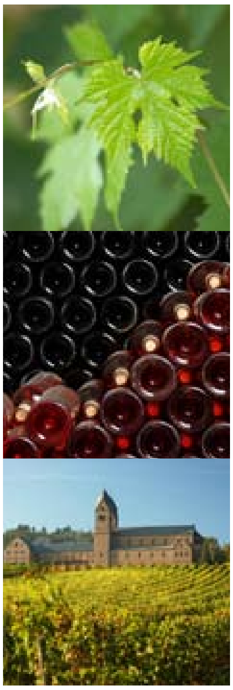
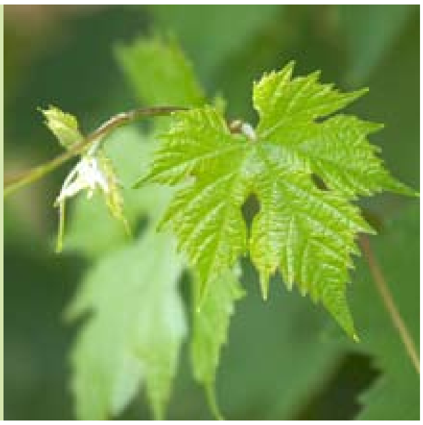


THE WINE CMO REFORM :

Analysis and proposals

Summary :

July 2007



Understanding the European wine-growing sector

The importance of the wine-growing sector in Europe

The European Union is the **world's largest wine producer, consumer, exporter and importer**. It accounts for approximately 45% of the world's wine growing areas and 62% of global wine production. 17 out of the 27 Member States produce wine.

Yet it is at regional level that wine-growing plays a key role, as most of the **vineyard areas are concentrated in certain regions**. These regions are structured and have developed around grape and wine production.

Vine-growing represents 44% of the value of agricultural production in Languedoc-Roussillon (France), 26.4 % in Rhineland-Palatinate (Germany): and 24.1% in Abruzzos (Italy).

Production is structured around small-scale family farms (71% of holdings growing grapes for wine have less than 5 hectares) and compared to other crops, vineyards are highly labour-intensive.

Wine-making is also an **important source of employment**, as it takes place near to the production area. In most cases it is carried out by the producer, on the holding, or in a cooperative's cellar, with the grapes having been produced by the cooperative's members. This structure of production means that the added value of the products remains in the production regions.

This production structure is highly different to the production structure in third producing countries; also known as the "new world". For example, the average surface area of a wine holding in Australia is 50 hectares. In third producing countries wine-making is generally carried out by companies and grape growing by labourers working for these companies.

Vines have an average life of 45 years and vineyards have contributed to **shaping European landscapes** in areas of production for decades. The pleasant views that they offer form the basis for the **tourism** industry linked to the landscape, the culture and the gastronomy of wine-producing areas.

Some European wine producing regions have been named **world heritage sites** by UNESCO: Saint-Emilion and Loire Valley in France, Cinque Terre in Italy, Valley of Haut Douro in Portugal.

Vineyards contribute to preventing soil erosion and ensure human presence in areas that are amongst the most fragile from an environmental point of view and often lacking any real economic alternative.

The specificity of European wine

1. An agricultural product principally made by producers

In the European Union, wine is an **agricultural product** mostly made by farmers and their cooperatives. This is why it is included in the CAP.

Moreover, wine is a **processed** product which is not defined by the final result alone, but also by its processing method. That is the reason why the question of wine-making practices (how wine is made) lies at the very heart of the definition of wine.

The European wine legislation includes a **restricted list of wine-making practices** that can be used to produce wine. Wine-making practices not included in the list cannot be used. Third producing countries do not have similar legislation and can produce their wine using a large number of wine-making practices not allowed in the European Union.

This principle of having a list of practices guarantees transparency and enables a strong relationship to be preserved between the wine product and the grape, and thus between the wine and the land. It also helps to prevent standardisation of flavours. Otherwise wine would not be an agricultural but an industrial product.

2. Types of wine in the European Union

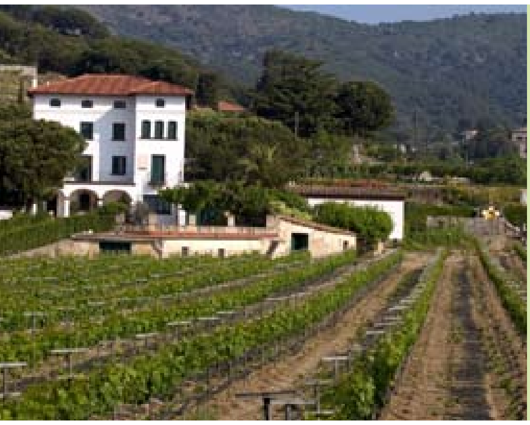
There are two **types of wine** according to the European legislation: table wines and quality wines produced in specific regions (quality wines p.s.r.).

Quality wines p.s.r. are subject to stricter production rules than for table wines and are characterised by certain geographical indications (GI). Some well known geographical indications are Rioja (Spain, Rioja area), Champagne (France, Champagne area), Chianti (Tuscan area, Italy) etc.

Some **table wines** are personalised with a geographical indication. These wines are subject to certain rules of production and constitute an intermediary category between table wines and quality wines p.s.r.

Since wines with GI are linked to certain geographical areas, they can only be made in that area - or should be. Some European geographical indications have been subject to usurpation from third producing countries that use them as trade marks.

The wine system in third producing countries is not based on geographical indications but rather on trademarks. However, convinced by the European system, some of these countries are starting to promote their regional soils by producing wine with geographical indications.



The Wine CMO Reform

The Commission's Proposal for the Wine CMO Reform and its analysis

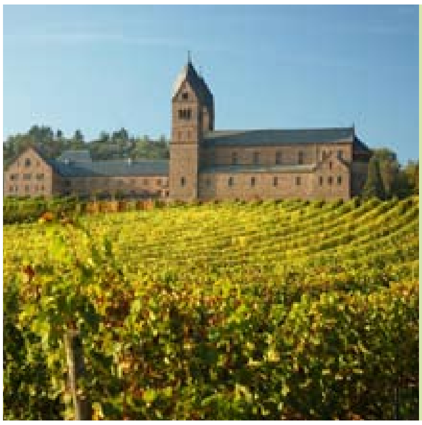
The Commission's proposal does not differ, with the exception of some amendments concerning grubbing up and the eligibility of the vine area for the single payment system, from the communication on the future of the European wine-producing sector, which the Commission published in June 2006. This communication received criticism from COPA/COGECA and sparked a large-scale debate in the European Parliament and the Economic and Social Committee.

The main points of this proposal can be resumed as follows:

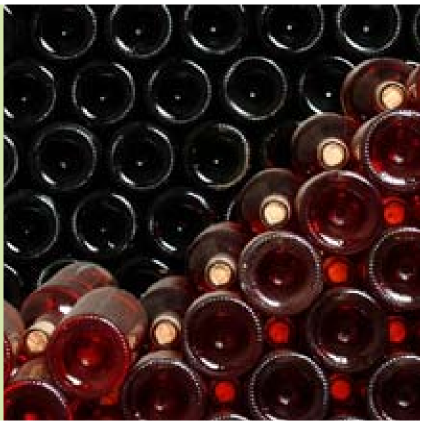
- Liberalisation of plantations.
  The current wine CMO includes a framework for the management of plantations (wine-growing potential).
- No measures to modernise production, processing, distribution and marketing structures.
- Limited promotion program in the internal market. Promotion measures in the internal market are not included in the Wine CMO but the general legislation for all agricultural sectors.
- Abolishing all existing production management measures from day one of the application of the new Wine CMO. The Commission does not propose any new measures.
- Granting aid to producers who leave the sector after grubbing up vines.
- Establishing national envelopes, with a very limited catalogue of measures
- Significantly reducing the Wine CMO budget by transferring it to rural development (second pillar).
- Transferring to the Commission the competence for the adoption of new oenological practices. In the current CMO, the adoption of new oenological practices is a matter for the competency of the countries (Member States) through the Council of Ministers of the European Union.
- Allowing European wines for export to use the wine-making practices forbidden by European Union legislation. European wines for the internal market should comply with European legislation on wine-making practices.
- Liberalisation of labelling and large-scale transfer of competence to the Commission. The Commission proposes that the vintage year (year harvested) and the variety (type of grape) could be indicated on the labels of all wines.
  The current CMO limits the indication of these enhancing characteristics to the labels of wines with GI.

COPA and COGECA are opposed to the Commission's proposal insofar as it consists of the dismantling of the CMO in wine, under the pretext of simplification, aimed at creating a wine-growing model in the European Union based on that of the 'new world'.

The group of wine experts in COPA and COGECA have analysed the aforementioned proposal. Their analysis is as follows:



- **Liberalisation of planting rights** will cause a radical change of the European wine-growing map. It would result in vines being transferred to outside of traditional production areas and would create significant economic, social and environmental problems in these areas. Vineyards will be relocated towards more productive areas and where production cost is lower.
- **No measures to modernise the sector and limited promotion program in the internal market.** European wines have to contend with the serious problem of competition. Therefore for COPA and COGECA the new CMO must first and foremost be reoriented towards measures which improve the competitiveness of European wines and boost demand for these products. Europe accounts for 60% of the world wine consumption, it is therefore necessary to concentrate promotion efforts in the internal market. Contrary to big businesses, the European wine production sector, which is very fragmented, has neither the money nor the capacity to finance this type of measure. In addition the general promotion legislation does not seem to be the tool needed to recapture internal market share for the European wine sector. Figures from the European Commission show that in 2005, the wine sector accounted for 9% of the action programmes funded by this legislation.
- **National envelopes.** COPA and COGECA welcome this proposal, which takes account of the request for the regional diversity of the wine sector to be better respected. Nevertheless, they take the view that the national envelopes must contain a far more varied package of measures than what the Commission has proposed. The measures proposed by the Commission are clearly insufficient.
- **Abolishing management measures.** Immediate abolition of the production management measures contained in the current CMO would have a drastic and negative impact on the production sector, as it would not put into place new management measures. The wine sector faces, together with the fruit and vegetables sector, the largest annual production fluctuations in all agricultural sectors. It only needs two successive abundant harvests to imbalance the sector substantially. That is what happened in 2004, when the European harvest attained a record and production increased by 24 million hectolitres. In 2007 the internal market is still suffering the consequences of the 2004 harvest.
- **Transfer of the budget to the second pillar.** Since rural development measures are not allocated to an agricultural sector but to a region, this money will not be available for the wine sector. Measures existing in the second pillar do not enable a policy specific to the sector to be carried out.
- **Authorisation of new oenological practices.** COPA and COGECA recall that the Commission has failed to represent the interests of producers adequately in negotiating bilateral agreements. For example, in 2004, in the context of the wine agreement with the US, the Commission accepted imports into the EU of American wines made with 24 oenological practices which are not accepted in the EU. The Commission's proposal to obtain competence in this area will considerably facilitate the adoption of new practices. This could imply that a whole range of new wine-making practices are allowed in the European Union, substantially altering the wine-making process. This would change the definition of wine, turning it into an industrial product.



- **Different wine-making practices for the internal market and for export market.** Currently it is not possible to determine the oenological practices used to make wine. Authorising different wine-making practices for wines for export and for wines for the internal market opens the door to fraud problems. It will also open the door to authorising those practices in the internal market in the short-medium term.
- **Vintage year and variety on the labels of table wine.** The label supplies consumers with information and allows them to distinguish between wines which were produced according to the strictest rules (wines with GI) and table wines. The withdrawal of distinctive signs between these types of wines would be to the detriment of producers who invest in wine production which is subject to the strictest rules. Moreover, given that table wines do not undergo inspection, as is the case for GI wines, it would not be possible to check if the indication on the label is correct.

COPA and COGECA's proposal for the reform of the wine CMO

The European market faces a difficult situation. A number of **countries outside the European Union have begun to produce wine**. World production is growing and the world market is expanding. The EU is losing out in terms of market share to increasing production and very aggressive marketing of these countries. Furthermore, **consumer habits are changing** and the European wine-growing model does not have adequate instruments for adapting production to the new demand. On the other hand, the **distribution chains** are becoming **increasingly concentrated**, which in turn increases their bargaining power given the highly fragmented production situation. What is more, the 2004 harvest contributed to destabilising the market. All of these factors create a **difficult situation for wine producers**. The current CMO dates back to 1999 and cannot meet the needs of the current market situation.

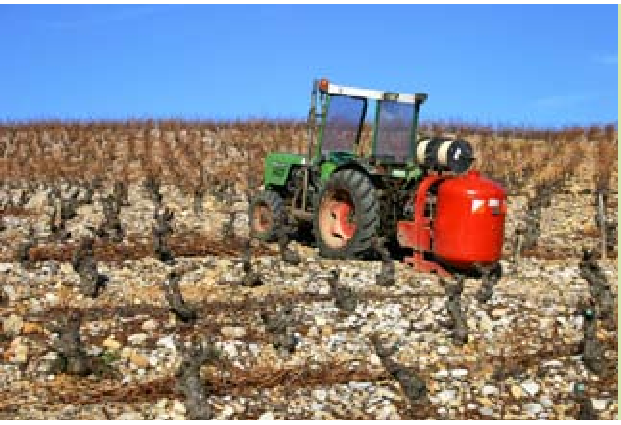
COPA and COGECA consider that **a reform of the wine CMO is needed**. However, the existence of serious problems in the European market does not imply that the Wine CMO ought to be reformed quickly and in any way possible. The new wine CMO must be **strong and on the offensive**. It must allow for the modernisation of the sector, gain market share, improve producers' living conditions and guarantee consumer protection and information. This can only be achieved by having a complete and dynamic CMO with a **catalogue of measures which is sufficient and which maintains the current budget** to allow these measures to be put in place. The current budget for the CMO

should be redistributed with the aim of using it in a more intelligent manner. COPA and COGECA consider it necessary to **defend and maintain the culture and best traditions of European wine making** as they represent the sector's strength. It is by taking advantage of these strengths that a successful wine CMO reform can be put in place.

COPA and COGECA's proposal is as follows:

1. **Plantation rights: preserving wine production areas.** COPA and COGECA defend the maintenance of the current planting rights system, while relaxing the transfer of rights to make it easier to adapt production to market demand.
2. **Modernisation and promotion: Regaining market share and opening new markets.** COPA and COGECA propose that ambitious wine promotion measures are put into place within the context of the Wine CMO. Any promotion measure must focus on moderate and responsible consumption of wine. The CMO for wine must be equipped with the appropriate tools for modernising the sector.
3. **Management measures: managing the production fluctuations inherent to the sector.** For COPA and COGECA it is necessary to supplement national envelopes with sufficient and diversified measures (modernisation, promotion…) which allow the sector to become more dynamic and meet the challenges of the market. It is also necessary to provide the sector with the appropriate tools to manage production. Market management measures should be implemented by the stakeholders or the administrations within the national envelopes and should not represent a high cost for the CMO budget.
4. **Budget: the financial means needed to meet the challenges of the sector.** The European wine sector faces difficult challenges in the years to come. That is why, in order to be able to give new impetus to the sector and improve its competitiveness, the wine budget must be maintained in the wine CMO. The budget must primarily be granted to positive measures to develop and mobilise the sector.
5. **Wine-making practices: the definition of wine as an agricultural product.** The list of wine-making practices must continue to be updated under the responsibility of the Council. Nevertheless, this process is currently too rigid and makes it more difficult to adapt the sector to market needs; the process therefore needs to be made more flexible.

Labelling: consumer information. Consumers sometimes experience difficulties in understanding the rules of wine labelling. COPA and COGECA are in favour of simplifying the rules of labelling if this is not to the detriment of consumer information and does not run the risk of misleading or distorting competition. The Commission's proposal for the grape variety and vintage year to be optionally indicated in the case of simple table wines should be reviewed since such wines have to comply with a lower level of requirements than do wines with GI.




Presentation of COPA and COGECA : the voice of European farmers and their cooperatives

COPA (Committee of Professional Agricultural Organisations in the European Union) and COGECA (General Confederation of Agricultural Cooperatives in the European Union) are the organisations which represent the vast majority of wine producers and their cooperatives in the European Union. These organisations represent 15 million people working either full-time or part-time on EU farm holdings and more than 40,000 cooperatives. They have 76 member organisations from 25 EU member states. Their aim is to defend the general interests of agriculture.

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