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NOTE

from : French delegation

Subject : Memorandum on the reform of the common organisation of the market in wine

Delegations will find attached a memorandum on the reform of the wine CMO presented by the French, Spanish, Italian and Portuguese delegations, and supported by the Greek delegation.

Reform of the wine CMO

In the European Union, the wine sector is an economic activity of prime importance, particularly in terms of exports. The European Union has the world's largest area under vines, which must therefore benefit from the European Union's support.

The Community wine sector is facing a rapidly developing market, with ever greater competition from third countries whose vineyards and wine production are steadily growing, while there is stagnation in domestic consumption within the Community.

The special nature of wine, both technically and culturally within the European Union, and on its principal markets, requires special regulatory measures.

The current budget for the CMO must be reinforced, given the arrival of the new Member States. It should be recalled that the wine CMO is not a great burden on the Union budget, since it takes only 3% of that budget for a sector which generates 7% of agricultural added value.

In this context, the revision of the wine CMO should be guided by two main ideas:

- the CMO must evolve in such a way as to promote greater competitiveness on the part of the Community wine sector, and its adaptation to developments on world market; the Community wine industry, which is the world leader, must not be the balancing variable for the world market;
- the current spirit of the CMO is based on a balance between various structural, market management and regulatory measures. This balance must shift to put more emphasis on structural measures which will inject some dynamism into the sector.

The revision of the CMO must be based on four main principles:

- control and adaptation of production potential;
- regulation of the market and crisis management using more appropriate tools;
- support for the marketing of vine products;
- the defence and protection of geographical indications and of the identification of wines.

Finally, decisions on the use of management tools (distillation, structural measures, productivity etc.) must be taken at the relevant level (Community, national, production area) so that the diversity of those structures is properly taken into account.

1. Controlling production potential

The area under vines in the Community is the largest in the world, and represents about half of the area under vines worldwide. Any change in the size of Community vineyards therefore has a marked effect on quantities of wine produced and on the market, while domestic consumption within the Community is stagnating and at world level there is something of a surplus on the market. It is therefore important that European potential should remain under control, for the sake of the balance of the Community wine sector.

Before production potential can be controlled it must first be known what it is. Knowledge of production potential could be improved particularly by modernising and improving the reliability of computerised wine production records.

A ban on new planting, which would increase the area under vines must remain a basic rule, at least in the next few years, as must the ban on vinification and the blending of musts and/or wines from third countries, so as not to generate surpluses by circumventing the rules to control production potential.

The permanent grubbing-up arrangement must be maintained.

However, this method must neither be exclusive nor given preference, given that it is irreversible and that it has negative consequences: in particular, it would lead to the development of fallow land, to the deterioration of agricultural areas and of holdings, and in so doing would be contrary to the objectives of regional development and the preservation of employment in rural areas. The permanent grubbing-up arrangements must be supplemented by a temporary grubbing-up mechanism, which would also allow wine-growers the time they needed to adapt to the new reality of the market: temporary grubbing-up would make it possible to grant financial support to a wine-grower who grubbed up areas under vines, with his planting rights being frozen for several years, following which the wine-grower could replant, transfer the planting rights to someone else or to the reserve, or ask for the grubbing-up to become permanent if that arrangement was allowed by the Member State in question.

2. To enable the market to be regulated and to provide the necessary tools for crisis management

Wine production is certainly one of the activities most dependent on the vagaries of the climate, which may put the economic viability of holdings at risk and increase instability on the market. Furthermore, the significant expansion of trade in wine at world level, in a very competitive situation, and a likely reduction in export refunds, lead to an increase in holdings' exposure to price risk. The CMO should therefore have the tools it needs to confront possible problems.

Since it makes it possible to eliminate quantities (which are very largely of low quality) corresponding to about 3,5 % of Community production, the delivery of the by-products of vinification to distilleries should remain the rule. This measure is also of considerable environmental benefit, since it avoids such by-products being spread around the natural environment.

Since it prevents large quantities from being put on the market at the same time, perhaps causing prices to collapse, the support for long-term storage contracts for must and table wine, allowing marketing to be spread over time, should also remain.

It should be possible for Member States who so wish to make crisis distillation obligatory on their territory since it reduces surplus wine quantities.

Moreover, States should have the option of introducing new instruments on their own initiative to supplement existing measures:

- an instrument allowing preventive destruction of part of the crop before harvesting if it promises to be excessive, thus reducing the quantity of surplus wine that will later have to be distilled: this is cluster thinning;
- instruments allowing professional structures (as the case may be, inter-branch organisations, producer organisations, associations of producer organisations – which it should be possible to recognise under the CMO) to adopt rules regarding quantity limitation, regulation of marketing, etc. which would be binding on operators: possibility of imposing maximum yields, product destruction, marketing limitations, etc. These structures must be able to impose such rules on their members and even ask the authorities to extend them to non-members if they are not sufficiently representative.

For these proposals concerning professional structures, transitional progressive systems need to be devised which will enable them to take over a major role in market regulation within a reasonable period.

- Professional structures must also be able to enjoy support for the establishment of equalisation funds enabling them to attenuate price fluctuations for producers. Such funds would initially be fed by public finances (national and Community). Subsequently, their operation would be mainly funded by producers: levies when product prices are high and compensatory payments in times of crisis.

3. Promoting marketing

In the face of very strong competition on the world market in wine, largely as a result of the increasing power of new producer countries, the competitiveness of the Community wine sector needs to be increased through action at all stages of production and marketing in order to promote marketing of Community products before or after vinification.

In order to continue improving the quality of wine production and adjusting it to market demand, the arrangements for restructuring and conversion of vineyards should be maintained and the conditions for implementing them should be clarified and simplified and should take account of marketing.

Measures should be introduced to ensure that the market in must is supplied in order to facilitate diversification into products not processed into wine. Maintaining aid for the production of grape juice and aid for the use of concentrated must and rectified concentrated must for enrichment would also facilitate the use of products not processed into wine. However, such aid must be adjusted to take account of the reduction in the price of sugar.

With regard to the distillation of potable alcohol, some thought needs to be given to adjusting the current arrangements so as to maintain provisions to promote the processing of several million hectolitres of wine into potable alcohol in order to maintain the competitiveness of traditional drinks using wine-based alcohol and at the same time to ensure that access by all Member States is exercised fairly while respecting the unity of the common market.

The new international set-up must be taken into account. New producer countries have an increasingly high profile and represent very strong competition for Community wine on all markets. These countries are not subject to any limitations on planting or quantities produced. Their rules on oenological practices are also more flexible.

We need to embark on detailed consideration of regulatory practices (particularly oenological practices) in order to reduce the constraints on European producers and allow them to adjust to market demand and become more competitive with new producer countries, especially for "vin de pays" and table wines.

Finally, in order to find new outlets, we should reinforce promotion campaigns for all wine sector products.

4. Defence and protection of geographical indications

Geographical indications and registered designations of origin are a major feature of European wine production. It is essential to protect them more fully in multilateral negotiations and in bilateral trade agreements.

5. Implementing the various CMO measures at the appropriate level

Management measures and structuring measures must be put in place at the most appropriate level. Some measures can be applied across the board in the Union while there should be a wide margin of subsidiarity for managing others in each Member State so that each measure is managed at the most appropriate level (Community, national, production area, producer organisation).

