Member States to draw the dividing line (between CMO and RD) significantly delayed the implementation of the investment measure under the wine CMO.

Promotion is the first largest expenditure category: between 2001-2010 122 million euros of EU funding has been spent to subsidize promotion actions and almost 860 million in the last six years (12.7% of the budget – 6.7 billion euros). The main beneficiaries were the Appellation of Origin (within the Consortia organization) as well as the temporary associations of businesses and the producer groupings. For the most part, the resources were used by companies working in the United States, Canada, China, and Japan to strengthen the markets. The majority of projects concentrated on joint participation in international exhibitions, contact with journalists from the countries of origin, and training activities for wine experts.

A new EU wine policy strategy? After 45 years of interventions and supports, is still the wine policy towards a protection system or is it more competitive? Despite these scenarios described above, the EU wine sector has been characterized for decades by interventions linked to the income and price support. The first policy orientation represents the largest category of expenditure in the 1970/2015: more than 70% of the total. Followed by 24% to the “quality wines” (second policy orientations), and 6% designated to support the third orientation “competitiveness”. There can be no doubt that the move to eliminate and reduction the economic funds to market measures was well intentioned after more than thirty years, as it aimed to increase the efficiency and competitiveness of the European wine sector. The hope was for a future where wine makers would produce for the market and not for the distiller.

Who exactly had benefitted from these measures thus far? Undoubtedly, those with the biggest interest in obtaining aid for distillation were large-scale vineyards, which found themselves able to reallocate huge volumes of must and wine that would otherwise be in excess of market demand. Thus, in an anti-competitive manner these aid payments rewarded those businesses not controlling production variables, safe in the knowledge that Community subsidies would always be there.

Describing the possible new strategy is a very complex task. However, the last fifteen years have shown an increase in the percentage allocated to the second and third orientations. During the decade 2001-2010, half of the expenditure (47% of the total – 8 billion) was spent to support the quality interventions. This value increased in the last six years, reached 54% of the expenditure, followed by 25% in competitiveness and 20% for the price and income support. An opposite trend: maybe something is changing.

References