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REPORT FROM THE COMMISSION TO THE EUROPEAN PARLIAMENT AND THE COUNCIL

in accordance with Article 184(8) of Council Regulation (EC) No 1234/2007 on the experience gained with the implementation of the wine reform of 2008

{SWD(2012) 415 final}

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1. INTRODUCTION

The reform of the wine CMO adopted in 2008[1] and incorporated into Council Regulation (EC) No 1234/2007[2] of 22 October 2007 (hereinafter 'SCMO Regulation') aims to increase the competitiveness of the EU wine producers. It was designed as a two-phase process. It was firstly essential to reach a market balance through the progressive removal of market intervention measures, accompanied by a three-year grubbing-up scheme, while the second phase as from 2012 focuses on tools to strengthen the competitiveness of EU wine producers, such as restructuring and conversion of vineyards, investments and promotion in third countries. These measures are managed through NSP. Besides, new regulatory measures on oenological practices, quality and labelling have been harmonised, updated and simplified with the view to become more consumer and market oriented.

In accordance with Article 184(8) of the SCMO Regulation, "*the Commission shall produce a report by the end of 2012, in particular taking into account the experience gained with the implementation of the reform*". Therefore, this report focuses on the first three years of the reform's implementation, in particular in what concerns the grubbing-up scheme and the measures included in the NSP. It also analyses the impact of the new quality policy, the new rules on wine labelling and on oenological practices. The trends in the EU wine market since 2007, following the adoption of the reform, are also analysed.

The report is based on communications submitted by Member States to the Commission in accordance with EU law, the report on the implementation of the measure for the promotion on third country markets[3], the report of the Court of Auditors[4], the external evaluation of COGEA on the wine reform, and internal analyses based on official statistical information.

Since this report focuses on the implementation of the reform between 2008 and 2012, it does not address the issue of the end of the transitional prohibition on planting rights, which was decided in 1999. The reform brought about no changes, but only postponed the end of this prohibition. However, due to strong concerns expressed by certain MS and stakeholders, a HLG on wine planting rights was set-up with a view to issuing a report by the end of 2012.

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[1] OJ L 148, 6.6.2008, p. 1.
[2] OJ L 299, 16.11.2007, p. 1.
[3] COM(2011)774 final
[4] OJ C 167, 13.6.2012, p. 17.

2. MARKET SITUATION

The EU wine market situation can be characterised in recent years by the following factors: a decreasing EU wine production, a decrease in EU wine consumption and increased wine exports to third countries considerably exceeding the increase in wine imports.

The net result is a decrease of stocks leading to increasing wine prices, in particular over the last two years. Market balance was reached, while certain market measures such as the support for potable alcohol distillation and for the use of concentrated must were phased out.

2.1. Supply

The total wine and must production in the EU fell progressively from 186 Mio hl in 2006-2007 to 163 Mio hl in 2011-2012. This decrease can be explained to a considerable extent by the reduction in the EU's wine-growing area (-370 000 ha between 2006 and 2011 (-10% of total areas)), partially supported (44%) through the grubbing-up scheme. Taking as reference an average EU yield of 50 hl/ha, the current EU wine-growing area (around 3.3 Mio ha) produce on average 165 Mio hl of wine, very close to the actual total production in 2011-2012. The restructuring and conversion of more than 150 000 ha over the last years has not led to a general increase of yields at EU level, but rather to the production of higher quality wine and/or at lower unit costs.

In 2011-2012, the 163 Mio hl of wine and must production is divided as follows: 103 Mio hl (63%) of PDO/PGI wines, 5 Mio hl (2%) of varietal wines, 51 Mio hl (31%) of other wines without GI and the remaining 7 Mio hl (4%) of grape juice. France and Italy remain the largest EU wine producing Member States in 2011-2012 (51 and 45 Mio hl, respectively), followed by Spain (37 Mio hl), Germany (9 Mio hl) and Portugal (5.6 Mio hl).

The production of 'varietal wines', which was not allowed before the reform, represents now 2% of the total production, whereas wines with PGI are also increasingly labelled with the indication of the vine variety(-ies). However, the development of varietal wines in the EU seems to lag behind consumption trends in several third countries and in non-producing EU countries, more oriented towards the consumption of varietal wines and less oriented towards PDO/PGI wines, as far as low and medium quality wines are concerned.

2.2. EU Demand

The EU human consumption of wine has decreased from almost 140 Mio hl in 2006-2007 to an estimated value of slightly over 135 Mio hl in 2010-2011. However, the trend is not uniform. Wine consumption (*per capita* and total) decreases in the main Southern European wine-producing Member States and it increases in Northern Member States. As indicated above, the latter countries are more oriented towards branded wines or varietal wines, rather than PDO/PGI wines. Another relevant development is the increasing demand for bulk wines, due to lower transport costs.

The total of industrial uses of wine in the EU (e.g. potable alcohol distillation, by-products distillation, crisis distillation, etc.) have also decreased from around 33 Mio hl in 2006-2007 to slightly over 26 Mio hl in 2009-2010 (-7 Mio hl (-21%)), mostly due to the decrease in EU subsidized distillations. Industrial uses of wine in the coming years can be estimated at 13 Mio hl distilled into potable alcohol for the alcoholic beverages industry, 5-6 Mio hl distilled into alcohol for energy or other non-potable purposes (including the alcohol resulting from compulsory or voluntary delivery of by-products) and 3-4 Mio hl for vinegar.

2.3. Trade

2.3.1. Exports / Imports

The total EU exports to third countries have grown from 17.9 Mio hl in 2007 to 22.8 Mio hl in 2011 (+27%). The total export value of EU wines increased from 5.9 Billion € in 2007 to 8.1 Billion € in 2011 (+36%).

Exports represent now 15% of production, against less than 10% in 2007. While exports were stable from 2007 to 2009, important increases occurred in 2010 and 2011. The main export destinations in 2011 were the USA (23%), Russia (18%) and China (10%). 65% of all wines exported by the EU to third countries was bottled wine, 24% was bulk wine, and 10% was sparkling wine.

In parallel, the total EU imports from third countries have grown from 12.9 Mio hl in 2007 to 13.6 Mio hl in 2011 (+5%). The total import value of non-EU wines decreased from 2.7 Billion € in 2007 to 2.4 Billion € in 2011 (-12%).

The main import origins in 2011 were Australia (26%), Chile and South Africa (20% each) and the USA (19%). There was a very important decrease in the average import prices, due in particular to the shift from bottled to bulk imports: the latter counted for more than 58% of total imports in 2011, against 45% in 2007 which makes wines in the lower and medium levels much more competitive. This tendency was also observed in the intra-EU trade. In 2011, imports into the United Kingdom and Germany represented 64% of total EU imports.

2.3.2. Intra-EU

Almost 33% of EU wines are traded between Member States. Taking into account that 15% of EU wines are exported, it can be concluded that almost 50% of the wines are consumed in countries different from the ones where the wines were produced. This shows that the EU market balance depends on a well functioning internal market.

Intra-EU trade has increased from 43 Mio hl in 2007 to 49 Mio hl in 2011 (+14%). Bottled wines are slowly losing ground (52% in 2007 down to 49% in 2011), while bulk wines are gaining market shares (39% in 2007 to 42% in 2011). This is consistent with trends in imports from third countries. Bottling wine at destination reduces substantially prices and is more and more used for lower medium quality wines.

Intra-EU trade in value is stable at around 8.8 Billion €.

2.3.3. Trade balance

The wine trade balance of the EU is positive and increased from 5 Mio hl in 2007 to 9 Mio hl in 2011 (+80%) and, in value, a growth can be observed from 3.2 Billion € in 2007 to 5.7 Billion € in 2011 (+76%).

There is a significant growth for still bottled wines (4.7 Mio hl to 9.3 Mio hl (+100%)) and sparkling wines (1.2 Mio hl to 2 Mio hl (+80%)), while a significant decrease occurred for still bulk wines (-0.8 Mio hl to -2.4 Mio hl (-200%)). This shows that EU is very competitive for sparkling and bottled wines. However, EU bulk wines are loosing ground against foreign bulk wines. The share of exports in bulk has decreased over the period.

Market shares of EU wines are declining in countries like the USA and Canada, but are progressing in China and Russia.

2.3.4. Stocks and prices

The total opening wine stocks decreased from 175 Mio hl in 2009-2010 to 164 Mio hl in 2011-2012 (-6%). The 2011-2012 opening stocks represent approximately 100% of the total production. This recent decrease is very significant, the current EU stocks being the lowest since the beginning of the 2004-2005 campaign.

As regards prices for bulk wines, there is a significant increasing trend since the beginning of the 2010-2011 campaign for both red and white bulk wines in the three main producing Member States. The most recent information shows that prices for red wines vary from 4.5 €/%vol./hl (France, the highest since 2004) to 3.5 €/%vol./hl (Spain, also the highest since the late '90s). For white wines, the range is similar.

However, the average price of sparkling wine has decreased over this period.

Stock and prices are important indicators which sound situation of the EU wine market in the present.

3. GRUBBING-UP SCHEME

The grubbing-up scheme intended to remove non-competitive, low quality wines destined for subsidised distillations from the market. It has been a very succesful measure with 161 164 ha grubbed up, resulting in an annual reduction of the EU wine production of around 10.5 Mio hl.

The grubbing-up scheme targeted wine producers who decided to grub up the totality of their vineyards (92 % of the beneficiairies) as well as producers of more than 55 years old (75% of the beneficiairies). At the end of the three year period, 1024,62 Mio € were spent on this measure.

This 'one off' measure is considered as a success since it has helped non-competitive farmers to abandon the production of grapes and has also contributed to balance the EU wine market and to make the sector more competitive.

During the same period (2008-2011) 111 364 ha were grubbed-up without support.

4. NATIONAL SUPPORT PROGRAMMES

The key element of the 2008 reform was the establishment of NSPs with specific budgetary envelopes to strengthen competitiveness of the EU wine sector. 18 Member States, were given the possibility to use their allocated budget to finance measures related to the wine sector, according to their particular needs, from a given menu of 11 measures in total. NSPs last 5 years and can be modified twice per year by shifting financial resources between measures or by modifying measures.

NSPs have been implemented over these first three years (2009-2011) without major problems. They ran smoothly, as Member States have already familiarised themselves with the basic principles. The overall budget execution rate remained high during that period since Member States spent 97% of the total available budget of 2.8 billion €. 42% of the funds were used for the restructuring and conversion of vineyards, 12 % on potable alcohol distillation, 10% on the distillation of wine by-products, 8.5% for promotion of EU wines in third countries and 8.2% on the use of the concentrated grape must by wineries. 7% of the funds were transferred by the Member States from the SCMO to the SPS and about 6% were used for investments.

For the remaining two years (2012-2013), the phasing-out of certain market measures such as aids for distillation and concentrated grape must should lead to the growth in importance of some other measures: promotion (from 8.5% to 17% of the total spending), investments (from 6% to 15%), SPS (from 7% to 13%) and restructuring and conversion – the latter remaining the most important measure (about 40%).

While the global evaluation of the NSPs is very positive, some clarifications and improvements need to be introduced for certain measures. In addition, specific provisions for the NSP of Croatia must be established.

4.1. Restructuring and conversion measure

The restructuring and conversion measure was not only the most important measure but it has also increased in its role during the first three years: 1.153 billion € were spent for about 50 000 ha per year restructured in the first three years, most of them in France, Spain and Italy. It is estimated that around 305 000 ha (10%) of the EU wine-growing areas will be restructured within the first five years of the reform. This measure has shown little impact on the production potential at EU level in terms of increased yields, but allows in particular for quality improvement, the adjustment of the production to market demand and a reduction of production costs through the development of mechanization as well as modernisation of agricultural practices. It is essential to increase the competitiveness of the EU wine producers and the EU wine sector.

The Commission reflects on better defining certain operations, in particular as regards the improvement of vineyard management techniques and "green" operations such as energy saving, as well as on introducing provisions to ensure adequate criteria for the premium calculation. This could be done through the setting-up of guidelines.

4.2. Promotion of wine on third country markets

Promotion on third country markets has become widely used by the wine sector, supporting the growth in exports of wines with PDO/PGI in recent years. It must be mentioned, however, that the measure does not support actions for wines without GI, except varietal wines. Over the first three years, 236 Mio € were spent, and with the phasing-out of some market measures (potable alcohol distillation, crisis distillation etc.), its budget share for 2012-2013 is expected to increase. The measure is used for the promotion of wines with PDO/PGI. The targeted third country markets are the USA, Canada, Japan and Switzerland. New developing markets such as China, Brazil and India are also being targeted by this measure. Several actions are concerned, such as "public relations, promotional or advertisement measures" followed by "information campaigns" and "participation at events, fairs or exhibitions". One main feature of this measure is that private companies can apply for the subsidy and that trademarks can be used in the promotion campaigns.

It should be noted that in September 2010, the Commission, following the request from Member States, allowed for the possibility to extend the length of promotion actions for a given beneficiary in a given third-country from three to five years. Moreover, in November 2011, the Commission published a report on the implementation of this measure in the first two years, 2009 and 2010.

The Commission is considering improving the operation and efficiency of this measure in particular on controls, the definition of the priority given to small and medium companies, collective trademarks and on the eligibility of certain expenses. The need was also raised to ensure that this measure applies in practice to 'varietal wines' and non-GI wines as well as to examine the coherency between this measure and the new horizontal promotion rules.

4.3. Investments

The main objective of the investments measure is to improve the economic performance of the micro, small and medium-sized enterprises. In total a relatively low amount of 167 Mio € was spent during the first three years (France (108.4 Mio €), Germany (30.6 Mio €) and Austria (14 Mio €)). Eligible measures include: the construction, acquisition, including leasing, or improvement of immovable property, the purchase or lease-purchase of new machinery and equipment, including computer software up to the market value of the asset and other costs connected with the leasing contract. Simple replacement investments are not eligible.

Despite the success of this new measure introduced in the SCMO regulation for wine, there is still a need to further clarify the eligible operations within the measure. Demarcation problems with similar operations in rural development programmes have caused delays in the implementation of this measure particularly in Italy and Spain. Those problems could be addressed through the setting-up of guidelines.

4.4. Transfer to the single payment scheme

Transfer of the funds to the SPS reached 16% of the total funds in 2011, notably due to the Spanish decision to compensate the elimination of the potable alcohol distillation measure. The funds once transferred by Member States to the SPS cannot be made available again for the wine envelopes i.e. they reduce correspondingly the budget available for the national support programmes in subsequent years. In total, 190 Mio € were transferred irrevocably from the SCMO to SPS from 2009 to 2011. Spain transferred 32.6% of its budget to the SPS. Luxembourg, Malta and the United Kingdom transferred their entire envelopes. This measure will disappear from the NSP. A proposal for amendment of the SCMO on this subject foresees the possibility for Member States to decide in 2013 (for budgetary year: 2015) to definitively transfer part or all of their envelopes to the SPS.

4.5. By-product distillation

The support is granted to distillers for distillation of by-products of wine-making (e.g. marc and lees). It is supposed to guarantee the quality of wine by avoiding an over-pressing of grapes, which is prohibited by the EU legislation, and to preserve the environment. The alcohol resulting from this measure can be used exclusively for industrial or energy purposes to avoid distortions of competition. In total 267 Mio € were spent on by-product distillation during the three years, namely by Spain (95.3 Mio €), France (92.8 Mio €) and Italy (66 Mio €).

– This measure is only used in five Member States and no such policy exists in other wine producing countries. It is often presented as a measure essential for wine distilleries. In consequence, it seems opportune to evaluate whether the measure should continue in its current form or whether it could be reoriented to support wineries or wine-growers themselves, taking also into account the decreasing outlets for alcohol. It should be noted that some regions notably in France, are exploring possibilities of using the by-products in alternative ways (e.g. composting, biogas production).

4.6. Other measures

In total 71.5 Mio € were spent for the harvest insurance during 2009-2011. As regards green harvesting, 41.5 Mio € were paid over this period and concerned 24 000 ha in Italy, Slovenia and Cyprus.

The limited success of the green harvesting is due to the fact that the total destruction or removal of grapes bunches shall be made at a immature stage, which might be risky for grape growers. As regards harvest insurance, similar national tools already exist.

4.7. Phased-out measures

The role of the three measures that expire in 2012 (use of concentrated grape must, potable alcohol distillation and crisis distillation) has decreased considerably. The phasing-out of these subsidised measures can be considered very successful, as it had no negative impact on the balance of the wine sector.

Crisis distillation continued to be extensively used in 2009 mostly by France and Italy, decreased in 2010 and 2011 and ceased in 2012.

5. QUALITY POLICY

The new quality policy applies since 1 August 2009 and concerns PDO, PGI and TT. As regards PDO/PGI, the new rules are fully in line with the WTO-TRIPS Agreement and coherent with agricultural products and foodstuffs PDO/PGI regime. The modernisation of this policy was considered essential to harmonise EU rules and to adapt wine products to market demand. The wine sector is quite particular in that a high proportion of the production is under PDO or PGI and the reputation and quality of wine is very often linked to the region of production, in particular in wine producing Member States. The new policy should enhance the consolidation of quality wines with PDO and PGI and their protection against usurpation in Europe and in third countries. An essential task of the EU within the reform was to consolidate the list of the protected EU PDO and PGI wines.

Quality policy should not be restricted to the above products' segmentation and should also cover branded wines and varietal wines since they are recognised by consumers as quality products.

5.1. Protected designation of origin and Protected geographical indication

By 31 December 2011, Member States communicated to the Commission 1561 PDO/PGI (1122 PDO and 439 PGI) product specifications with the view to be examined by the Commission services by the end of 2014. This corresponds to the existing wine names which were protected by the Community by virtue of Council Regulation (EC) No 1493/1999[5]. It has to be noted that 143 wine names, for which no product specifications were submitted in due time, lost protection in the Union.

The first scrutiny of the received product specifications shows that changes are needed in most of the files, to be in line with EU rules.

With a view to simplify and enhance EU legislation on PDO/PGI, as well as to reduce administrative burdens:

– the EU PDO/PGI register could be opened also to third countries' GI which are protected in the EU by virtue of an international agreement to which the EU is a party;

– rules on relationships between PDO/PGI and prior trade marks should be harmonised with the horizontal rules by referring to the TRIPS Agreement cut-off date of 1 January 1996.

5.2. Protected Traditional terms

TT is a peculiarity of the wine sector, by which certain names traditionally associated with certain PDO wines are protected.

359 TT are protected in the EU: 100 TT as national synonyms to PDO/PGI (e.g. "*appellation d'origine contrôlée*" in France; "*Prädikatswein*" in Germany or "*Vino de la Tierra*" in Spain, etc.) and 259 TT as quality descriptors (e.g. "*reserva*", "*château*", "*tawny*", etc.). Since 1 August 2009, 22 new applications have been received by the Commission; 7 from Member States and 15 from third countries (2 from Argentina and 13 from the USA).

However, since TT are not industrial property rights like PDO/PGI and refer more to labelling particulars, rules on TT should be reviewed, in particular as regards the scope of protection and control rules.

6. LABELLING AND PRESENTATION

Labelling and presentation provisions have been largely simplified and harmonised among different wine products. They now give more flexibility for the EU wine sector, in particular as regards production of wines without PDO/PGI bearing vintage year and vine variety names ('varietal wines'). EU varietal wine production represents in 2011 4.6 Mio hl (68% from Spain and 20% from France), which proves the importance of this outlet, both for wine growers and consumers. However, several Member States are reluctant to develop their varietal wines, by excluding their most relevant varieties in order to preserve them for the PDO wines. The

[5] OJ L 179, 14.7.1999, p. 1.

Commission also notes that the USA restriction on the vintage labelling is also affecting EU exports of varietal wines to that important market.

In order to reinforce this new outlet, a new wine product category "varietal wine" could be added to Annex XI*b* to Regulation (EC) No 1234/2007.

As regards the indication on wine labels of the wine grape variety, a lack of coherency remains in EU legislation in particular for wine grape variety names which coincide with EU PDO/PGI. In addition, no scientific data exists on differences between *Vitis* and *Vitis vinifera* wine grape varieties (e.g. some vine varieties can be classified as a *Vitis* or a *Vitis vinifera* depending on the Member States). With a view to responding to these concerns, it is necessary to consider the modification of the rules applying to wine grape varieties.

7. OENOLOGICAL PRACTICES

The modification of the rules on oenological practices was one of the great achievements of the wine reform, providing flexibility as regards the authorisation of new oenological practices in order to adapt the EU sector to the scientific and technical developments and to permit EU wines to compete with third country wines in the world market.

Besides, in order to meet the international standards in oenological practices as recommended by the OIV and to provide EU producers with the new possibilities available to third country producers, new oenological practices had to be authorised in the EU under the conditions of use defined by the OIV (use of enzymatic preparations, acidification by means of electro-membranary treatment, use of chitosan and chitin-glucan, maximum sulphur dioxide content of certain specific wines, changes in the requirements for dimethylcarbonate, or clarification for certain liqueur wines)[6].

There is a growing demand for wine products with reduced alcoholic strength and EU wine producers are quite interested by this new possible segmentation of the offer. Up to now, some Member States' legislations (e.g. Austria, Germany, etc.) have regulated the use of wine denominations for those products. In order to avoid any fragmentation of the EU market, the EU should develop a single and uniform policy in this respect, by introducing and promoting new grapevine product categories ("de-alcoholised wine" and "partially de-alcoholised wine"), in line with the recently adopted resolutions of the OIV on de-alcoholised wines.

The implementation of the reform has also shown that EU rules on oenological practices should be more harmonised and simplified in order to guarantee fair competition between EU wine producers and transparency for consumers. In particular,

– there are several minimum actual alcoholic strengths depending on grapevine products categories (e.g.: 4.5% vol. for PDO/PGI wines, 6% vol. for quality aromatic sparkling wines, 7% vol. for semi-sparkling wine, etc.), whereas the OIV only establishes a unique minimum actual alcoholic strength of 8.5 % vol., with the flexibility to be reduced to 7 % vol.;

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6 OJ L 19, 21.1.2011, p. 1.
OJ L 103, 13.4.2012, p. 38.

– the same incoherence applies to maximum total alcoholic strengths depending on the zones (15% vol. in zones A, 20% vol. in zones C and for some PGI wines in zone B and no maximum total alcoholic strength for PDO wines obtained without enrichment).

Finally, rules on over-pressing of grapes, including its control, as well as on the minimum quantity of alcohol contained in by-products (Annex XV*b* of the SCMO Regulation) and distillation of by-products could be simplified.

8. CONCLUSIONS

The 2008 wine reform aimed primarily at "increasing of the competitiveness of EU wine producers".

The Commission considers that the 2008 wine reform has been implemented successfully. The removal of market intervention measures has occurred without major disturbances. The EU vineyard surfaces and production of wine have continued to adapt to demand over the last years. According to the latest data, the market is quite stable, prices have improved and in spite of a continuous decrease of internal consumption, there is no evidence of the existence of structural surplus in the wine sector. The grubbing-up scheme and the NSP have been fully implemented. 161 164 ha were grubbed up and around 305 000 ha restructured with EU funds. Other important measures are being widely used, like promotion and investment.

The latest trade information available shows that exports to third countries have increased significantly since 2007 and amount now to over 22 Mio hl (8.1 Billion € - the average export value per hl having improved). The first months of 2012 have shown even a slight increase compared to the equivalent period in 2011. While the penetration on new markets is impressive, market shares in other foreign markets and even in some Member States are decreasing due to the competition of third country wines.

To conclude, the Commission considers that the continuation of the wine reform will contribute to enhance the competitiveness of the wine sector. The Commission will further examine possible legislative improvements with a view to clarify and detail some specific issues, in particular as far as the NSP, the quality policy, the labelling and wine-making practices are concerned.