The global market for wine

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Summary

➢ Trends in the world wine market

➢ The Wine CMO reform
11. The 2006/07 season was marked by

- a slowing down of the world wine overproduction crisis

- the general drop in production (2007 vintage)

- the continuing Australian drought, which for the second year running is expected to lead to another poor harvest in 2008

- have resulted in decreased availability and an already significant rise in prices.

- a new phase in the instability cycle of the world wine market is setting in,

- with a perceptible effect on proposals for reforms to the wine CMO in Europe
12. Vineyard areas increase slightly overall

- The contrasted trends of previous years continued although less pronounced:
  - growth in China and the New World countries
  - decline in Europe
- No reliable information on the planting carried out in China in 2005 and 2006
- However, the announcement that production almost doubled between 2005 (430,000 tonnes) and 2010 (800,000 tonnes) is reason to assume that the increase in planting has been significant.
12. Vineyard areas increase slightly overall

- In the 25-member European Union, replanting slowed down or was postponed.
- The payment of premiums to grub up vineyards continued – particularly in France, where up to 14,500 hectares were abandoned in 2005/06 and 13,500 hectares in 2006/07, two-thirds of which was in the Languedoc-Roussillon region.
- Applications to grub up more than 15,000 hectares have already been submitted for the 2007/08 harvest, mainly in France’s Languedoc and Beaujolais regions.
12. Grubbing up should increase in 2008

- The European Union has established a budget for the scheme that will lead to up to 175,000 hectares being grubbed up over three years.
- To provide an increased incentive, the subsidy has been increased by 20% for the first year, then by 10% for the second year, but remains set at the current amount for the third year.
- Nevertheless, member states can grant additional national support, without exceeding 75% of the subsidy already awarded.
12. Subsidized restructuring in Europe continued

- Level of 60,000 hectares into the 2007/08 season, with a budget of 510 million euros
- The amount of aid given and the area of vineyard concerned is almost proportional to each country’s wine-growing area
- Subsidies totalling 3 billion euros have been provided since the current wine CMO came in force in 1999, helping to restructure about 10% of Europe’s vineyards
12. New world rate of planting slowed down

- Between 2001 and 2006, 15,000 newly planted hectares of grapevines destined for wine came into production, but the overall area of vineyards in California was reduced by 24,000 hectares.

- This trend, associated with the growth of domestic demand, should result in a grape shortfall in 2010 or 2011.
12. The 13 major wine-producing countries (> 100 000 ha)

- **In decline**, including Spain, France, Italy, Romania and Greece – which are all in Europe

- **In development**, including China, the United States, Argentina, Chile and Australia – that is, the New World and China

- **Stable**, including Portugal, South Africa and Germany.
13. Fall in production

- The world wine output in 2007 was estimated at 266.4 million hectolitres, a sharp drop (-5.3%) compared with 2006.
- Modest supply due to
  - a combination of production levels that are in steep decline (similar to the levels of 1997 and 2003)
  - less-extensive reserve stocks than in the previous year.
13. In the 27-member European Union, 8% decline

- The three leading wine-producing countries saw their harvests fall in 2007:
  - France’s output was estimated at 47.1 mhl (down 4.6 mhl, or -9.2%, from 2006, a production level similar to 2003)
  - Italy’s output fell by 40.5 mhl (down 9.1 mhl, or -18%, from 2006, making 2007 Italy’s smallest yield in 60 years),
  - Spain registered a slightly smaller drop of 36.5 mhl (down 1.7 mhl, or -5%, bordering that of 2005)
13. Outside the 27-member European Union

- Net decline in global wine production in 2007 compared with the previous year (although firm information about the situation in China is lacking).
- The United States: 20.3 mhl + 3%
- Australia: 10.7 mhl - 25%, (serious drought)
- Argentina and South Africa, 2007 high outputs, close to the levels recorded in 2006.
- Chilean production has doubled over the past ten years, however it declined in 2007 for the first time since 2001, falling by 2%.
14. Steady demand

- Global consumption in the 15-member European Union continued to decline in 2006 (-0.8 mhl from 2005), after a slight rebound the previous year.
- Outside the European Union, however, the increase in wine consumption continued at a consistent rate.
- Chile is emerging from a long period of decline.
14. New trends in consumption in UK

- Awareness of ecological issues has lead to measures to reduce the quantity of CO$_2$ emissions associated with the weight of wine packaging.
  - ex. changing to lightweight glass bottles or thermoplastic PET bottles
- The British retail industry, led by Sainsbury’s, is showing a preference for less alcoholic wines, with less than 10° alcohol content
- Rosé wines should soon exceed the barrier of 10% of market share. (X 4 since 2001)
15. The production – consumption gap

Source: OIV

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16. Rising prices

- In Italy, the very small 2007 harvest was directly apparent in price rises, variations depending on the area and the varietal:
  - prices rose by 5% to 35% in northern Italy and by 5% to 25% in the south.
  - Pinot Gris and Proseccos: rises of up to 120%.
  - Muscats rose by 30%; and Sicily’s Nero d’Avolas and Chardonnays both rose by 20% to 35%.

- In Spain, the price of musts increased by 30% at the beginning of the season.
  - France: +9.6% for appellation wines
  - +21.8% for other wines

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16. Rising prices

- In Australia, the prices paid to grape producers in 2007 increased considerably, rising by 30% to 50% in the warmer, more arid areas, where declining yields and continuing water shortages have had more serious repercussions on prices than in cooler, less arid areas.

- The average price paid to wine producers in California fell by 3% in 2007.

- However, the prices of some varietals, such as Pinot Noir, which is in high demand, soared.
16. Rising prices

➢ With the dollar continuing to fall against the euro and the Australian dollar, and with the Australian drought threatening the equilibrium of the global wine supply, the prices of imported wines in the United States are almost certain to increase on a large scale.
17. Is it still necessary to grub up?

Since the 2007 grape harvest in the Northern Hemisphere and the outlook for spring 2008 in the Southern hemisphere, the combined effects of climate (drought) and measures for controlling availability (distillation, grubbing-up), when confronted by a world demand that is slowly and consistently increasing have led to a marked upturn in the markets.
17. Is it still necessary to grub up?

In this context, the reforms of the common market organisation (CMO) for wine in Europe and their planned massive destruction of European vines may be somewhat belated. The world wine market has entered a period of turbulence and instability, in which climate change will play a growing role in the years to come.
2. Reform of the organization of the European Union wine market

- First proposal by the EC on June 22nd 2006
- Intensive negotiations: compromise agreement at a meeting of EU ministers of agriculture on December 19th 2007.
- The reform will come into effect
  - on August 1st 2008, with certain exceptions
  - the grubbing-up scheme on June 30th 2008
  - Others August 1st 2009.
21. The grubbing-up scheme: fast, incentive

- 175,000 hectares over three years,
- current subsidy level/ceiling
  - + 20%, 2008/09 season, ceiling budget €464 million
  - + 10%, 2009/10 season, €334 million
  - the current subsidy level, 2010/11, €276 million
- Member states are permitted to allocate additional national aid of up to 75% of the grubbing-up subsidy.
21. The grubbing-up scheme: superficies

- Espagne 30%
- France 24%
- Italie 20%
- Portugal 7%
- Roumanie 5%
- Bulgarie 4%
- Allemagne 3%
- Hongrie 2%
- Grèce 2%
22. The National financial envelopes

- Will allow member states to adapt measures to their particular situation and include
  - promotion in third countries (outside EU),
  - vineyard restructuring and conversion,
  - modernization of the production chain,
  - innovation,
  - support for green harvest,
  - new crisis-management measures.

- Each Member state decides how to use its budget = re-nationalisation of the policy

- Historical effect for the « acquits » amounts
22. The National financial envelopes
   = a “menu”

- promotion in third countries,
- vineyard restructuring and conversion,
  = Modernisation and adaptation to the market
- modernization of the chain, innovation
  = Invest for competitive firms
- support for green harvest,
  = Spanish regulation
- Mutual funds (Subsidies « administration »)
  = Regulate income = solidarity of producers
- Harvest insurance
  = Climatic et biologic risks
23. Rural Development measures

- Will be strictly ring-fenced for wine-producing regions. Measures could include:
  - setting-up young farmers,
  - improving marketing,
  - vocational training,
  - support for producers’ organizations,
  - support intended to cover additional costs and income foregone in maintaining landscapes of cultural value, and early retirement.
National envelops and transfer to rural development

NE 2009 = 823 Mn€
TrDR 2009 = 40,1 Mn€

NE 2015 = 1351 Mn€
TrDR ≥ 2011 = 121,3 Mn€
24. Planting rights

- These are to be phased out by 2015, but with the possibility of continuing them at a national level until 2018.

⇒ A very controversial decision is delayed
25. Phasing-out of distillation schemes

- Crisis distillation
  - will be limited to four years at member states’ discretion, until the end of 2012/13 campaign;
  - with maximum expenditure limited
    - to 20% of the national financial envelope in the first year,
    - 15% in the second year,
    - 10% in the third year,
    - 5% in the fourth year.

⇒ The market Regulation = national level
⇒ European source of finance finely disappears
Crisis distillation: national envelop limits

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25. Phasing-out of distillation schemes

- Potable alcohol distillation
  - will be phased out over four years
  - It will be allocated
    - a coupled payment during the transitional period,
    - which will be superseded by a decoupled Single Farm Payment.

- Member states will have the option of requiring by-product distillation, paid for out of the national envelope and at a significantly lower level than at present, so as to cover collection and processing costs of the by-products.

⇒ France saves its distilleries
26. Introduction of the Single Farm Payment

- Distributed to
  - wine-grape growers at member states’ discretion,
  - all growers who grub up their vines.

1. Limited amount
2. Equal average regional amount

⇒ CAP General framework
27. Wine-making practices

- Responsibility for approving new or modifying existing oenological practices
  - will be transferred to the European Commission, which will assess the oenological practices
  - accepted by the International Organization of Vine and Wine (OIV) and will incorporate some of them into the list of accepted European Union practices.
28. Improved labelling rules

- The concept of EU quality wines will be based on wines with
  - Protected Geographical Indications
  - Protected Designation of Origin.
- Well-established national-quality policies will be safeguarded.
28. Improved labelling rules

- Labelling will be simpler.
- Wines from the European Union without geographical indications will be allowed to mention variety and vintage on the label.
  - Interesting for merchants
  - Control and traceability needed
- Certain traditional terms and bottle shapes will continue to be protected as at present.
29. Chaptalisation – Aid for the use of must: marginal changes

- Chaptalisation will continue to be permitted, although maximum levels of enrichment with either sugar or must will be reduced.
- Must aid may be paid in its current form for four years.

After this transition period, expenditure on must aid should become decoupled from payments to wine producers.

⇒ Liberty of choice for the « unique law », at the national level.
Conclusion

1. A real compromise: each state aims to protect its industry… and its budget
2. Is that so a policy
3. A step toward a CAP “consistent with OMC”
4. Re-nationalisation of the wine-CMO: Each State will have to justify its choices
5. A transitional period for delaying decisions and going toward liberalisation
6. Few strategic choices “downward”
7. A more agricultural policy than “filière”
8. “La montagne a-t-elle accouché d’une souris ?” Jean de la Fontaine
Merci