INTERNAL DOCUMENT

CAP WORKING NOTES

wine

VI-A2.85 BIB.003 E

85

CONTENTS

IMPORTANT NOTE TO THE READER.

The information contained in this issue of CAP WORKING NOTES is taken from a variety of previously published Community documents. No attempt has been made to reflect changes made to the various regimes covered in the series since the original documents were published, and care must be exercised when using the information.

Working Notes are designed to answer the most-asked questions, based on the experiences of the staff of the Library for the Directorate General of Agriculture, but is not to be considered as either definitive or historically exhaustive. Working Notes are designed only to act as a guide to the sector covered.

The series will eventually cover several sectors of the agricultural policy, in English and French, and planning calls for yearly updates.

Comments and/or criticisms would be welcomed, addressed to;

George White
DG VI Documentation Centre
Berlaymont 5/120
Telephone: (23) 53270.

WORKING NOTES - sectors covered (*) and future titles.

1. Milk and milk products *
2. Cereals and rice *
3. Wine

4 5

PART I

1. General introduction to the common organisations of the markets in agricultural products. (1).

2. General picture of the wine sector. (1)

(1) Extracts from Green Europe, no. 189, "Mechanisms of the Common Organization of agricultural markets - Crop Products". Published in December, 1981.

1. INTRODUCTION

For marketing purposes, almost all the European Community's agricultural production comes under what are known as "common organizations."

Since the Community's arrangements for sheepmeat entered into force in October 1980, the only important products still not accounted for are potatoes and alcohol, and some years have already been spent on discussion of these two sectors.

Applied on a uniform basis throughout the Community for each product, the management rules have special features varying according to the characteristics of the various products. There are four main types of common organization, covering altogether more than 95 % of agricultural production.

- More than 70 % of the products are covered by arrangements providing guarantees, in one form or another, as regards disposal and prices. For the main cereals, sugar, milk products, beef/veal, and, since 1980, sheepmeat, an intervention system is operated : whenever market prices fail to match a given price, intervention agencies must buy in, at that price, all quantities offered by storers. The agencies sell them again when the market recovers or try to find another outlet, for example by export. For other products - pigmeat, certain fruits and vegetables, table wines - market support is based, in practice, on more flexible measures, like storage aid, withdrawals by producers' groups and distillation aids.

- About 25 % of production - other fruits and vegetables, flowers, wine other than table wine, eggs and poultry - is covered by arrangements based essentially on external protection. The arrangements are confined, in these cases, to protection of Community production from fluctuations on the world market by instruments such as customs duties, or levies, which are, as it were, variable duties. In some cases the duties or levies are charged only during certain periods of the year.

- Supplementary aids are granted to a number of products : durum wheat, olive oil, certain oilseeds, and tobacco. These aids, confined to products of which the Community consumes more than it produces, enable consumer prices to be kept relatively low while ensuring a minimum income to producers. They may be combined with certain forms of price or disposal guarantees.

- Flat-rate aids paid by the hectare or by quantity produced are paid for only a few products the volume of production of which is not large : cottonseed, flax, hemp, hops, silkworms, seeds, and dried fodder.

*

* *

But however diversified the mechanisms of the common organizations for the various products, the objectives, the fundamental principles and management are all based on a single approach.

The objectives are :

- improved productivity,
- equitable incomes for farmers, mainly achieved through the sale of their productions,
- market stability and reliable supplies for the markets,
- reasonable consumer prices.

The following principles are those underlying the common organizations :

- a single market is set up, i.e. products may be moved unhindered within the Community. Customs duties, equivalent charges or subsidies distorting competition are not allowed. This also entails the introduction of common prices, the harmonization of administrative, health protection and veterinary regulations, common quality standards, and stable currency parities;
- the Community preference is an essential corollary of single markets. It means that the Member States give preference to Community production and protect themselves together, at the common external frontier, against sharp price fluctuations on the world markets and low-price imports;
- common financial responsibility is the practical expression of solidarity between the various regions of the Community and enables the common organizations to be operated as such. The key instrument for this is the European Agricultural Guidance and Guarantee Fund (EAGGF).

For certain agricultural products of which surpluses build up easily -

mainly milk products and sugar – the principle of the financial "co-responsibility" of producers has been introduced in various forms.

*

* *

As the market organizations have been gradually introduced, the prices fixed for the agricultural products have become common prices. Each year, on the basis of proposals from the Commission, the Council of Ministers fixes common prices for the following season. The type of price is, of course, not the same for each product and also depends on the kind of guarantee it is desired to ensure.

Some prices are fixed with the main objective of controlling the Community's internal market (target prices, guide prices, intervention prices, etc.) while others have the main aim of ensuring Community protection and preference vis-à-vis external markets (threshold prices, sluicegate prices, etc.).

In the absence of a single European currency, the prices are denominated in ECUs, the common unit of account, which, if it is to be used properly, presupposes stable parities between the Member States' currencies. Because no such stability has been achieved in practice, price levels are in fact not the same in the various Member States.

Following the currency difficulties which have occurred since 1969, the authorities have had to introduce "monetary compensatory amounts" (MCAs) to offset, between the various Member States, the impact on the common prices of variations in currency exchange rates. By means of this device, the principle and system of common prices, and with them the principle of the single market, can be kept intact, so that as and when the relationships between the currencies become more stable it will be possible to revert automatically to a more fully integrated market. The European Monetary System (EMS), set up in 1979, has enabled the MCAs then existing to be reduced quite sharply.

*

* *

Under the agricultural policy, a single system for trade across the common external frontiers has been introduced. This system has replaced all the schemes operated by the Member States, including quantitative restrictions. Its aims are :

- to protect Community agricultural prices against imports at lower prices, and
- to enable Community operators to participate in world trade, but of course international obligations are at the same time complied with.

The main instruments used for the implementation of the external trade arrangement are only three in number : import levies and/or customs duties, and export refunds.

The levies, related to the prices to be maintained within the Community, are designed to neutralize price fluctuations on the world market, and thus to stabilize the EEC markets. The levy is a variable charge and its role cannot be compared with that of the customs duty. If products from non-member countries are offered for import at the common frontier at prices falling short of those fixed by the Community, a levy bridges the gap.

If world supply prices exceed the threshold prices, the Community also has power to charge levies on its own exports in order to prevent European agricultural products being drained out on to the world markets and in order to ensure reasonable prices for Community consumers.

The export refunds are theoretically "refunds" of the import levies. They are designed to bridge the tap between the internal Community prices and world market prices, so that Community agricultural products can in fact be sold on world markets.

*

* *

The Commission manages the unified agricultural markets under the basic regulations and the implementing regulations adopted by the Council of Ministers. Management decisions taken by the Commission are referred beforehand to management committees. These committees, made up of representatives of the Member States, but chaired by a Commission official, have been set up for the various groups of agricultural products covered by common arrangements.

Advisory committees, bringing together representatives from the various interests concerned (producers, processors, dealers, paid workers, consumers), also assist the Commission in the management of the agricultural markets.

*

*   *

2. THE COMMON ORGANIZATION OF THE MARKETS IN WINE

A. General picture of the wine sector

Vineyards account for less than 3 % (2.6 million ha) of the Community's UAA, but, with a total harvest of 177 million hl in 1979, the Community is by far the leading world producer of wine (47 %). In 1979/80, exports exceeded 8 million hl, but these were mainly of quality wines which are normally easily marketed. Imports were nearly 5.5 million hl.

The average harvest has been 150 million hl in recent years, but the actual totals fluctuate widely because of the very wide differences in yields from year to year. The two bumper harvests of 1973 and 1974 were the direct cause of the serious crisis which occurred at the time, entailing a sharp increase in EAGGF expenditure, mainly for special distillation measures.
For one of the main problems underlying the difficulties in the wine sector is that of withdrawal from the market (by distillation) of a major quantity of table wines of modest or poor quality which cannot be sold for direct human consumption or for industrial purposes. Big harvests in 1979 and 1980 again led to a crisis situation.

In the last few years, there has been a noticeable decline in the consumption of wine in the Member States in which a great deal of wine is drunk (France and Italy). This has not been offset in the Community by an increase in consumption in the other Member States. Whilst production in the EEC has been tending to increase (by an average of 1 % per year), consumption has been declining on average by 0.6 % per year. The figure for direct consumption is about 125 million hl and industrial use is about 15 million hl.

The rate of self-sufficiency varies between 95 and 125 % depending on the harvest.

Stocks are high, particularly of table wines.

B. Wine : the machinery of the common organization

A provisional common organization of the wine market was established in 1962. A fully-fledged common market in wine began operation with the 1970/71 marketing year.

Quality and place of origin are of great importance for wine, much more than for most other agricultural products.

As a result, the market organization distinguishes between various categories :

1. The wine categories

Wine, for Community purposes, is a product obtained exclusively from the total or partial alcoholic fermentation of fresh grapes, whether or not crushed, or grape musts.

The Community regulations distinguish several categories, two of which are of essential importance :

- table wine : is wine produced in the Community from specified vine varieties having an actual alcoholic strength by volume of not less than 9 % and a total alcoholic strength by volume normally of not more than 15 %.

- quality wine produced in specified regions (known as quality wine psr) is wine from a specified area subject to strict rules with regard to vine varieties, cultivating methods, vinification methods, minimum natural alcohol content, maximum yield per hectare and the analysis and assessment of the organoleptic features.

2. The wine-growing zones

The Regulations define seven wine-growing zones in the EEC. The application of certain provisions can be varied according to zone or confined only to certain zones. This is the case, for example, for alcoholic strength, methods and level of enrichment (1) and certain distillation measures.

3. Table wines

Only table wines are subject to the price and intervention arrangements of the common organization. For this purpose, table wines are classified according to the following types :

a) Red table wines

- type R I : actual alcoholic strength by volume of not less than 10 vol and not more than 12 % vol.

(1) Increase in the alcoholic content when, as a result of poor weather, the wine does not reach the required minimum content.

- type R II : actual alcoholic strength by volume of not less than 13 % vol and not more than 14 % vol.

- type R III : red table wine from vine varieties of the "Portugieser" type.

b) White table wines

- type A I : actual alcoholic strength by volume of not less than 10 % and not more than 12 %.

- type A II : white table wine from vine varieties of the Sylvaner or Müller-Thurgau type.

- type A III : white table wine from vine varieties of the Riesling type.

4. Prices

Each year, the EEC Council of Ministers fixes guide prices and activating prices (or intervention limit prices) for the six types of table wine.

The guide prices are fixed on the basis of the average of the real prices to the producer recorded during the two previous years, whilst the activating prices (which may not exceed 95 % of the guide price) result :

- from the market situation, notably prices,
- from the need to ensure stable prices whilst avoiding the build-up of surpluses,
- from the quality of the wine harvest.

In general, activating prices are fixed at between 90 and 92 % of the guide price for the corresponding type of wine.

Representative price :

For each type of wine, the Commission establishes on a weekly basis the average price to producers recorded on each of the representative markets. A Community representative price is calculated from these average prices. Certain intervention measures can be implemented only if the representative price for a given type of table wine falls below a certain percentage of the guide price.

5. Intervention

a) Private short-term storage

Aids are granted to producers who undertake to stock table wine for at least three months.

These aids are granted whenever the representative prices are below the level of the activating price.

b) Private long-term storage

Aids are granted for a nine-month period.

Community aid is tranted whenever the data in the EEC's wine forward supply estimate show that overall availabilities exceed total foreseeable needs by more than four months' consumption.

c) Distillation

- Preventive distillation

If, between 1 September and 15 December, the Community authorities find that the volume of wine under storage contracts exceeds 7 million hl, distillation operations may be proposed by the Commission. The aim is to clear poor quality wines from the market at the beginning of the season.

- Special price support guarantees for long-term storage ("garantie de bonne fin")

At the end of the marketing year, wine held under long-term storage contracts can be distilled whenever the representative prices have remained for three weeks below the activating price. In this case, producers who have had the wine distilled qualify for a price guarantee of 91.5 % of the guide price for red wines and 90 % of the guide price for white wines.

- Distillation of wine suitable for producing certain wine spirits

This is designed to prevent the formation of a crisis situation in particular areas. It applies, for example, to the region of Charentes, where brandy is produced.

- Compulsory distillation of by-products of winemaking ("prestations viniques")

  To prevent, in the interests of quality, the overpressing of grapes, producers must send to distillation a quantity of by-products of wine-making (grape marcs and lees) corresponding to 10 % of the quantity of alcohol contained naturally in the products used for the production of wine.

- Additional distillation ("superprestations viniques")

  This arrangement can be activated in cases of surplus harvests by an increase in the requirement to deliver alcohol beyond the 10 % mentioned above.

- Distillation of wine from table grapes, also compulsory, designed to prevent the marketing of wines of poorer quality resulting from surpluses on the table grapes market.

- Exceptional distillation

  Where policy with regard to storage and all the other measures fail to restore prices, the Council has discretion to approve exceptional distillation measures.

d) Minimum price

If, despite the implementation of all the other intervention measures, including exceptional distillation, the market price persists for three consecutive weeks below 85 % of the guide price, a "minimum price" can be fixed for the type of table wine concerned. A new distillation operation is then launched at this price.

When this happens, the marketing of wines of this type below the minimum price is prohibited.

6. Trade with non-member countries

Imports of wine from non-member countries are unrestricted except for a customs duty varying according to the nature of the product.

In addition, reference prices derived from the guide price are fixed for the main products in the wine sector. They represent an instrument of protection at the Community's external frontier.

The relevant products may not be imported from non-member countries below this price.

If the reference price is not reached, a countervailing charge is applied. In practice, this charge is exceptional since the main countries supplying the EEC have given undertakings to comply with the reference price.

In order to facilitate exports of table wine, export "refunds" can be paid. They may be varied according to intended use or destination.

7. The five-year action programme

To cope with chronic difficulties on the market in table wines, an action programme for the gradual establishment of equilibrium on the wine market (1980/81 - 1986/87) was launched in 1980. Its main aims are

- an improvement in the quality of table wines,
- a reduction in surpluses, which are nearly always of poor quality wine,
- the possibility of offering on the markets wine at reasonable prices.

Action is taken :

a) in respect of consumption

- recommendation to the Member States to reduce excise duties on wine,
- encouragement of an increase in outlets for wine products (mainly use of grape must for the preparation of grape juice and for the enrichment of wine),
- stimulation of sales of Community wines abroad.

b) In respect of production

Monitoring of production with regard to quantity and quality.

- Aids to structural improvement of vineyards and use of improving vine varieties.

- Aids to grubbing up for vineyards in areas not well suited to wine-growing :

  • Conversion premium for the temporary suspension of wine-growing for eight years

  • Premium for definitive cessation of wine-growing

  • Supplementary premium for elderly wine-growers .

PART II

1. Wine in the eighties (1)

2. Common Agricultural Policy - Proposals of the Commission. (2)

3. Rationalisation of the CAP, and Council's price decisions for 1984/1985 (3)

1. Extract from Green Europe, no. 172, "Wine in the eighties",, published by the Commission in 1980.
2. Extract from document COM(83) 500,a communication from the Commission to the Council. Published in July, 1983.
3. Extract from Green Europe Newsflash, no. 27, "Agricultural prices 1984/1985 and rationalisation of the CAP - Council Decisions". Published in APRIL 1984.

PART ONE

Never has wine been talked about so much as in the past ten years whether from the economic, political, medical or gastronomic point of view. It might be said that everybody: men and women, conoisseurs and laymen, drinkers and abstainers have developed an awareness of wine.

Indeed it was in 1970 - exactly ten years ago - that wine began to circulate freely throughout the European Community. After interminable debate the then six member countries of the EEC finally decided to bring down the barriers and the effects were not long in coming. In a very few years trade more than doubled and consumption began to grow even in areas with no wine-growing tradition.

As of today the European Community - with its 265 million inhabitants - consumes around 130 million hectolitres of wine per year. In other words each European drinks almost fifty litres of wine in the space of the four seasons. This is obviously an "average" figure whereas the figures vary significantly from country to country: the French head the lists with nearly a hundred litres per head (94 to be precise), followed by the Italians with 86. Well behind but not too far off come the Luxembourgers with 40 litres, then the Germans with 24. Under the 20, but still in a good position, is a group of three countries: the Belgians with 18, the Danes with 13, and the Dutch with 12 litres. At the bottom of the list, those isolated island dwellers, come the British with eight and the Irish with three.

The major drinkers - as is obvious - are also the major producers. France and Italy together provide for 93% of Community production. The other two wine-growing countries, Germany in the main, and Luxembourg, account for the remaining production.

Hence the European Community as a whole, is the biggest wine producer and also the biggest consumer of wine, in the world. It is enough to bear in mind that in 1978 the United States and the Soviet Union produced 17 and 24 million hectolitres respectively, while their levels of consumption as we shall see, are in both cases, very low.

WINE WORLDWIDE

What is the annual wine consumption in the world? In recent years, on average it amounts to nearly 300 million hectolitres. According to the latest available figures, in 1978, 286 5 million were consumed. The same applies to 1977 while the average for 1972-1976 is slightly lower at 283 million hectolitres. Wine is drunk in every Continent but there are significant differences. Europe for example, takes the lion's share. In 1978 all of 228 million hectolitres were consumed in our Continent while America - or rather the Americas -barely reached 50 million hectolitres (and the Soviet Union, 36 million).

Here too, Latin America betrays its Mediterranean origins in that nearly 30 million hectolitres are drunk by Argentinians, Chileans and Uruguayans while the United States (with a population of over 220 million) drink around sixteen million hectolitres of wine, or the equivalent of around eight litres per head. The Soviet Union (with 265 million inhabitants), is better off with a consumption of 14 litres per head. If it is true as the medical profession tells us, that wine helps you to relax, then the Americans and the Russians have a long way to go along this road.

Africa restricts itself to a total consumption of five million hectolitres, half of which is accounted for by relatively small population of the Republic of South Africa mainly descendants of the Dutch Boers. Oceania with a consumption of one and a half million hectolitres has a low overall consumption but a per capita consumption (of nearly 14 litres), which is higher than that for Africa (9 litres), and for Asia which is virtually non-existant, apart from the Japanese who have made a timid approach to the drink and for the time being, consume half a litre per head.

World production of wine - still in 1978 - was 292 million hectolitres. Over the past ten years the average was around 300 million: from a minimum of 272 million in 1969 to a maximum of 354 million in 1973. In terms also of production, Europe, EEC and non-EEC countries, has a massive preponderance: 229 million hectolitres in 1978, equal to 78%, the remainder being divided between the Americas (17%), Africa (32%), Oceania (1 2%) and Asia (0 7%).

In order to complete the picture worldwide another two figures relating to international trade and to growing areas, are relevant. Between thirty and forty million hectolitres of wine are traded each year, of which about twenty million are accounted for by inter-EEC trading alone, and the three major exporting countries in the world are Italy, France and Spain. Italy comes first in terms of volume while France heads the list in money terms.

Finally, vineyards throughout the world cover a total area of 10 million and 200 thousand hectares. Imagine a single vineyard the size of Belgium, Holland Luxenbourg and Switzerland put together. Four countries united in one great, peaceful vinegrowing confederation.

AN X-RAY PICTURE OF THE EEC VINE-GROWING INDUSTRY

PRODUCTION

The European Community produced an average of 147 million hectolitres over the past eight years (1971-1979). France and Italy produce equal quantities (68 million hectolitres), followed by Germany with nearly nine million and Luxenbourg with 145 thousand hectolitres.

The highest individual yields are in Luxembourg (122 hectolitres per hectare) and Germany (194) and the lowest - fortunately - are in the two major producing countries: Italy 63 and France 56 hectolitres per hectare.

Community vineyards together cover an area which amounts to two million and seven hundred thousand hectares of which nearly one million are devoted to quality wine-grapes and one million and seven hundred thousand hectares to table wine-grapes. Hence the Community wine production is divided as follows: 27% quality wines; 69% table wines and the remaining 4% used in the manufacture of aquavitae. Red wine production (nearly 100 million hectolitres), is significantly higher than that of white wines.

With the entry of Greece, Spain and Portugal the total wine-growing area would rise from 2 7 million hectares to 4 5 million and wine production within the EEC which currently accounts for less than one half of world production (45%), would reach 60%.

CONSUMPTION

Between 1970 and 1977 the average direct consumption of wine per year amounted to 129 million hectolitres while 15 million hectolitres were converted (aperitifs, aquavitae etc.). Per capita consumption which was 67 litres in 1969, fell to 48 litres in 1973 following the entry of Great Britain, Denmark and Ireland, and in 1978 amounted to 47 litres.

IMPORT - EXPORT

The EEC imports significant quantities of wine from other countries. Over 60% of imports come from Spain, Portugal and Greece. The remainder comes from Magreb countries (Algeria, Morocco and Tunisia), and in lesser quantities from Jugoslavia, Hungary, Cyprus, Austria, Roumania and South Africa.

The non-producing countries within the Community are the major importers of wines from outside the Community. In Great Britain for example, the consumption of non-Community wines was greater than that of Community-produced wines right up to 1978.

For the past four years imports of wine into the Community have constantly risen, passing from four million, nine hundred thousand in 1975/76 to five million, six hundred thousand hectolitres in 1978/79.

The EEC has significantly increased its wine exports to other countries, rising from less than three million in 1970/71 to nearly seven million in 1978/79. A major portion of the wines exported are quality wines and it should be pointed out that this represents a positive factor in the export situation of Green Europe.

Surpluses

From the beginning of the common wine market (1970-1971) up to 1979, surpluses have averaged five million hectolitres per year. There are four reasons for this: 1) the reduced consumption in the two traditional consuming countries, France and Italy; 2) increased productivity among some vineyards; 3) too slow an increase in the consumption rates of nearly all other countries, mainly because of the excessively high duties and taxes levied; 4) wine imports from non-EEC countries averaging over five million hectolitres per year.

Socio-economic aspects

From a socio-economic point of view, the wine-producing sector of the Community involves a high volume of labour in the areas both of production, conversion, and marketing. A conservative estimate put at around three million, the people involved in wine-growing in the four member countries. Suffice to say that in Germany alone there are around 100 000 firms engaged in the wine industry. In Italy wine-growing is carried on in all twenty Regions, especially in Apulia, Sicily, Emilia-Romagna and the Veneto Regions. In France the number of regions involved is not so high but - given the greater concentration - in certain areas wine-growing is not only the most important agricultural activity but also represents the structure on which the economy of the local inhabitants, is built.

It should suffice to point out that two thirds of French table wines are produced in only four regions: Languedoc - Rousillon, Midi-Pyrenees, Provence - Cote d'Azur and Corsica. In Germany the most important wine producing areas are: the Rhineland - Palatinate, Baden-Wurttembourg, Bavaria and Hesse.

In the two major wine-producing countries, wine growers operate collectively in co-operative organisations which play a very important role. In France the total production of the co-operatives represents 42% of national production and in Italy, 36 3%. Co-operatives are also active in Germany where there are 350 wine co-operatives with over 65 million members.

TOTAL TURNOVER

Apart from the importance of wine production consideration should be given to the turnover which it provides in industry in terms of the machinery required for production, conversion, transport and marketing, the indispensable link between producers, industry and consumers.

Here, a significant role is played by the liquor industry (aquavitae, aperitifs, digestive drinks, vermouths etc.) which absorb a yearly average of 15 million hectolitres of wine, equal to over one tenth of the total Community production.

It is difficult to quote a figure for the total business turnover "generated" annually by the wine industry within the Community. It is certainly in the region of several thousand, thousand millions of lire. The export of Italian wines alone amounted to 16 million hectolitres, of which 12 million were destined for the EEC countries and represented 900 thousand million lire while French wine exports exceeded seven and a half million hectolitres equivalent to 10 thousand million NF (around 2100 thousand million lire).

German wine exports - hence from a country where wine is considered as a secondary industry - exceed one and a half million hectolitres (of which over a half goes into Community markets), equivalent to an income of over 500 million marks (about 250 thousand million lire). It is of interest to note that the earnings from German wine exports cover more than 40% of the cost of all of the wine imported by Germany (around seven and a half million hectolitres).

Even from this brief "X-ray" analysis of the Community wine-growing sector it clearly emerges that the wine problem had to be tackled in Brussels from three points of view: technical, economic and political. This is precisely what the EEC has been doing since the setting up of the European Common Market i.e. since 1958.

Today, as the result of a series of events which have cropped up (and overlapped), over the past few years, the problem is once again, on the table. In order to resolve it in a lasting way the European Community has launched, in 1980, a "Five Year Action Plan", which will apply simultaneously to both the production and the consumption aspects of the problem.

SUMMARY OF THE ACTION PROGRAMME

The Programme - which we will look at in greater detail - is essentially based on a study of the causes which in recent years, have brought about the state of imbalance. This is developed under three main headings: Consumption, Production and Market.

CONSUMPTION

- The absolute need to achieve fiscal harmony in all member countries. In other words, to permit wine to circulate freely throughout the EEC.

- The encouragement in all possible ways of an increase in the outlets for vine-based products. First and foremost therefore, aid in the applications of grape must for the enrichment of wines, the manufacture of fruit juices and other products.

- The launch of a PR and promotional campaign to create a better understanding of the product. the study is as yet, incomplete and the difficulties arising around it are numerous.

- Support for the sale of Community wines in non-Community countries.

PRODUCTION

To give the maximum support to a policy of quality maintenance, with a view to encouraging those areas which are naturally suited to winegrowing and, at the same time encouraging the abandonment of those vineyards which produce mediocre wines. This policy should lead to the improvement of 200 thousand hectares of land under vines (by means of new plantings or replantings), and to the "freeing" of around 120 hectares under poor quality vines.

THE MARKET

- In order to safeguard the product of the vine, it is planned, in the medium term, to prohibit the use of sucrose additives. These will be replaced gradually by natural derivatives of grape must which in themselves will not change the organic quality of the wine.

- Wine growers will see an increase in the quantity of wine destined for distillation. There are two reasons for this: firstly to avoid excess exploitation of grapes for the production of mediocre wines and secondly to reduce the total quantity of wine put on to the market.

- Aid is provided for in the production of natural derivatives from grape musts (the so-called "must-concentrates"), with the twofold advantage of reducing the quantity of must which is made into wine and cutting down on the use of sucrose additives.

This threepoint programme will bring about a threefold result: an improvement in the quality of the wines produced, a reduction in surpluses (almost always caused by inferior wines), and the opportunity for all EEC consumers to buy wines on favourable terms and at more or less comparable prices.

In order to evaluate the importance and to understand the strategy of the Action Programme for 1980-1985 a brief history of events is required, showing what has happened (and been achieved), over the past twenty years.

It should be borne in mind, before embarking on the history of events, that the European Community is bound to fight on two fronts: on the one hand it must satisfy the consumer and on the other, avoid dissatisfying the producer.

Between the two however, there are always the "middle men" who are less in evidence but whose decisions are effective in determining the rise and fall of consumption and of prices. In Europe, unfortunately it all boils down - in over-simplified terms - to a battle between those representing the producers and those representing the consumers.

In the case of the wine-growing industry the problem needs to be examined in depth. Only in this way can we arrive at a better understanding as to how the wine, and what wine, arrives on the tables of the European consumers; also most importantly, why the wine does not so arrive when in fact it could easily do so.

PART TWO

DEVELOPMENT OF A POLICY FOR THE WINE INDUSTRY

Having drawn a broad outline of the state of the industry, the question remains as to why, over the past ten years, the subject of wine is on everybody's lips especially as a topic of conversation.

Granting an "open door" policy to inter-Community wine trading was neither simple nor easy. There were many reasons for this: from one country to another the production methods, the marketing opportunities and the freedom of import were very different. Whereas in some countries for example, it was permitted to use SUCROSE in order to increase the alcohol content, in others the practice was absolutely prohibited. The same applied to the freedom to plant vines, to control production and to classify wines by category which were all affected to a greater or lesser degree by existing national laws.

Hence it was with this technical, economic and legislative jigsaw puzzle that the European Community was faced when in 1958, it had to plan - as part of the common agricultural policy - the common wine market. The EEC Commission whose task it was to lay the foundations of this programme, - proceeded step by step:

PHASE ONE - Already in 1958, albeit on a modest scale, a move was made towards an initial lifting of tariffs at a Community level on the various wine quotas which up till then had been subjected only to bilateral trade between one country and another.

PHASE TWO - In 1962, following a comparative study, we saw the first Community ruling which was intended to create an awareness of the various wine-growing situations. This ruling which is the basis of the common wine-producer market prescribed as follows:

- The establishment of the vine-growing register (i.e. a census of all the vineyards within the EEC).

- The compulsory annual declaration on the part of the producers, of their total production of must and of wine plus a declaration, also annual, of existing stocks on the part of both producers and wholesalers.

- The compilation of an annual budget forecast of supply and demand.

- The setting-up of regulations governing "Quality wine produced in specific regions", the so-called V.Q.P.R.D.

PHASE THREE Seven years went by - from 1962 to 1969 - before a definitive set of rules and regulations was arrived at, concerning wine, as had been done for the other major agricultural products. It might have taken even longer, since the obstacles were numerous and difficult to surmount, had it not been for the fact that the EEC Council of Ministers had a fixed deadline: 31 December 1969. On that date the so-called "transition period" expired, within which the Member states of the EEC were bound to complete the unification of the agricultural markets whether they wished to or not.

It was close to Christmas Eve 1969 - 22nd December to be precise - when the six countries (but especially France and Italy), finally reached agreement. Having surmounted the political barrier the drawing up of the technical regulations was relatively rapid and they were issued in the following Spring: 28 April 1970.

The removal of objections was certainly facilitated by the expiry of the wine agreements of Evian, made between France and Algeria (which up until that time had supplied heavy quotas of wine: from seven to eight million hectolitres), and thus a reasonable compromise was reached between the control oriented attitudes of Paris and the liberalizing attitudes of Rome (and of Bonn).

Hence the wine season 1970/1971 began with the initiation of the common wine market.

In other words all of the EEC consumer public were able to enjoy the advantages which the free circulation of this agricultural product made available to them.

It should be added that consumers were well able to take advantage of the new situation except - as we shall see later - when unjustifiable barriers were erected in order to protect specific interests. Before discussing the various aspects of the Regulation we would do well to look at the situation of the wine business over the first decade (1959-1969), in terms of production, direct consumption (excluding the use of wines for other purposes i.e. aquavitae, vinegar, aperitifs etc.).

Year	EEC Production*	Total Consumption*	Consumption per capita**
1959/60	129	132	70
1960/61	124	136	71
1961/62	103	130	69
1962/63	147	134	68
1963/64	116	138	69
1964/65	135	140	68
1965/66	140	143	69
1966/67	131	141	68
1967/68	142	140	68
1968/69	137	144	68

* millions of hectolitres ** litres

THE OBJECTIVES

Obviously, apart from the specific regulations on the wine industry, it was also subject, from then on, to the three fundamental principles of the common agricultural policy as follows:-

- The free circulation of products within the EEC hence no [illegible] of any sort between Member States

- Community Preference EEC products must be safeguarded in relation to products from non-Member States.

Financial solidarity

The EEC, as a whole, will bear the possible costs of the agricultural policy, incurred by the member countries.

It was to be on the basis and fully in the spirit of these principles that the organisation of the common wine market was codified in two Regulations. The first (better known as 816/1970), is of a general nature and deals with the totality of vineyards, musts, wines, trading and market interventions, while the second (817/1970), deals specifically with "Quality wines produced in specific regions," i.e. V.Q.P.R.D.

The European Community in creating the common wine market, had two ends in view: first, to improve the quality of the product; second, to match supply and demand or in other words to create, as far as possible a balance between production and consumption. Everyone agrees as to the improvement in quality which has become evident over the past four years. The growing success of Community wines on the main world markets adds further confirmation.

As regards maintaining the balance between supply and demand, the EEC would have achieved better results had it not been for a series of obstacles - which might be diplomatically termed as unwillingness on the part of certain member countries - which were later set up.

It should however be emphasized that in 1970, the common wine policy was devised in the light of a situation of under-production and consumption during the decade 1959-1969. In other words it started from the assumption that consumption in the European Community would continue to be higher than production. For such rare cases of surplus that might arise only two provisions were in fact made: assistance with stock levels and "exceptional" distillation operations.

THE INSTRUMENTS

Having looked at the objectives, it will be easier to understand the machinery set up in Brussels for the creation of this market.

Firstly what is the definition of wine in Community terms?

It is that product which is obtained exclusively by means of the alcoholic fermentation, either total or partial, of fresh grapes whether of superior quality or not, or of the must of grapes.

"Table wine" must conform to the following requirements:

- to have been produced within the European Community and to be derived exclusively from those vines whose cultivation is permitted in the appropriate production "zone" as according to the EEC provisions;

- to have an effective alcoholic strength of not less than 8.5° and a total alcoholic strength of not greater than 15° (all measured after possible enriching processes). The upper limit of 15° may be extended to 17° in the case of wines produced in certain Southern zones which are obtained without enrichment and which do not contain residual sucrose.

- a total minumum acidic content of 4.5° per thousand, in the form of tartaric acid (indispensable for the taste balance of the wine).

Without going into technical details it is sufficient to point out here that the "base" wine must have a ratio alcohol/acidity in order to meet the tastes of the consumer. The Community in fixing the various standards, was primarily concerned with ensuring the levels of quality from a production and conversion standpoint.

The EEC has thus been divided into five "wine-growing zones", based on climatic conditions and types of soil. Each zone has been allotted a minimum alcoholic content plus fixed conditions for the possible enrichment by sucrose additives (in zones where this is already permitted).

Among the other instruments which were introduced there are two which need to be underlined: the freedom to "cut" wines (i.e. the addition of wine of higher alcoholic content in order to reinforce "weak" wines), exclusively with Community grown wines and the compulsory obligation to distil the remaining dregs and sedimentary products (the residue after the must), with a view to avoiding the resort to further pressings which would lead to the production of wines of mediocre quality.

STANDARDS OF PRODUCTION AND PLANTING DEVELOPMENT

With the aim of avoiding an increase in the production of mediocre quality wines financial support was prohibited for new plantings or replantings except for "natural wine-growing" zones. Vineyards were classified in administrative units as "recommended" and "authorised". A third category of vineyard (defined as "temporarily authorised"), were excluded from new plantings.

THE MARKETING ASPECT

Having reorganized the production and conversion areas, the EEC Commission rounded off the organization of the wine market from the marketing point of view. In other words it was a question of providing wine growers too, with those guarantees of outlets for their produce and of assisting them to overcome - by means of appropriate measures -the critical stages in the marketing process.

The whole package is divided under two headings:

Prices-Intervention and Trade;THE SYSTEM GOVERNING PRICES AND INTERVENTION

PRICES

In the case of wine it was not considered possible to institute "overnight" a system of total guarantee as had already been done in the case of cereal products or for milk (e.g. the purchase of unsold butter etc.). The variety of produce, the quality range, the problems of analysis and other obstacles indicated the need for another system more adapted to the industry's requirements.

Hence there was set up a "System of Prices and Interventions" with the aim of providing the maximum safeguards for community wine production. In mid-December of every year the EEC Council of Ministers fix the "indicative" and "limit" prices (i.e. the point at which intervention becomes necessary), for all types of table wine (of which there are six: three reds and three whites). The indicative prices derive from the average of the actual prices which have obtained over the previous two years, while the intervention prices are calculated on the basis of the following factors:

- the market conditions in general and price quotations in particular
- the need to stabilize quotations while avoiding the creation of surpluses
- the quality of the wine harvest.

INTERVENTIONS - They fall into three categories:

A Short term individual stock-piling: this consists of aid to those producers who agree not to sell their wine for a period of at least three months. This is allowed at the point at which actual prices fall below the intervention price level. The same aid may be allowed when surpluses of table wine occur in specific zones.

B Longterm individual stock-piling: aid provided over nine months. Community aid is provided for, when from the budget forecasts of the EEC it appears that the total availability of wine exceeds the forecast level of over four months consumption.

C Distillation: should the two above forms of intervention prove insufficient then the European Community will subsidize an exceptional distillation of the surplus wine, thus ensuring that the producers obtain the best possible price.

(In 1976 new forms of distillation were introduced which were of a preventive or obligatory nature at much lower prices).

SYSTEM OF TRADE

INTER-COMMUNITY TRADE - The fundamental principles of the common agricultural policy apply equally to the wine industry: totally free trade between all of the member countries. Hence there can not exist barriers of any sort: neither customs duties, quota restrictions, nor legal provisions or equivalent national taxes.

EXTRA-COMMUNITY TRADE - Wines from non-Community countries have freedom of entry (whereas previously they were subject to quota restrictions), provided that they are subject to the common customs tariff and practise those indicative prices which were mentioned above. In order to avoid imbalances within the EEC - and to safeguard the Community wine industry - table wines from non-Community countries must consequently carry a price after customs duty which is not below the indicative price.

Where this is not so, a compensatory tax is automatically applied which makes up the difference between the price which emerges and the indicative price established by the Community.

It should be said that virtually all of the major wine-producers in non-Community countries have agreed to observe this price.

The export of Community wines to non-Community countries is only partially supported by EEC aid. All quality wines in fact are excluded from the so-called "restitution" (an export premium which applies to other products such as cereals and milk derivatives, in order to make them competitive on world markets).

In the case of table wines, certain countries are excluded from the restitution e.g. the U.S.A., Canada, Switzerland and Austria or, in other words, the markets which are of greatest interest to the Community wine industry.

Furthermore, in the case of table wines, rigorous checks are carried out prior to the granting of aid.

First, they must be authorized by a wine-sampling Commission which is a recognised body in the producer member country, then they must produce a certificate of analysis, issued by an official body of the Member State, which confirms the good qualities of the wines concerned.

PART-THREE

THE WINE INDUSTRY IN THE SEVENTIES

The first tangible results of the common wine market were very shortly apparent. During the wine year 1970/71 inter-Community trade was already notably on the increase with a corresponding reduction in imports from non-Community countries, as a consequence. In absolute figures this meant that over 10 million hectolitres of wine were traded between the various member countries. The biggest exporter, as might be expected, was Italy while the two largest buyers were France and Germany. Within this pattern, Italian wines, especially those from Southern Italy, began to replace the Algerian wines especially for purposes of "enriching" the French wines and of meeting the growing demands of the German market.

The wine market thus served a dual purpose. On the one hand it served to free another highly important agricultural product across the broad Community territory, and on the other it tended to compensate Italy who figured as a major importer of "continental" agricultural products from the other member countries (milk, beef, pork, ham etc. and cereal products).

Despite the inevitable "running-in" difficulties, the first three wine years (1970/71, 1971/72, 1972/73), passed without serious problems.

Year	Production*	Imports*	Total Consumption*	Per Capita Consumption
1969-1970	128	13,4	139	67 (litres)
1970-1971	154	3,5	148	67
1971-1972	133	2,8	140	66
1972-1973	127	5,9	140	66
1973-1974	171	7,2	149	48

* Six EEC countries from 1969/70 and nine EEC countries from 1973/74
* millions of hectolitres

A series of factors which, taken individually, would have had no influence on the creation of a market imbalance, but which, taken together led in 1974, to the first crisis in the wine market and the Community by a series of interventions, had come to its aid. The causes of imbalance may be briefly summarised as follows:

1. - The increase in EEC production

2. - The increase in extra-Community imports

3. - A reduction in consumption

4. - New member countries which were "nonbuyers".

5. - The imposition of inter-EEC taxes.

1. The increase in production

So the first three years passed peacefully: Community production - apart from the abundant harvest of 1970/71 of 153 million hectolitres -stayed around more or less normal levels: 133 million in 1971/72 "fell" to 127 million in 1972/73.

Over the following two wine years on the other hand there were exceptionally abundant harvests: 171 million in 1973/74 and 160 million in 1974/75.

These spectacular increases in production should have been at least partly absorbed by the market had it not been for the fact that at the same time, as we have said, two other phenomena emerged: an increase in imported wines and a reduction in consumption.

2. The increase in extra-EEC imports

In seeking for the origins of the crisis we must first go back to the EEC production deficit of 1972 which brought about a startling rise in prices, reaching figures which did not become standard until 1979. This deficit triggered off imports which prior to 1972 had never exceeded four million and a half hectolitres. In 1972/73 eight million hectolitres came into the Community and a further seven million in the following wine year.

The problems overlapped. On the one hand imports continued to come in during 1974 on the basis of contracts already made while on the other we find two excessively abundant wine years in the Community itself (1973 and 1974).

These two developments, coming together, aggravated the situation and led up to the crisis.

There was no other solution but to distil the extra four or five million hectolitres corresponding to these imports from outside the Community.

Over the years following, wine imports from outside the Community dropped to around five million and remained stable around this amount. Hence the sudden rearing up of the two years 1972-74 (imports of 15 million) was in the nature of an unusual event.

COMMUNITY IMPORTS FROM THIRD COUNTRIES
DIVIDED BY BUYER COUNTRY

Member country	1971/72	1972/73	1973/74	1974/75
FRANCE	525.003	3.119.270	3.023.658	1.215.402
BELGIUM & LUX.	399.521	447.626	328.735	303.702
HOLLAND	613.999	642.190	532.821	501.184
GERMANY	1.031.986	1.240.662	817.619	1.166.274
ITALY	55.681	288.858	226.809	85.113
GREAT BRITAIN.	1.272.549	1.733.248	1.815.787	1.560.173
IRELAND	27.318	38.150	33.090	22.350
DENMARK	204.953	311.777	301.413	241.928
EEC	4.131.010	7.821.781	7.079.932	5.096.126

(Quantities in hectolitres)

Source : EUROSTAT

3. The reduction in per capita consumption

Average consumption of wine within the EEC from the beginning of the Sixties had followed a more or less constant course with a slight reduction being registered over the last three years, passing from 69 litres per head in 1963 to 66 litres in 1972. Prior to the entry of the three new member countries in 1973, the average was 66 litres. This slow but constant movement was caused by two factors: on the one side a "reduction" of around 20 litres per head in France and of about 12 litres in Italy over the decade 1964-1974 and on the other, an "increase" in the other countries which though considerable in terms of per capita consumption was small in global terms in that the starting figures were very low. The average obviously suffered a statistical change and went down - as a per capita consumption over nine countries - to 48 litres and virtually remained at that level with variations but always below 50 litres. (The latest figures - referring to 1978/79 - indicate an annual consumption of 47 litres).

In effect, the disappointing feature - as we shall see - is that the broadening of the Common Market had not created a new upward trend.

4. New "non-buyer" nations

The entry of the three new Member States - Great Britain, Denmark and Ireland -brought no substantial contribution towards the absorption of the Community wine production resulting from the two exceptional harvests. This is mainly due to the low per capita consumption levels in these three countries which in 1972/73 amounted to 10 litres in Denmark, five in Great Britain and three in Ireland.

In 1973/74 imports of Community wines into Great Britain represented 40 5% of the total and there was very little increase over the next two wine years: 41 3% in 1974/75 and 44 9% in 1975/76. In other words during the three year period under discussion, Great Britain imported in total, more wine from non-Community countries than it did Community wines: nearly five million as against three and a half million hectolitres. By comparison with the wine imports of another new member country - Denmark - the amount of wine absorbed by the British was extremely low and was due to fiscal obstacles which prevented the free circulation of agricultural products within the EEC.

It is a fact that, among the causes which led up to the wine crisis in 1974 and 1975, the final but by no means the least important, arose from the various forms of taxation (excise and duties etc.), which - in certain member countries - provided a substantial obstacle to the creation of a genuine common market in wine. The EEC Commission has always fought for fiscal standardization and has never neglected any means at its disposal to ensure that the principle of the free circulation of agricultural products, including wine, should be respected. When necessary it has had recourse to the Court of Justice which is the highest authority of the Community judiciary.

Let us briefly look therefore at what hindrances there have been and are, which block the free trading of wine in the EEC which result in denying the consumers in certain member countries, the right to buy this beverage at much lower prices than are actually being operated.

5. Tax impositions between EEC members

BENELUX - There is a protocol - as a codicil to the Treaty of Rome - on the basis of which wines from Luxembourg are exempted from the payment of the internal duties which operate in Belgium, Holland and Luxembourg itself. However, such exemptions do not apply to French, German and Italian wines which are "imported" into the Benelux countries.

It is obvious that this protocol, added in the first place in order to protect Luxembourg's wine production, constitutes a serious obstacle for the other Community wines which are unable to compete - in a free market situation - in an area of 25 million consumers. The competition is not so much with the Luxembourg wines as against beer which is heavily advantaged by a much lower taxation.

Recently the level of duties both in Holland and Belgium has been raised further with the foreseeable results: a very slow expansion in wine consumption in these two countries and a vast disproportion in relation to the consumption of beer.

NEW MEMBER STATES - Since 1973, Great Britain, Denmark and Ireland have formed a part of the European Community. In these three countries, albeit in different forms, a strange phenomenon has arisen. Instead of proceeding towards a gradual breaking down of the barriers (over the planned period of six years), in the case of Community wines there has in fact been a sort of "escalation". In the UK in particular, at the end of the Seventies the various national taxes (excise duties), levied on Community table wines, came to an amount which was (and is), three and often four times the producer cost of the wine. Here is an example:

An outline of the distribution process and the relative costs (of production, packaging, transport and distribution plus taxes and duties), of a bottle (3/4 of a litre), of a quality community wine (i.e. Chianti of medium maturity) from its place of production (Florence), to its place of consumption (London)

1.	Production cost	400 lire
2.	Bottling (bottle, cork, container, label, labour costs)	270
3.	General expenses and commissions	230
4.	Carriage from Florence to London	160
		1060 lire
1.	Distribution cost in London (from importer to wholesaler	140 lire
2.	Duty (1 600 lire per litre)	1200
3.	Wholesaler's margin (20-25%)	480
4.	V.A.T. (15%)	420
	Total Duty Paid Delivered price	3 300 lire
	Retail margin (25-30%)	800
	Price paid by British consumer	4000 lire

Less heavy - but still onerous - are the taxes levied in Denmark, while in Ireland they are simply prohibitive. It should however, be added that in Denmark, where in 1972/73 Community wines represented only 31% of total wines imported, Community imports gradually rose to 45% in 1974/75, arriving at 71 7% by 1978/79. Equally the annual per capita consumption today in Denmark (13 litres), is nearly double that of Great Britain and more than four times that of Ireland - only three litres.

It should be obvious that the situation in the industry - as a result of the surpluses which came about, aggravated by currency fluctuations - after around five years from the inception of the common wine market, could not stand up on its own. Then there broke out the so-called "wine war", a war between poor relations: the South of Italy and the French Midi. A "hot" war between Southern producers which aroused European public opinion.

Newspapers, radio and television, instead of seeking out the causes, played up the spectacular aspects (frontier blocks, destruction of trucks, wine-lakes on the motorways); with the effect of damaging the image of a Green Europe and, by implication, of the European Community as a whole.

The EEC and especially the Commission, took immediate steps in 1974/75, meeting the wine-growers' needs with the instruments available: stock subsidies (i.e. retaining the wine in cellars) so as to avoid "selling-off" on the part of the wine growers, compensation (i.e. assistance in the sale of wines to non-Community countries), and, above all, assistance in the distillation of wine which by then and under the existing conditions, no longer had a market.

These interventions proved themselves efficacious but only in the short term. Once this particular set of circumstances had been dealt with, the European Commission at once examined a series of provisions of a structural nature with a view to re-introducing a permanent equilibrium into the Community wine industry.

WINE : THE COMMUNITY SITUATION FROM 1971 TO 1978

Year	1971/72	1972/73	1973/74	1974/75	1975/76	1976/77	1977/78
Production	132.511	127.304	170.646	160.245	145.375	148.416	128.288
Imports	:	7.956	7.217	5.297	4.980	5.496	5.872
Exports	:	3.379	3.231	2.316	4.322	4.660	4.021
Total Utilization of which	142.504	143.701	148.932	169.208	149.204	145.502	137.287
- direct human consumption	127.239	130.421	124.610	132.782	130.241	127.059	125.623
- distillation in general	13.254	11.325	22.395	34.536	17.221	16.978	10.190
- "exceptional" distillation	3.500	-	5.893	20.277	2.168	5.390	1.030

(1000 hectolitres)

Source : EEC Commission

On the other hand the expenditure committed by the FEOGA for aid to the wine industry albeit a long way below that for other products e.g. milk, began to arouse comment. Suffice to quote that whereas over the three year period 1970/1973 expenditure amounted to 93 3 million UCE* and in 1974 touched 41, in 1974/75 it exceeded 111 million UCE and in 1975/76 went right up to 133 6 million UCE.

This may sound small in relation to the general expenditure of the Guarantee section of the European Agricultural Fund during the same years, but liable to further and more dangerous developments (1 8% in 1971; 2 5% in 1972; 0 3% in 1973; 1 3% in 1974; 3 1% in 1975 and 2 4% in 1976).

* Currently 1 UCE (unit of European accounting) = 1158 Italian lire.

Thus it was that in 1975 the European Commission presented to the EEC Council of Ministers a series of measures designed to improve the basic regulations, issued in April 1970. In 1976 the Council reached agreement. The "novelty" lay in the fact that the wine problem was dealt with in its three essential elements:

1. Production
2. Conversion
3. Marketing

PRODUCTION

- Prohibition of new plantings: The object is to reduce quantity and improve quality. Hence there must therefore be a halt to new plantings for the wine years 1976, 1977 and 1978. Exceptions are to be made exclusively for quality wines: the vinew for planting - in the case of re-plantings - must generally be of the "recommended" category.

- Up-rooting of vines: a three year programme with the aim of up-rooting 100 thousand hectares of vines which demonstrate - often both together - two negative characteristics: high yield, and mediocre quality. Three type of intervention are planned for vines of medium, poor and high productivity.

CONVERSION

- Minimum strength: Firstly, for a wine to be saleable it must from now on have a minimum alcoholic strength of 9 degrees. This level, has hence been increased by half a degree relative to the 1970 regulation.

- Table grapes: Wine obtained from the conversion of table grapes may no longer be put on the market.

- Super wine processing: The regulations governing wine processing - as we have already seen - seek to avoid the grapejuice being excessively "pressed" with a view to obtaining another wine which would be of mediocre quality. The wine-growers therefore had to produce a quantity of alcohol of up to a maximum of 10% of their production. As from 1976 that percentage can be increased in cases of superabundant harvests.

MARKETING

- Preventive distillation: Whereas up to 1976 distillations took place either during, or at the end of the wine harvest, from then on "preventive" distillations were introduced at the beginning of the harvest with a view to balancing out the market from the start by the elimination of wines of mediocre quality which are usually produced from high yield vines.

Such "preventive" distillations take place when, at the start of the harvest, the quantity of wines "held in stock" exceeds 10 million hectolitres. In 1977 that level would be reduced to only seven million hectolitres.

The price paid for the preventive distillation was fixed at 68% of the indicative price and hence at decreasing percentages for the three subsequent wine years (currently it stands at 55%).

- Guaranteed returns: This is pretty well the key clause which included in the 1976 regulations in order to provide guarantees for the wine-growers. In effect it is a guarantee which the producer has, at the end of his harvest, after other forms of intervention - preventive distillation, medium and long term stock-piling - have not produced the desired results. At that point the producer can, at the end of his long term (nine months) stock-piling contract:

1. Renew his stock-piling contract.

2. Take advantage of a distillation, paid for at a significantly higher price (almost double), than that paid for the "preventive" distillation.

This package of provisions - issued in the spring of 1976 - is important since not only did it "freeze" the so-called wine war between Italy and France but it also formed the basis of the Action Programme which in 1978 the EEC Commission would present to the community Council of Ministers when laying down the policy for the wine industry for the Eighties.

Events 1976-1978

It was already clear in the spring of 1976 that other measures needed to be taken for a number of reasons relating both to production, marketing and the political situation. We will start with the latter which is the most important.

Greece, Spain and Portugal

Three Mediterranean countries which at various times had drawn up preferential agreements with the EEC - Greece in 1962, Spain in 1970 and Portugal in 1972 - were by now knocking at the door of the European Community. The official requests for membership soon followed: Greece made its request in 1975, Spain and Portugal in 1977. By the beginning of 1976 the EEC Commission gave its opinion on the Greek request and in 1978 pronounced upon the Spanish and Portugese requests.

It was obvious that agriculture would form a key element in the negotiations and the wine industry would be one of the more problematic areas. It is sufficient to note that in 1975 the total area under vines in Spain alone (with 17 million hectares), was greater than that either of Italy (12 million), or that of France (12 million). In 1975 Spain had produced all of 36 million hectolitres and it was to be expected that with the improvement in technology, the yield would increase. Consumption however was significantly lower in Spain than in either France or Italy and even in 1975, amounted to 75 litres per head of population.

Greece and Portugal offered much lower production figures (six and nine million respectively), which however, when added to the Spanish production, gave a total of over 50 million hectolitres which, one way or another, would over a few years, have to be absorbed into the EEC.

Internal Community Trade

The prospect of three new Mediterranean members hardly indicated a rose-coloured future for the wine industry. The wine trade within the EEC, after an encouraging start, had become stagnant. From 1974 to 1978, quantities varied around 16 million hectolitres (16 in 1975, 17 in 1976, 15 in 1977 and 16 in 1978).

The "Cold War" Between Wine and Beer

Since the common wine market began in 1970, discussions have been going on in an attempt to define the marketing relationships between these two forms of alcoholic beverage. Europe of the Six was already divided into two great zones of influence. France and Italy with a high wine consumption and low beer consumption while, vice versa there was Germany and Benelux with an ancient beer tradition and a small wine consumption.

Since 1970 the Northern countries began a progressive but slowly rising trend in the consumption of wine and on the other side, France and Italy increased their beer consumption.

Recently published statistics from the Dutch Association of Alcoholic Beverage Producers, demonstrates how, in the period 1966-1978, the consumption of the two beverages varied. Overall, the major increases were in beer consumption.

	* WINE *		* BEER *	
	1966	1978	1966	1978
France	117	98	40	45
Italy	111	91	10	15
Germany	15	24	126	148
Belgium	10	18	117	140
Holland	4	12	39	85
Luxembourg	35	43	129	121
Great Britain	2	6	92	121
Ireland	-	4	-	131
Denmark	4	12	117	117

PER CAPITA CONSUMPTION (IN LITRES)

It is also worth noting the growth patterns in the three Mediterranean Countries which will be entering the European Community.

	* WINE *		* BEER *	
	1966	1978	1966	1978
Greece	39	42	9	21
Spain	66	70	7	52
Portugal	109	91	26	33

In terms of the duties which are levied on the two beverages, the EEC may be divided into three broad areas. The first (Italy, Luxembourg, Germany and France) where duties on wine are minimal or non-existent. The second area (Belgium, Holland and Denmark), where duties are fairly high, and finally a third area where duties are very high indeed (Great Britain and Ireland).

PART FOUR

THE ACTION PROGRAMME 1979-1985

The conclusion arrived at by the European Commission in 1976 was as follows: in order to provide sound stability for the wine industry - in terms of supply and demand - more searching action must be taken both in the area of production (structure), and of consumption (free circulation), and that any action taken on only one of these two would never succeed in resolving the problem.

It was from this starting point that the Action Programme was planned for 1979-1985. Its object was the progressive establishment of a balanced market for wine. The plan was presented by the Commission to the EEC Council of Ministers in 1978. The Council, after consulting the European Parliament (who gave not a political opinion only but supported it with an in-depth analysis of the technical and economic factors involved), arrived at a decision in December 1979, which was substantially in accord with the Commission's proposals.

The Programme analyses the situation, identifies the causes of imbalance, and demonstrates the measures required in order to bring about a return to normality in the industry. Let us briefly review these three aspects before going on to examine them in detail.

THE SITUATION

That there exists a surplus production of table wines, is undeniable. In the face of a production capacity which is slowly but progressively on the increase, consumption is stagnating. The surpluses vary around five million hectolitres and future prospects (the proposed entry of the three Mediterranean countries plus the factor of improvement in technology) are far from rosy.

CAUSES

There are basically two: one, the increase in production due both to new plantings and to the variety of high-yield vines; two, the decrease in consumption in the traditional wine-growing countries while in the other countries the rate of increase remains too low. With regard to these other countries the basic reason behind the low rate of increase is due as we have seen, to the fiscal policies which put a material brake on the free circulation of wine.

MEASURES

These should be applied simultaneously both to the area of consumption and to that of production. In other words, as far as consumption is concerned: "Wine should enjoy the same competitive conditions as are enjoyed by other beverages in all of the consumer markets within the Community".

As regards production, the move should be towards a qualititative improvement and a diminution in terms of quantity, so as to benefit the natural wine-growing areas (by means of a policy of replanting with "recommended" vines), and towards a reduction in those vineyards not naturally adapted to the purpose of wine-growing by re-converting them into alternative agricultural cultivation or to other uses.

It should be obvious that it is only by pursuing these recommendations that the wine industry can be restored to a healthy condition in which the production and marketing aspects of the industry are considered as a whole.

The Action Programme for the Community wine industry develops simultaneously along three separate lines:

1. Measures relating to consumption
2. Measures relating to production
3. Measures relating to the market

1. CONSUMPTION

- Taxes - The first conclusion is that there are certain countries within the EEC where an increase in the consumption of table wines is possible only if taxes and duties are drastically reduced. The standardization of taxes and duties within the community is making no progress. Various member countries, following the request in 1975, made by the European Commission not only failed to reduce internal taxes but actually increased them e.g. Holland, Belgium, Ireland and Great Britain. Clearly by so doing, free competition in these countries is subverted to the advantage of the beer industry. The overall consumption of wine can never flourish under such conditions. The standardisation of duties is a fundamental prerequisite for resolving the dilemma.

- Information and Promotion - Information and promotional campaigns (as have been carried out on behalf of milk and cheese), especially for those table wines which qualify for geographical denominations (vini tipici, vin du pays, Landwein). Such campaigns, with financial support from the EEC, should be carried out especially in those countries with a low per capita consumption.

- EEC Exports - Table wines represent only 40% of EEC wine exports. If this is considered as a positive factor in that it demonstrates how the quality wines of the Community have established themselves on the world markets (and without any assistance), efforts should be made, on the other hand, to increase the exports of table wines. The Community already gives assistance in the export of these wines and intends to continue to support them in the future.

2. PRODUCTION

The control over wine production has both its qualititative and its quantitative aspects. It is not easy however, to define a natural wine-growing zone. The basic criteria on the other hand, are as always, the nature of the soil, the climate and the altitude as well of course, as the type of vine. the fertile plainlands provide high yields (and often a mediocre quality), while on the hill zones, yields are generally low but of good quality.

Taking these criteria as a starting-point, the wine industry's Action Programme aims at reducing the areas which are not truly naturally adapted to wine cultivation (hence encouraging re-conversion), and favouring the naturally adapted areas.

There are three categories of vine from which table wines are produced and an estimate has been made of their territorial extent:*

* The total land surface under vines within the EEC, as we have seen, amounts to two million and seven hundred thousand hectares of which one million produce quality wines and the remaining one million seven hundred thousand, table wine.

According to the most recent available figures the total land under vines probably does not exceed two and a half million hectares.

- Hill Land (excluding valley bottoms) - 1,030,000 hectares

- Plainland non-alluvial soil, in typically southern terrain (low rainfall and high temperatures) - 270,000 hectares

- Other land (plain and alluvial land) - 400,000 hectares

THE FOLLOWING ARE THE MEASURES PLANNED:

Replanting and new plantings
Although re-planting is authorized (but only with certain varieties of vine for all categories of vine, new plantings of vines which produce table wines are authorized only for the first category as defined by an annual decision taken by the council. In other words, only in cases where vines of other categories are uprooted with a view to reconversion. In the case of vines which produce quality wines the re-planting prohibition is lifted for two years but only in Germany and Luxembourg where quality wines predominate.

Structural improvements: 200 thousand hectares

This concerns those vineyards in which vines of the first two categories are grown, covering a total land-surface of 200 thousand hectares. The aid provided varies from 2418 to 3022 ECU per hectare (around two million, eight hundred thousand lire and three million, five hundred thousand lire respectively), for the purpose of re-structuring the vineyards. Obviously the basic condition is the utilization of those types of vine which are authorized by the community.

Uprooting: 120 thousand hectares.

It is planned to uproot 77 thousand hectares of vineyards of the third category i.e. not naturally adapted to wine-growing. The reconversion subsidies - involving the temporary abandonment for a period of eight years - are fixed at between 1831 and 3022 ECU per hectare (equal respectively to around two million, one hundred thousand and three million, five hundred thousand lire), according to individual yield. Since between 1976 and 1978 39 thousand hectares have already been abandoned, it may be estimated that the total "liberated" land will amount to 120 thousand hectares.

Permanent abandonment

With the aim of permanently freeing those vineyards reconverted to other forms of cultivation but which, after eight years may be re-created into vineyards, the community offers an additional subsidy for "abandonment" of 2418 ECU per hectare (equal to around two million, eight hundred thousand lire). By the same token, a supplementary subsidy is provided for those wine-growers who, aged between 55 and 65 years, plan to give up their agricultural activities of which at least 20% are concerned with wine cultivation.

3. THE MARKET

Minimum price

This is undoubtedly the basically new element in the Programme - requested by some, feared by others - it will however play a determining role in the questions of prices and markets. It amounts to this: when, over a period of three consecutive weeks and despite all other forms of Community intervention (stock-piling preventive distillation etc.), the prices quoted for a specific type of table wine remain below 85% of the indicative price, a prohibition on all wholesale transactions in that wine, may be issued. At the same time the distillation process will start up. In other words, the producer (or the merchant), who is in possession of consignments of that wine may hand it over to the intervention authorities and receive a price, properly called "the minimum price".

In this way a guarantee is extended also to the wine industry which on the one hand should reassure the wine producers and on the other should avoid commercial friction between the major wine producing countries.

Super-processing of wine

As we have seen, the wine producers are obliged to consign a percentage of alcohol proportionate to their production (and individual yield), so as to avoid the re-use of the dregs and residuals in order to obtain mediocre wines. Now this obligation can be applied in Italy as well, albeit at a smaller percentage than that which applies in France.

Sugar additives

This is one of the more delicate questions and it has to be said that it has been dealt with, with the utmost clarity even though it is still contested by a certain number of wine growers. The wine industry Action Programme provide that "the enrichment of musts by the addition of sucrose", or, more specifically, the addition of beet sugar in order to strengthen the weaker wines, must cease. This however will only be possible when the "concentrated, modified musts" - i.e. the integral grape sugar, is produced in sufficient quantity for it to completely replace the beet sugar. For the time being therefore, sucrose additives are still permitted but only in limited zones of France and Germany.

Concentrated musts

A system of aid has been devised - also with a view to augmenting the types of outlet - for those types of concentrated must which are destined for the manufacture of grape-juice which compete in the market with other fruit juices. Aid is also planned for the utilization of concentrated must which has been modified for the purpose of enriching certain types of wine.

The modified concentrates of must are derived exclusively from those grape musts which have been "freed" of other non-sucrose constituents (acids etc.), by a special process. It is, in other words, an organic grape-sugar which makes an excellent product for the enrichment of weak wines without altering their organic characteristics.

The use of modified concentrates of must hence comes within the quality policy as proposed by the EEC Commission and represents the first stage in the progressive substitution of the practice of using sucrose additives (derived from beet or from cane sugar), which - as we have said - was tolerated but does not conform to the principles which regulate the Community wine industry.

THE DECEMBER "PACKAGE" OF 1979

In December 1979, after long and difficult debate the Five Year Action Programme proposal as presented by the EEC Commission, was accepted by the Council of Ministers of the Community, the only reservations being:

- Some modification regarding the re-planting rules
- Shifting the period concerned from 1979-1985 to 1980-1986
- Technical improvements to the definition of a natural wine-growing area.

On the first point the Council's decision was more prohibitive than that put forward by the Commission in that it is now forbidden to plant any new vines destined for the production of table wines before 1986.

(The Action Programme provided for an annual decision on the part of the EEC Council, authorizing new plantings of vines for the production of table wine, in relation to the abandonment of vineyards belonging to Categories II and III, i.e. those which have few of the natural characteristics for wine cultivation.)

On the other hand the Council did decide to allow new plantings of quality wines (VQPRD) - subject to previous authorization, but with a prohibition obtaining in Germany during 1980.

The fundamental aspect of the whole operation is of course, the financial committment which is significant. The financial estimates (FEOGA & Member States), actually approach - in regard to the seven-year structural programme (1980/81 - 1986/87) - a thousand million ECU*, equal to over a thousand thousand million lire.

FEOGA will contribute one third of the cost, equal to 320 million ECU (around 370 thousand million lire). The modernization and re-structuring of the vineyards are planned to cost 600 million ECU (about 695 thousand million lire), of which 180 are the responsibility of FEOGA.

Hence over half of the total amount will be dedicated to the structural improvements while the remainder will pay for abandoned vineyards.

* One ECU = 1157 79 lire.

CONCLUSIONS

THE EIGHTIES

What are the prospects for the Community wine industry during the Eighties? At the beginning of this year - with the launch of the Action Programme 1980/1986 - the foundations were laid for re-establishing equilibrium in the industry. Hence we have every reason for facing up to future deadlines with calmness and optimism.

The European Community has finally adopted a wine policy which is all-embracing. They arrived at this point only after the experience of a decade which was needed in order to adapt national situations which were completely different from each other.

We should not forget that in 1970, the start-up of the common wine market was based on the assumption that supply would be unable to meet demand in the EEC since this was the view held by the individual Member States.

It took only two super-abundant wine years for them to realise that such a policy needed to be revised. Thus the first provisions were made in 1976: a temporary freeze on plantings plus some commercial measures (preventive distillation and guaranteed returns i.e. stock-piling and a guarantee on stock witheld), but it was only in 1978 that a realistic and all-embracing revision of wine industry policy was drawn up beginning first of all with the production area (the principle of the "naturally adapted" wine-growing areas which forms the basis of a rational approach to planting policy).

The commercial aspect was then dealt with by the provision of the guaranteed minimum price thus providing the same security as that already enjoyed by other forms of agriculture in different ways.

THE CONSUMER

The consumer has gained essentially two benefits from this decade of the common wine market: quality and price.

Despite the difficulties posed by certain member countries, the free circulation of wine is today a reality. In 1979 nearly 20 million hectolitres of wine were exchanged between Community members. It is a figure which represents between a half and two thirds of total world trade. This figure is destined to go up since the inhabitants of all member countries have the same buying rights. Yet as of today the absurd situation obtains whereby in those countries where the Consumers Associations are strongest and best organized, the tax authorities are able to impose a tax on a good Community wine which is four times greater than the wine-grower's return. As for retail prices it is easy to see that in those countries where taxation is not so heavy, retail prices are reasonable. It should also be taken into account that consumer needs have grown considerably in the past few years.

The quality of Community wines has significantly improved thanks to a wine policy on the part of the EEC whose cornerstone is product quality. The better quality of Community wines is confirmed, and it is worth repeating, by the growing success in exports to non-Community countries. More than six million hectolitres - for the main part wines without "help" in the form of export subsidies, are annually distributed into the best foreign markets, both in European non-Community countries and in the American markets.

TWO IMPORTANT DEADLINES

In the light of the situation described, there are two important deadlines in the wine industry calendar during the Eighties: the achievement of the Action Programme and the entry into the Market of Greece, Spain and Portugal.

The two deadlines are inter-dependent and on the success of the former depends the successful beginning of the latter.

It is clear that the restructuring of the vineyards i.e. the production aspect, must be accompanied by a revision of fiscal policy. This is clearly expressed in the proposal presented to the EEC council of Ministers. It should be enough if we quote the final statement:

> "The Commission retains that the success of the Action Programme for the wine industry depends upon the political desire on the part of all the member countries to make efficient and coherent use of all of the available instruments in order to achieve the objectives pursued. In particular those sacrifices and financial burdens placed upon the producer regions, especially those in the form of a considerable contraction of the vineyards concerned, must be reciprocated by a substantial increase in consumption, especially in those areas where consumption is held down by the duties imposed upon wine."

The entry of the three new member countries should be looked at individually. Greece has an annual production of five million hectolitres, the majority of which goes in domestic consumption. Equally, Portugal has a limited production and a relatively high consumption.

The country which raises serious doubts is Spain. Spanish production is on average, more than 30 million hectolitres per year, arriving occasionally, as in the case of this year, at fifty hectolitres. The country is however given over to a wine-growing policy which is all-embracing and which includes a severe "planting discipline".

In respect of the entry of Greece, Spain and Portugal the best means of defence for the existing Community members is clearly - firstly - the achievement of the Action Programme 1980-1986.

The Community for its part, has done its duty. The degree of financial support which, it is worth repeating, amounts to around one thousand, thousand million lire, has been made available for the use of the Community wine-growers. All that is needed now is to implement the programme.

The promotional campaign directed towards the growers, and which concerns restructuring, reconversion or abandonment of the vineyards, is mainly the responsibility of the member countries who by contrast with the EEC Commission, have far more sources of information and the instruments of persuasion, appropriate to the purpose.

ADAPTING TO THE TIMES

It must however, be recognised that the modernization of production and the standardization of taxation while essential in themselves, are alone not enough to create a stable economic life. What is also needed is the bringing up to date of the commercial structures (distribution techniques) and of the marketing processes (market research, product promotion, collective and individual publicity), without which, in a vast area of free and formidable competition, it will be difficult not only to improve sales but even to retain the traditional wine consumers.

COMMON AGRICULTURAL POLICY : PROPOSALS OF THE COMMISSION

Communication of the Commission to the Council

INTRODUCTION

1.1 The Common Agricultural Policy constitutes one of the major achievements of the Community. In this domain, to a greater degree than in most others, competence for the execution of the common policy lies with the Community institutions, in accordance with the objectives of Article 39 of the EEC Treaty; and since a common policy implies common financial responsibility, its cost is borne to a large extent by the Community budget.

1.2 Agriculture plays an important role both in supplying food and in promoting development in poor and rich countries alike. The common agricultural policy has had considerable success. But Europe must adapt its agricultural policy. The adjustment of regulations adopted after difficult political compromises will require a firm political will. It will demand difficult decisions on the part of all the Community institutions, and an acceptance on the part of all the social and professional groups involved. The adaptation of the CAP is not a technical affair, but a political challenge. Europe is entitled to demand the necessary efforts of its rural Community and its food industry, provided that it offers them a well-defined and stable framework for their development. Moreover, the adaptation can be successfully accomplished only if the charge is distributed equitably between the different Member States, the different market organizations, and in general between the various interested parties.

1.3 It is normal that, in view of the future development of the Community, the agricultural policy should be examined and adapted, so that it can adequately fulfil its aims in the changed conditions now prevailing. The agricultural policy, like other policies, must respond to the need for the most efficient use of the Community's financial resources.

(4

1.4 However, it must be emphasized that the budgetary costs of the CAP are a consequence of the measures adopted to implement its social and economic objectives. Those objectives, which include the assurance of a fair standard of living for the agricultural community, and the availability of supplies to consumers at reasonable prices, are common to agricultural policies in all developed countries of the world. The Community should pursue these objectives at a cost which is reasonable, and not disproportionate to the costs experienced in other countries.

1.5 It must also be understood that the specific conditions of agriculture distinguish it from other sectors in a number of ways. For example, the fact that agricultural markets, within and outside the Community, are subject to fluctuations outside the control of the Community, means that expenditure can vary unexpectedly.

1.6 For these reasons, the adaptation of the policy cannot be made according to exclusively budgetary criteria, but rather with the aim of fulfilling the fundamental objectives in the most cost-effective way. A cost-cutting exercise, conducted without regard to the social and economic consequences, would render no service to the development of the Community. It would lead to the fragmentation of the common policy, and to the reappearance in national budgets of expenditure now assumed by the Community.

1.7 The aim must therefore be to rationalize, not renationalize, the common agricultural policy. Only such an approach can give a good assurance of positive results.

1.8 It is in this spirit that the Commission has for a number of years advocated the adaptation of the agricultural policy. Already in October 1981 in its memorandum "Guidelines for European Agriculture" (doc. COM(81)608) the Commission outlined a programme for adapting the CAP to the new realities, both of general economic conditions and of the agricultural sector itself: this programme included a number of measures, and in particular the establishment of guarantee thresholds taking account of the long-term prospects for production, consumption and trade.

1.9 More recently, in June 1983, the Commission presented a further statement of its views in its communication "Further Guidelines for the Development of the CAP" (doc. COM(83)380). The Heads of State and Government, meeting in the European Council on 18 June 1983, requested that there should be an examination of the agricultural policy, taking account of a number of elements, and resulting in concrete steps to ensure effective control of agricultural expenditure (see text in Annex I). The Commission submits the present document in response to that request.

THE GENERAL CONTEXT

2.1 During the last two decades, since the creation of the common agricultural policy, the advance of technical progress and productivity in agriculture has been rapid. The long-term trend of increase in the volume of agricultural production in the Community has been 1,5 to 2,0% a year, while consumption has increased by about 0,5% a year. Consequently the Community has become more than self-sufficient for many of the principal products, and has come to rely increasingly on exports, or on subsidized sales within the Community, for the disposal of its production.

2.2 Meanwhile, the reduction in agricultural employment has also been rapid. There are now approximately 8 million persons employed in agriculture in the ten Member States, and 5 million farms of 1 hectare or more. This development has been accompanied by an increase in part-time farming, in different ways in the different Member States. The Community must take account of this factor in taking its decisions concerning agriculture.

2.3 Despite the support afforded by the common agricultural policy, incomes from agricultural employment have increased less rapidly than other incomes since 1973. There remain large differences in the level of agricultural incomes between types of farming, between regions, and between Member States. The high rates of inflation, and the divergences of inflation between Member States, have also created problems for the CAP.

2.4 In these difficult economic conditions, the Community nevertheless remains the world's largest importer of food. It has maintained for several agricultural products a particularly liberal import system (entry at zero or reduced rates).

2.5 After a relative stabilisation of expenditure from the Guarantee Section of the EAGGF in the period 1980-82, during which less was spent than provided for in the budgets, mainly because of the favourable conjuncture on world markets, an abrupt change has been experienced in 1983, when expenditure is expected to be about 30% higher than in the preceding year. The tables in Annex II show the development of this expenditure, including the share represented by each product sector, and by each type of expenditure. The rate of growth of agricultural expenditure, taken over a period of years, is now higher than the rate of increase in the Community's own resources.

2.6 The Commission underlines that the situation cannot be remedied by short-term palliatives, or economies of an ad hoc nature. Only determined action to adapt the CAP in a rational long-term framework can serve to place the agricultural policy in a sound economic and financial context for the coming years.

2.7 The adaptation necessary in European agriculture is only part of the general adaptation of our society, faced with technological progress and a rate of economic growth lower than in earlier years. The diverse structure of agriculture in the Member States is the inheritance of many generations, and its well-being is essential to the fabric of rural life. But its well-being can be ensured only by a better integration into the economy as a whole, not by its isolation from the underlying factors which are affecting modern society.

2.8 Two factors of particular importance are the following:

- Because of the lower rate of increase of population, overall demand for food in the Community will increase less rapidly than in the past. On world markets the capacity to pay - that is, effective demand - will depend on economic growth and credit possibilities, which are uncertain. The Community must continue to play an important part in food aid, but it must also encourage the developing countries to satisfy more of their food requirements from their own resources by the development of food strategies.

- Thanks to scientific research and development, there is a constant improvement of crops and breeds of animals, machinery and techniques which mean that the factors of production can be combined more and more efficiently and at lower real cost. These trends will continue and even accelerate in the coming years.

- The development of new technology has led, particularly in the case of animal production, to the setting up of agricultural enterprises for which land is no longer a limiting factor. There is a risk that this development may aggravate the problems of overproduction which have been experienced in the milk sector. The Commission has taken account of this aspect in the proposals which it makes on the subject.

2.9 The adaptation of the CAP must not ignore the consequences of agricultural activity for the industries upstream and downstream of agriculture itself. The development of agriculture must necessarily be integrated more fully into the overall chain of economic activity which first provides the requisites for production, and then carries food and raw materials from the farmgate to the factory, the shop, and the table. In modern economic conditions, a common agricultural policy can hardly exist except within the broader concept of a common food policy. It must be remembered also that the Community's agricultural exports are increasingly in the form of processed products, rather than basic agricultural products. This trend, which means that a greater share of value-added (and therefore employment) is generated within the Community, must be encouraged.

2.10 Another development which has manifested itself in the last decade is the use of agricultural materials as a source of organic chemical products. The development of biotechnology represents an important challenge for the future, and if this activity is to be developed within the Community, it is essential that the provision of Community raw materials should be assured in the same conditions of competition as for its external competitors.

2.11 Other domains where the Community must promote the most efficient use of its resources of land and labour are the development of materials for use as energy (biomass) and the production of the forestry sector. Since the Community is deficient in both energy and wood products, these two domains represent real possibilities for alternative activity and employment in the rural regions.

2.12 The Commission intends to make suggestions on the relationship between agricultural policy and fundamental research. For this purpose, what is required is a system for forecasting the fundamental changes which may take place in the medium and long term, and also an examination of the possibilities for new outlets for agricultural production, particularly for products in surplus.

2.13 Agriculture, as the inheritor and guardian of the rural environment, contributes to the well-being of the vast majority of the population who live in urban conditions but wish to enjoy and preserve Europe's traditional landscape, flora and fauna. For these reasons the development of agriculture must continue to be made in a way which reconciles the interests of human recreation, and the protection of habitats and species, with the economic interests of those who live and work in the country.

2.14 It cannot be the Community's aim to stop the development of its agriculture. But in view of the future perspectives, the Community has no choice but to adapt its policy of guarantees for production. If Community agriculture is to succeed - as it should - in expanding its exports and maintaining its share of world markets, it must increasingly accept the market disciplines to which other sectors of the Community's economy are subject. In this dynamic approach, which rejects any Malthusian limitation of agriculture's potential, the accent must be placed more and more on production at a competitive price. Hitherto, the price guarantees for most products have been unlimited in nature. This situation cannot continue, if the CAP is to develop on a rational basis.

RATIONALISATION OF THE MARKET ORGANISATIONS

Guarantee thresholds

3.1 The stagnation or decline in demand, both in the Community and on external markets, for important products such as milk, wheat, beef and wine, confirms the diagnosis already made by the Commission in its memorandum "Guidelines for European Agriculture" of October 1981. It is no longer reasonable to provide unlimited guarantees of price and intervention when there is doubt about the possibility of outlets in the coming years. In other words, Europe's agricultural producers must understand that they will have to participate more fully in the cost of disposing of production beyond a certain threshold. The measures necessary to ensure respect of such guarantee thresholds constitute the centrepiece of the Commission's proposals.

3.2 Guarantee thresholds can be applied by different procedures according to the product concerned. For example, thresholds can be applied by

(a) lowering the increase in the target price or intervention price if production exceeds a global quantum;

(b) limiting the aids paid under the market regulation to a global quantum;

(c) participation of producers, by means of a levy, in the cost of disposing of additional production (or in the cost of net exports);

(d) quotas at national level, or at the level of the enterprise.

A choice is therefore necessary, in the light of the situation in each sector, as to which procedures should be applied.

3.3 All these various modalities have in fact been used, in differing degrees, in the context of the existing market organizations. For example, the approach at (a) was followed in the decisions taken by the Council concerning the common prices for cereals and milk for 1983/84; the modality under (b) exists in the market organization for cotton (and has been proposed for dried raisins); the coresponsibility levy introduced for milk in 1977 goes in the direction of (c); and quotas on the model of (d) have existed for sugar since the inception of the market organization.

Price Policy

3.4 Alongside the introduction of guarantee thresholds, the Commission considers it necessary to pursue a restrictive price policy. Its annual price proposals will continue to take account not only of the development of agricultural incomes in the Community, but also of the agricultural market situation, the budgetary situation, and other general economic factors.

In addition, special attention must be paid to the proper hierarchy of prices between the different products; to a satisfactory balance between the varieties produced and those demanded by users; and to the improvement of the quality of produce required by consumers.

For certain products (for example, milk and cereals) it reserves the right to propose the fixing of common prices more in advance (for example, for two marketing years) in order to make the price policy more effective.

3.5 As regards the level of Community agricultural prices in relation to those applied internally by its competitors on the world market, the Commission notes that in many cases (particularly for milk) the common prices are at about the same level (or in some cases lower) than in other countries. However, particularly in the case of cereals, it continues to advocate a progressive reduction in the gap between Community prices and those of its principal competitors, not only in the interest of a more competitive production of Community cereals (and the elimination of the advantage presently enjoyed by imports of cereals substitutes, for which there is a low or zero level of protection) but also with a view to the importance of cereals and feed costs in the economy of animal production.

3.6 The application of such a price policy in future years cannot exclude the possibility that, in certain cases where the market situation is particularly difficult, or where the effective application of a guarantee threshold so requires, the common prices expressed in ECU may be frozen or even reduced; and consequently that the Community support prices expressed in national currency may be reduced in nominal terms.

3.7 The Commission has given particular consideration to the consequences which this new approach to price policy could have in countries with a high rate of inflation. In this context it should be recalled that the Commission's new proposals for the dismantling of monetary compensatory amounts will contribute to a better convergence between agricultural incomes in Member States. In addition, the structural measures developed by the Community, with their efficiency strengthened by a better coordination, as suggested in the special Commission report to the Council, will also contribute to a solution to such problems in the medium term. In the third place, measures which could be taken for the incomes of small producers (see para. 3.10 below) will principally benefit farmers in countries with high inflation. Finally, the Commission recalls that a fall in the different rates of inflation must be achieved essentially by the efforts of economic policy to be pursued in these countries.

Market management

3.8 In the light of experience, the Commisson considers that the rational management of the agricultural markets has encountered difficulties because of the automatic nature of certain instruments (intervention etc.) which do not permit a flexible reaction to the development of the market situation. It is evident that frequent recourse to decisions at the level of the Council for the management of the agricultural markets is liable to lead to delays, or to linkage with other questions, which are detrimental to the proper execution of the common agricultural policy.

3.9 In response to the solemn declaration adopted by the Heads of State and Government in Stuttgart on 19 June 1983, which "confirmed the value of making more frequent use of the possibility of delegating powers to the Commission within the framework of the Treaties", it is the intention of the Commission to propose, in appropriate cases, the delegation by the Council of further powers in the context of agricultural management. The objective is to make the management of the policy more flexible and less automatic, with a view to the most efficient use of the instruments and of the financial resources.

Incomes of small producers

3.10 The Commission will propose, in those cases where it would be necessary, further measures to alleviate the possible consequences for the incomes of certain small producers, or producers in certain less-favoured regions. Such measures, which would be defined on a Community basis and limited to producers whose principal income is from agriculture, and whose opportunity for other economic activity is limited, could be financed totally or partly by the Community budget.

3.11 It should be noted that measures of this kind are already being implemented. Thus, for example, farmers in hill areas and less-favoured areas already receive aid under Directive 75/268, to compensate for the natural handicaps and to maintain a farming activity which helps to protect the environment. In the milk sector, the Council adopted in respect of the 1982/83 and 1983/84 marketing years a special aid of 120 million ECU for small-scale milk producers.

Aids and premiums

3.12 It is a normal feature of many market organizations that there exist aids and premiums, paid by the Community budget. As can be seen from Annex IV, this category of measures financed by the Guarantee Section of the EAGGF comprises:

- aids with the general objective of supporting producers' incomes.
- aids to offset the difference between the prices for Community production and prices on the world market.
- aids to encourage the sale of Community produce on the internal market; in most cases, these measures are applied to products when similar products are imported free of charge or at low rates of duty.

This type of payment has increased in importance in recent years, and has now overtaken the category "export refunds" as the largest single category of expenditure from the Guarantee Section of the EAGGF.

3.13 The Commission has made a systematic examination of the aids and premiums under the market organizations covered by this report, in order to verify their economic justification and to see if their objectives are properly attained. In some cases, the market situation which existed at the time of the original introduction of the measures has changed, and their justification is no longer evident. The Commission therefore makes specific proposals for improvement or discontinuation, as indicated in the product-by-product examination. In addition, the Commission will pursue the examination of the other aids and premiums, particularly those under market organizations not covered in this report, and will propose appropriate measures.

External trade

3.14 Faced with difficulties of disposal on its own markets, and increased competition on external markets, the Community must base its agricultural trade policy on a combination of three elements:

- international cooperation with the principal exporting countries, to prevent the deterioration of world prices;

- the development of a policy at the Community level for promoting exports on a sound economic basis;

- the exercise of the Community's international rights, particularly in GATT, for the revision of the external protection system in those cases where the Community is taking measures to limit its own production.

3.15 The introduction of measures permitting the observance of guarantee thresholds, particularly the participation of producers wholly or partly in the cost of disposal, should permit the agricultural exports of the Community to develop on a sound basis. This will create the necessary conditions for envisaging the conclusion of long-term contracts for the supply of agricultural produce to third countries, particularly certain developing countries who have requested them of the Community in the framework of their policies for food security.

3.16 As regards agricultural imports, the Community is obliged to re-examine the regimes applicable for the different products, with a view to adapting them to the market situation. In some cases, the Community has contracted international commitments concerning agricultural imports in exchange for reciprocal concessions in the agricultural sector, or other sectors; in these cases, an adjustment of the import regime must take account of the possibilities of negotiation and of the reactions of the Community's trading partners. In other cases, autonomous concessions have been granted for reasons of general commercial policy and foreign policy. Nevertheless, if the Community is to demand greater disciplines of its own agricultural producers, it must be prepared to take parallel action in respect of imports and to ensure a satisfactory observance of Community preference.

GUIDELINES FOR THE PRINCIPAL SECTORS

4.1 The adaptation of the agricultural policy must be made in accordance with the market conditions prevailing in each product sector; the aim must be not to achieve economies irrespective of the economic and social conditions particular to agriculture, but to streamline expenditure in such a way that the financial resources available are concentrated on the areas where those resources are most needed, where the interest of Community action is most clearly demonstrated, and where budgetary intervention can be most cost-effective.

4.2 With this objective in mind, the Commission has made a thorough examination of the principal market organizations, and of the measures resulting in expenditure from the Guarantee Section of the EAGGF. In presenting its proposals, the Commission observes that for the most part the adaptations indicated require Council decisions; however, certain measures fall within the competence of the Commission under its own powers. The Commission requests the Council to decide on its proposals before the end of the year, so that they can be applied as from the next agricultural marketing year.

4.3 In some cases, the adaptations require modification of the administrative procedures and economic instruments hitherto applied by Member States. If there is resistance to making adjustments, or if the administrative difficulties inherent in any such improvements are invoked, this will be seen as an excuse for delaying the necessary decisions. The Commission emphasises strongly that the improvement of the functioning of the CAP implies the acceptance of change by the Member States. It underlines also that its proposals represent a global package, which cannot be significantly modified without compromising its overall balance.

4.4 The Commission has examined the economic context of each market organization for which adaptations appear to be required, taking account of all market organizations with a share of more than 2,0% of the expenditure of the Guarantee Section:

Milk
Cereals and Rice
Beef
Sheepmeat
Fruit and Vegetables
Oilseeds
Olive Oil
Tobacco
Wine

A descriptive note on each of these market organizations is included in Annex III. The Commission will pursue its examination of market organizations of a lesser importance, not covered in this report, and will, if necessary, propose suitable adaptations

4.5 Before coming to the individual products, however, the Commission draws attention to the fact that the sector of milk products presents the most urgent problem. In this sector the trend of annual increase of milk deliveries was about 2,5% in the period from 1973 to 1981, but the annual increase has accelerated in 1982 and 1983 to about 3,5%; meanwhile consumption in the Community of milk products in all forms, which showed an annual increase of the order of 0,5% in the 1970s, is now tending to stagnate; thus the milk sector is different from other agricultural sectors by virtue of the unremitting and even accelerating divergence of the trends of production and consumption. The volume of milk produced in the Community now exceeds the realistic possibilities for additional disposal, except at rates of subsidy which are hardly acceptable for the Community taxpayer.

4.6 In its examination the Commission has concluded that, at this stage, adaptations are not necessary in the sugar sector, whose market organization was already revised by the Council in 1981, and renewed for a period of five years. It includes a system of production quotas which gives to producers themselves (beet-growers and sugar-processors) the entire responsibility for financing the disposal of sugar exceeding the Community's internal consumption.

WINE

The Commission recalls that the Council recently adopted important changes in the acquis communautaire for wine, in view of enlargement.

Limitation of planting

The Commission would point out that the restoration of long-term balance on the market in table wine will be determined primarily by strict observance of the limits on the planting of vines imposed by the Community regulation. It requests the Member States to do all in their power to ensure that these provisions are observed.

Prices

Taking account of the long-term trend of production, which has been increasing while consumption has been declining, the Commission believes that a prudent policy must be followed in fixing prices.

It is necessary to reduce the excise duties on wine in certain Member States, in order to encourage consumption and to compensate for the decline in consumption in the traditional wine-producing countries.

Quality and aids

The Commission will make proposals to increase the natural minimum alcohol content of wine, in order to improve the quality. It also considers it desirable to ensure the use of concentrated must, in place of sugar, for increasing the alcohol content of wine; it will therefore propose to prohibit the use of sugar, which would permit the discontinuation of the aid for the use of concentrated must (except for the making of grape juice) and thus allow a saving of expenditure.

Intervention Measures

Certain measures in this sector could be adapted, or made more effective. The Commission proposes to:

(i) Discontinue the aid for short-term storage for wine, since the economic justification for this measure is no longer evident in view of the availability of aids for long-term storage.

(ii) Improve the quality of wine marketed, by increasing the rate for compulsory distillation of by-products of wine from 8% of the quantity harvested to 10%.

(iii) Permit the more rapid and effective application of compulsory preventive distillation of wine, by fixing a specific threshold (e.g. 5 months volume of availabilities) for triggering action, and by establishing precise criteria to ensure correct declaration of availabilities by Member States.

Rationalization of the common agricultural policy and adoption of agricultural prices for 1984/85

Introduction

by Mr Poul Dalsager, Member of the Commission

1.1 The decisions which the Council of Ministers has adopted mark the culmination of more than three years of effort by the Commission to adapt the common agricultural policy to the new economic circumstances.

Throughout this period, and in particular since it launched its rationalization plan in July 1983, the Commission has pressed the Council to act on its advice. Had it endorsed the Commission's proposals more promptly, the solutions would have been easier. However the Council has at last achieved agreement, so that the new agricultural prices and the other measures can enter into force for the 1984/85 marketing year.

The package deal has six main points:
- the principle of the guarantee thresholds is confirmed and extended to other products;
- control of milk production through quotas;
- restoration of a single market by dismantling the monetary compensatory amounts;
- a realistic policy on prices;
- rationalization of the aids and premiums for various products;
- compliance with Community preference.

Not all the reforms proposed by the Commission were adopted by the Council. For this reason, and as a result of the delay in adoption of the Council decisions and the deterioration in the market situation, additional resources will be needed to finance the CAP in 1984. The Community must show financial solidarity with regard to its farmers in its efforts to consolidate agricultural policy on sounder economic and financial bases in coming years.

1.2. Guarantee thresholds

Three years ago, the Commission concluded, in its report on the Mandate, that "it is neither economically sensible nor financially possible to give producers a full guarantee for products in structural surplus". In its memorandum on "Guidelines for European agriculture", it again stressed the dangers attendant upon the fixing of guaranteed prices "for unlimited quantities not necessarily matching market needs".

Since then, the Council has approved the Commission's proposals for guarantee thresholds for various products (milk, cereals, rape, processed tomatoes) in addition to the similar measures already being operated (sugar, cotton). Beyond these thresholds, the farmers cannot expect the Community to provide the same guarantees for their output. Thus, the guarantees are no longer open-ended, and the objective of this policy change has been to achieve a more consistent relationship between the guarantees and the market itself and to dovetail them into a long-term plan for rationalization of the farm sector.

In its latest decisions, the Council has not only extended the guarantee threshold system to certain other products (sunflower, durum wheat, dried grapes) but has stressed the need to apply it to the market organizations for surplus products or products liable to boost expenditure. The Council has thus underwritten the Commission's own guidelines concerning the thresholds.

1.3. Milk

With the supply of milk running far ahead of demand, this product must loom large in any plan to reform the agricultural policy.

In its July 1983 memorandum, the Commission made the alternatives clear: either a 12% reduction in milk prices or a quota system guaranteeing reasonable prices to farmers for limited quantities of milk. Recommending quotas corresponding to 1981 deliveries + 1%, the Commission was bearing in mind the need to protect farmers' incomes and at the same time the limited scope for disposal on Community markets and markets outside.

The Council has agreed to introduce for a five-year period quotas based on 1981 deliveries + 1%. The system will be operated with realism and flexibility:

- for Ireland and Italy, the quantities guaranteed will be the same as 1983 deliveries;
- a reserve has been added to enable the difficulties created by the introduction of quotas in certain Member States to be solved; for the 1984/85 marketing year, the reserve has been fixed at 300 000 tonnes to be assigned to Ireland, Northern Ireland and Luxembourg;
- to facilitate the changeover, a further quantity has been added for the 1984/85 season for all the Member States, the cost of which will be covered by a 1% increase in the coresponsibility levy paid by dairy farmers;
- well aware of the difficulties of adaptation, the Council extended by two years the Community's direct 120 million ECU aid to small dairy farmers;
- rules have been adopted to ensure flexible implementation of the system in relation with general or regional conditions, allowing quota management at dairy level or at that of the individual farm. Improvement of dairy production structures must be encouraged.

These changes represent a courageous effort on behalf of the Community to reconcile the social objectives of the CAP with real market conditions. The decisions are painful because they have been too long deferred; however, if they had not been taken, the common market in milk could well have collapsed altogether in the very short term. Its economic and financial bases have now been effectively reorganized.

1.4. Monetary compensatory amounts

The Commission proposed that existing MCAs be phased out altogether in two stages. The Council decided to dismantle the positive MCAs in three stages. By the end of the first two stages (conversion of positive MCAs into negative MCAs at the beginning of the 1984/85 marketing year; dismantlement by 5 points of the German MCAs on 1 January 1985), four-fifths of the positive MCAs will have been dismantled in less than one year; they will have disappeared altogether by the beginning of the 1987/88 marketing year at latest. In addition, the negative MCAs for Italy and Greece will be eliminated at the beginning of 1984/85 marketing year, with a small negative MCA being retained for France.

Also, technical changes in the method of calculation will have the effect of reducing the MCAs on many products, including pigmeat.

The Ministers have now adopted a new system within which future parity changes in the European Monetary System will no longer entail the creation of positive MCAs.

These decisions constitute an important step towards the restoration of single prices on the Community agricultural markets.

1.5. Prices

The Council's decisions endorse the Commission's view that the market situation requires a very cautious policy on prices. In fact, for the first time ever, the average prices in ECU adopted by the Council (- 0.5%) actually fall short of the prices proposed by the Commission (+ 0.8%). Including the agrimonetary changes (dismantlement of the positive and negative MCAs), the average increase in agricultural support prices when expressed in national currencies will be 3.3%. As the general level of inflation in the Community can be estimated at 5.5% for 1984, these decisions leave no doubt as to the Council's determination to ensure that its prices policy is restrictive.

With regard to price relativities, as expressed in ECU, for the various agricultural products, the Council broadly endorsed the "modulated" approach proposed by the Commission. For some Mediterranean products, it approved increases exceeding the Community average.

The impact of these decisions on food prices will be just over 1% for the Community taken as a whole.

The impact on farm incomes cannot be assessed without taking account of the longer term outlook and the productivity situation. If this year's decisions are seen together with those for the three preceding years, for most of the Member States the increase in agricultural support prices as expressed in their own currencies has either actually exceeded the general level of inflation or has fallen short of general inflation without the discrepancy exceeding productivity gains normally achieved in farming. In only two Member States (Italy and Ireland), has a high rate of inflation run well ahead of agricultural support prices.

1.6. Aids and premiums

Another aspect of the Commission's plan consisted in a thorough review of aids and premiums financed under the CAP. In certain cases, this expenditure is no longer fully justified and at a time when there is a serious shortage of funds, a careful review was called for.

Consequently, the Commission oroposed that certain aids be changed or discontinued altogether. While not accepting all the proposals, the Council adopted major decisions concerning the following products:

- Milk. A 75% reduction in the aid to butter consumption, which does not in fact affect consumer prices, because of the parallel reduction in the butter intervention price. Extension of other aids to the disposal of butter and concentrated milk.
- Beef/veal. Retention of the suckler cow premium, the only Community scheme specifically designed to encourage beef/veal production. Diminution of the variable premium paid in the United Kingdom, and of the calf premium.
- Sheepmeat. New rules on the payment of the ewe premium.
- Cereals. Adaptation of the compensatory allowances, which will yield substantial savings.
- Proteins. Decision concerning aids to peas and field beans, soya and lupin seeds.
- Fruit and vegetables. Reduction in the aids to fruit preserved in syrup. Limitation of aids for processed tomatoes.

These measures will improve the general profile of the CAP and also its cost/efficiency ratio.

1.7. Community preference

It has always been the Commission's concern to ensure a fair share-out of the sacrifices entailed by the adjustment. This means that all those involved (farmers, consumers, processors, taxpayers, Member States and non-member countries) must accept the discipline entailed by the efforts to safeguard the agricultural policy.

In this context, it is important to remember that the Council has adopted or has undertaken to adopt, on Commission proposals, a number of decisions concerning compliance with the principle of Community preference. The products concerned are as follows:

- Cereals: adoption of a mandate for negotiation with non-member countries on the stabilization of imports of cereals substitutes.

- Milk: reduction in the quantity of butter imported from New Zealand.

- Beef/veal: revision downwards of the import "balance sheets" for meat from non-member countries for 1984.

- Sheepmeat: postponement of a decision on the variable premium, pending the results of negotiations with non-member countries on a minimum import price.

With regard to exports of agricultural products, the Commission takes the view that guarantee thresholds and, in particular, involvement of producers in disposal costs, would allow of the development of exports on a sound basis. It maintains its proposal concerning long-term contracts for the supply of agricultural products to non-member countries.

1.8. The Council's decisions on these six points constitute a milestone in the development of the CAP. They justify the efforts made by the Commission in the last three years to promote a political consensus favouring the adaptation of the agricultural policy.

These efforts have not always been welcome to everybody, as the Commission has highlighted facts and insisted on principles which are not universally popular: it has stressed the need for joint decisions, jointly agreed rules and common objectives some of which may have seemed less attractive to the Member States than the easy road of economic nationalism. Nonetheless, the rationalization, advocated by the Commission, rather than the renationalization of the CAP has at last prevailed.

The first chapter of this story is thus one of success. This will allow of growing integration of agriculture into the economic development of Europe, as part of the overall plan for renewal of the Community. However, other goals lie ahead. The Council is soon to review the policies concerning agricultural structures on the basis of Commission proposals that are already on its table. With regard to prices and markets, the Council, in future years, must complete the task it has started. It would be foolish to imagine that the main difficulties have now been solved.

But the decisions recently taken do show that at political level there has been a change of climate. The Commission warmly welcomes the decisions which at last have given the agricultural policy the right orientation, an orientation recommended by the Commission itself.

Poul DALSAGER

6.D. Wine

D.1. Prices

The guide prices for all table wines have been reduced by 1% in ECU. The green rates will mean a price increase in national currencies of 5.4% over 1983/84.

D.2. Main measures

- New plantings of table grape vines and wine grape vines, including vines for the production of quality wines (p.s.r.), are prohibited until the beginning of the 1990/91 marketing year, barring individual exemptions granted under the control of the Commission.

Structural schemes for improving and reducing wine-growing areas will be continued.

- The rules proposed by the Commission with regard to oenological practices (in particular the ban on sucrose for wine-making) will be examined later with a view to establishing a set of measures the effect of which is to guide production towards quality and restrain plantings in areas ill-suited for quality production.

- The activating price for the intervention mechanism has been set at 92% of the guide price for all types of wine.

- To avoid, at time of distillation, any undue advantage for wines part of the alcohol of which has been obtained cheaply through chaptalization or enrichment with aid supported musts, the distillation price will be reduced by an amount corresponding to the advantage the wine has enjoyed.

- The Community aid to short-term wine storage has been discontinued. At France's request, it was also agreed that aid to private short-term wine storage could be paid from national funds.

PART III

1. The situation in the agricultural markets, 1984. (1)

2. The Commission's price proposals for 1985/1986 (2)

(1) Extracts from documents COM(84) 767, published January 1985.

(2) Extracts from documents COM(85) 50, published January 1985. "Commission proposals on the fixing of prices for agricultural products, and related measures (1985/1986), Volume I.

A - MARKETS FOR AGRICULTURAL PRODUCTS

INTRODUCTION

This chapter reviews the main developments in agriculture and the agricultural markets since the Commission published its proposal for the "Adjustment of the Common Agricultural Policy" in July 1983 (COM(83) 500 final of 28.7.1983). This review confirms the necessity to complete the adaptation of the Common Agricultural Policy which the Council began on 31 March 1984.

Adaptation of the CAP became necessary because the incentives offered to producers were no longer consistent with the present and the foreseeable needs of the markets. Demand for many agricultural products is either stagnant or declining while the productive potential of European agriculture continues to increase. The three main approaches used to effect adaptation of common market organization are :

- the extension of guarantee thresholds to agricultural products where market imbalances exist, are likely to exist and/or where expenditure is growing rapidly;

- the pursuit of a restrictive price policy with particular attention being paid to the development of a more realistic hierarchy of prices;

- the improvement of market management through the development of more flexible instruments available at short notice.

The following review shows the extent to which these three lines of policy are now being implemented, but also the extent to which they need to be pressed further.

WINE

The market organization for wine has been under stress during the 1983/84 marketing year. Despite very high expenditure for the distillation of surplus table wines, market prices have remained at low levels (around 70%) in relation to the guide price. During the 1983/84 marketing year, approximately one third of table wine production was withdrawn from the market.

At the time of the 1984/85 price review the Council of Ministers was not convinced that the wine sector was facing major difficulties and contented itself with freezing the guide prices (and thereby the distillation prices) for table wines. One proposal to reduce the financial burden for FEOGA (estimated to exceed 1 billion ECU in 1984) in the wine sector was adopted - the abolition of short-term storage aids for wine. However, the economic effect of this measure was attenuated by the authorization granted to producer Member States to operate a comparable nationally-financed scheme for one year.

These decisions were taken against the background of forecast supply balance sheets for the wine sector based on Member States' returns which indicated the end of year stocks of table wine at around five months supply - a normal volume to carry over to the next marketing year. However, this proved to be a very serious underestimate and in view of the depressed state of the wine market at that time, the Commission was requested to implement the measure of "exceptional distillation" (a high price distillation for up to 5 mio hl of wine) to support producer's incomes. The Commission was unable to accede to this request. Two main reasons justified such a refusal: the insufficiency of available FEOGA funds, the full allocation for 1984 being already committed, but more importantly, the judgement that such an action would be ineffective in the fact of a market in serious imbalance.

In May, a special Management Committee meeting held with the encouragement of the Council failed to establish the true level of availabilities on the wine market. The Commission was forced to conclude that official estimates of supplies and opening stocks of table wines which totalled some 160 million hl represented a serious underestimate. Market prices remained depressed despite a series of distillation measures which totalled 35 million hl, a figure which included a massive 22 million hl of voluntary distillation at 65% of the guide price.

Confronted by declining demand (currently 90 million hl), there emerged a Council consensus that action is necessary if the market organization for wine is to operate to the satisfaction of producers and consumers and at a sustainable cost to the budget.

The Commission has therefore made proposals for an adaptation of the existing wine régime (1) which it earnestly hopes will be adopted by the Council, despite the sacrifices which will have to be made by producers in each Member State. The proposals fall under three main headings : structural adaptation to reduce the productive potential, a more realistic price policy and improved market management; in addition it is proposed that sugaring and enrichment should be curtailed and/or phased out. By the time of publication the Council, after consultation of the Parliament, should have decided on the adoption of Commission proposals. In this publication, it should be recorded that the Commission has taken the two decisions which lie within its power in order to contribute to the adaptation of this market organization. In the first instance, when evaluating the state and prospects of the wine market, the Commission will no longer restrict itself to governmental sources since experience has shown that these sources can be unreliable. For distillation, the Commission has established limits on access to voluntary distillation (which will allow up to about 10 million hl to benefit from future operations). Additional distillation in the form of obligatory distillation which takes place at a lower price, may then be applied in a more equitable way.

---

(1) COM(84) 440 final, COM(84) 515 final, COM(84) 517 and COM(84) 539 final.

WINE

I. 1982/83 wine year

1. Introduction

In 1983 wine represented % by value of the Community's final agricultural production. In 1982/83 the area under vines in production amounted to 2.341.000 ha, out of a total area of 2.418.000 ha, or % of the Community's UAA; in five years the total area has been reduced by 222.000 ha (9,2%).

The FAO puts world wine production in 1982/83 at 360 million hl, which is 44 million higher than the previous year's figure and higher than average production over the last five years (325 million hl).

2. Production

Production in the Community was 173 million hl in 1982/83, compared with 140 million hl in 1981/82 and 164 million hl in 1980/81.

In the three years this represented 48,1% (in 1982/83), 44,3% (in 1981/82) and 46,3% (in 1980/81) of world production (on the basis of FAO figures).

Since the area under vines in the Community represents only about 24% of the world vineyard, the average Community yield is considerably higher than the world figure.

3. Consumption

In 1982/83 total internal utilization accounted for 155 million hl compared with 150 million hl in 1981/82; these quantities include the intervention distillation mentioned below.

(a) Human consumption

In 1982/83 direct human consumption was 121,9 million hl against 124,8 million hl in 1981/82.

These figures confirm that the trend is still downwards, even though there was a slight upturn in consumption in 1979/80 (probably owing to the increase in growers' own consumption which generally occurs in years of abundant harvest).

This drop can be attributed to the reduction of consumption in the main producing countries, which the slight increases in the other countries do not offset.

(b) Processing

The quantities processed in 1982/83 amounted to 32 million hl, including quantities used for making spirits of designated origin, quantities distilled under compulsory distillation measures and quantities distilled with Community aid.

The quantities distilled with Community aid in 1982/83 totalled 21 million hl.

In the two previous wine years the quantities processed were 24 million hl and 35 million hl, while the quantities distilled with Community aid were 14 million hl and 23 million hl.

(c) Self-sufficiency

The degree of self-sufficiency of the Community of Ten in 1982/83 for all internal utilizations was 110,8% (93,5% in 1981/82).

If the quantities distilled under the various intervention measures (about 21 million hl) are included in the supply figure, the degree of self-sufficiency for 1982/83 becomes 128,4% compared with 103,1% in 1981/82 and 115,6% in 1980/81.

4. Stocks

At the end of 1982/83 stocks in the Community amounted to 89,3 million hl, well up on the previous year (76,4 million hl).

5. Trade

In 1982/83 imports into the Community of Ten were 5,1 million hl, whilst exports amounted to 8,9 million hl. (The figure for exports in the attached tables (the balance sheet) is different because it is calculated from the difference between the total of exports from Member States and intra-Community trade which is worked out on the basis of imports).

The trend is still for imports to drop, although since 1975/76 exports have shown an upward trend, mainly owing to expanded Italian exports, despite a slight drop in 1982/83.

II. 1983/84 wine year

1. Production

The most recent production figures indicate a volume of 168 million hl, a drop of 5 million hl compared with the previous year.

2. Consumption

Total internal utilization accounted for 169 million hl, an increase of 14 million hl.

(a) Human consumption

In 1983/84 direct human consumption was 125,4 million hl, arresting the downward trend which has been apparent for several years.

(b) Processing

The quantities processed in 1983/84 amounted to 42,8 million hl compared with 32,2 million hl in the previous marketing year.

The quantities distilled under Community intervention measures rose sharply (34,9 million hl as against 21,3 million in 1982/83) owing to the increase in quantities coming forward.

3. Prices

(a) Institutional prices

For 1983/84 the average increase in guide prices for all types of table wine was 5,5% compared with the previous year, except for type Al white wines, where the figure was 6%.

(b) Average prices for the wine year

- Red wine of type RI

French quotations remained stable for the whole of the year, at a level slightly below the previous year's. They were, however, higher than Italian quotations, remaining at about 74% of the guide price.

Italian quotations fell over the year. By August they had fallen to 67% of the guide price. Quotations varied from the previous year's by -3,4% to -9,1%.

No Greek quotation could be taken into account during the year because the volumes in question were too low.

- <u>Red wine of type RII</u>

The only French quotation, for Bastia, was very low throughout the year. It remained at around 67% of the guide price, 7,6% down on the previous year's average.

The only two Italian quotations available fell during the year, stabilizing at about 66% of the guide price. They were down 3,4% and 6,2% respectively on the previous year's quotations.

No Greek quotation was taken into account.

- <u>White wine of type AI</u>

French quotations were very irregular throughout the year. Starting very low, they strengthened in the new year and stabilized in June at 80% of the guide price, only to fall again to 70% of the guide price at the end of the marketing year. Average quotations were 6,6% and 8,2% down on the previous year's.

Italian quotations, which were much lower than the French ones, fluctuated over a narrower range, between 65% and 69% of the guide price. All quotations were down on the previous year's levels by -5,7% to -11,6%.

Only one marketing centre supplied us with Greek quotations. The average quotation was 75% of the guide price, 12,8% up on the previous year's average.

- <u>German wine</u>

Quotations for white wine remained very low throughout the year. They reached their lowest level in October (23% of the guide price in the case of type A 11 wines and 75% in the case of type A III) before stabilizing and rising slightly towards the end of the marketing year to reach 61% of the guide price in the case of type A II wines and 77% in the case of type A III.

Average quotations for these wines were, however, 6,5% and 35% higher, respectively, than the previous year's disastrous levels.

Quotations for red wine continued to fall early in the marketing year and remained below the guide price until January. They recovered slightly thereafter, but the average for the year, 85% of the guide price, was still well down (-48%) on the previous year's figure.

(c) Prices on the Spanish market

Prices of white wines on the Spanish market were fairly stable throughout the year. There was a slight increase compared with the previous year, but because of the devaluation of the peseta the average Spanish price fell from 66% of the average Community price in 1981 to 55% in 1982 and 50% in 1983.

III. Outlook

(a) Short term : forecasts for 1984/85

The latest information available suggests that the 1984/85 harvest will yield slightly less than the previous year.

Production should be around 150 million hl.

(b) Medium term

Even if the 1984/85 harvest is of only average size, the trend in recent years suggests the likelihood of bigger average surpluses. It is therefore more necessary than ever to apply the instruments set up by the 1980-86 action programme effectively, especially as regards the conversion of vineyards to other uses. This requires the parallel implementation of a market policy which is consistent with the structural action programme, and therefore full implementation of the latest amendments to the basic Regulation, which aim to rebalance the market from the beginning of the year by means of distillation.

IV. Economic aspects

(a) Levies and refunds

1) Import levies

The import levies in the wine sector are known as "countervailing charges" and play only a very minor part since they do not apply to the 19 non-Community countries which have undertaken to observe the reference price and are the Community's principal suppliers. The level of the countervailing charges has remained unchanged since 1981/82, except for red, rosé and white wines put up in containers holding 2 litres or less, for which the charge has been abolished (0 ECU/% vol actual alcohol/hl).

2) Export refunds

The level of export refunds for wine rose at the beginning of 1983/84 from 1,45 ECU to 1,55 ECU per % vol and per hl, except on exports to Africa, for which the refund was kept at 1,15 ECU. Refunds for liqueur wines other than quality wines p.s.r. were retained.

The quantities qualifying for refunds fell slightly in 1982, amounting to 2,05 million hl against about 2,33 million hl in 1981. They dropped appreciably in 1983 to only 1,10 million hl and shall remain at this level in 1984.

(b) Quantities in respect of which intervention measures were taken

In 1983/84 the following intervention measures were applied :

- at the start of the marketing year :
  - authorization to conclude long-term storage contracts for table wines, grape must and concentrated grape must,
  - distillation carried out under the "price guarantee" (reserved for holders of long-term storage contracts),
  - preventive distillation.
- distillation of wine produced from table grapes and dual-purpose grapes.
- distillation of the by-products of wine-making.

The quantities of wine distilled with Community aid were of the order of 35 million hl, against 21 million hl in 1982/83.

The average of the monthly quantities covered by storage contracts amounted to 25,6 million hl (24,6 million hl in 1982/83), the maximum figure being 38,7 million hl (37,9 million hl in 1982/83).

(c) Stock situation

At the beginning of 1983/84 stocks held by producers and the trade in the Community of Ten amounted to 89,3 million hl (against 76,4 million hl at the beginning of 1982/83). Some 82 million hl can be expected at the end of the marketing year.

(d) Price unity

During 1982/83 monetary compensatory amounts were retained for Germany, France and Greece. They were later discontinued for France from 16 December 1983.

In the wine sector the representative rates for the various currencies were not altered during the marketing year 1983/84.

V. Budgetary expenditure

Expenditure by the Guarantee Section of the EAGGF on wine amounted to 659,0 million EUA in 1983; the provisional figure for 1984 is 1.174,0 million EUA and the estimate for 1985 is 691,0 million EUA. This is 4,1%, 6,3% and 3,6% respectively of total expenditure by the Guarantee Section.

The figure of 1.174,0 million EUA can be broken down into 18,6 million EUA on refunds and 1.155,0 million EUA on intervention.

INTRODUCTION

Each year the Commission submits to the Council and Parliament proposals for the annual fixing of prices and related measures. In the calendar of the common agricultural policy, the price decisions occupy a special place, for they represent:

- a series of economic signals for the agricultural sector (decisions on prices);

- an occasion for adaptation of the market regulations and other elements of the agricultural policy (decisions on related measures).

The new Commission set itself as a priority the task of adopting the proposals for the 1985/86 marketing year by the end of January so as to enable Parliament to deliver its opinion as soon as possible and the Council to take a decision, as it is required to do, by 1 April. The proposals for the 1985/86 marketing year have been drawn up in special circumstances:

- 1984 saw profound changes in the agricultural policy, decided by the Council in the context of the 1984/85 prices;

- 1986 is to welcome the accession of Spain and Portugal as new members of the Community.

In its present proposals the Commission wishes to maintain a continuity in the development of the agricultural policy, and to assist Europe's agriculture to make the necessary transition to the challenges which it must face in the second half of the 1980s.

What are those challenges? The continued - and even accelerating - increase in agricultural productivity, made possible by the application of modern equipment and techniques, is not matched by an increase in demand for food from a population which is growing only slowly. Having passed self-sufficiency for most of the principal agricultural products, the Community now relies more and more on world markets for its outlets. Because of the inelasticity of demand, subsidies for disposal on the Community's internal markets are expensive. New uses for agricultural products in the fields of biotechnology, industry or energy, although promising, are still at the development stage. Meanwhile, in the difficult economic situation, public financial resources for support of agriculture, both at the Community level and the national level, are limited.

With the reforms of the common agricultural policy made in the course of 1984, Europe's agriculture has already begun the process of adaptation to those challenges. But the choices faced by the agricultural population are difficult: to adapt farm enterprises to new limitations - for example, milk quotas; to convert to other sectors of production - but difficulties exist in practically all sectors; to improve the structure of farms - which requires additional capital; or to find employment outside agriculture - at a time when unemployment is high.

There is no miracle solution for these problems. The problems already described by the Commisson in its memorandum on the CAP of 29 July 1983 (Doc. COM(83)500) remain unchanged. Since that time, the situation on the markets has not improved and, in some cases, has even deteriorated. In the short term there can therefore be no alternative to:

- pursuing a price policy more adapted to the realities of the internal and external markets but taking account of the Community's obligations to the agricultural population;
- continuing to apply guarantee thresholds in the agricultural policy in accordance with the guidelines already defined by the Council so that, when Community production exceeds certain limits, the financial responsibility is shared by producers;
- reorganizing the policy on structures in the manner proposed by the Commission more than a year ago.

However, the Commission is aware of the fact that the agricultural population needs medium and long-term prospects. If the Common Agricultural Policy did not provide farmers with the hope of a better future for the next generation, within the spirit of Article 39 of the Treaty, the agricultural policy would inevitably be renationalized with all the attendant consequences for European integration. The Commission therefore intends to provoke a debate before the middle of 1985 in the context of the Community bodies and with the professional organizations concerned in order to define the future prospects for European agriculture. Every possible channel must be explored with a view to achieving the following goals:

- the creation of a modern and efficient agriculture which continues to exploit its potential to improve productivity in the interests both of farmers and consumers but which, at the same time, respects the environment and conserves the priceless heritage of landscape and species of Europe.
- taking up the double challenge of outlets for agricultural production, i.e. the outlets on the European markets - with the prospects for new developments offered by advances in the fields of biotechnology and energy - and the outlets on the external markets - with the challenge of competition in world trade and the moral imperative of providing food aid;
- increasing integration of agriculture into the economy as a whole, which implies that the rural population must be assisted in improving its economic and social situation not only through the policy on agricultural structures but also by means of other policies and instruments such as the Integrated Mediterranean Programmes.

The Commission is convinced that an approach of this nature will enable the Community to arrive at a clearer definition of the framework and instruments which are necessary if the Common Agricultural Policy is to fulfil its objectives in the medium and long term in the spirit of the Treaty and of Article 39 in particular.

Proposals for 1985/86 marketing year

. Taking account of the situation and prospects of the agricultural sector, and in view of the objectives set out in Article 39 of the EEC Treaty, the Commission submits its proposals for the coming marketing year. The proposals respect the need for continuity in the development of the common agricultural policy, according to the lines defined in recent years, particularly in the context of the Council's decisions on 1984/85 prices. Those guidelines, adopted in March 1984, were imposed by the economic and financial realities of the 1980s. Developments since then, particularly on the agricultural markets, present no surprises, and give no reason for the Community to follow a path in the coming years different from that already signposted.

The present proposals concern three main elements:

- common prices
- related measures
- monetary compensatory amounts.

The Commission wishes to underline that these elements form a single coherent package; in fixing its position on each, the Commission has taken into account its relationship with the others. The level of common prices proposed cannot be seen in isolation from the proposals concerning the green rates, or concerning the accompanying measures such as guarantee thresholds. The application of a guarantee threshold in an appropriate form permits in certain sectors a moderate increase in price, whereas in other sectors for which a guarantee threshold has not been introduced no adjustment of price is proposed. Likewise the minimal dismantling proposed for positive MCAs is conditioned by the restrictive proposals for common prices.

(a) Proposals for common prices

With the continued reduction in the average rate of inflation in the Community - forecast for 1985 at 4,1%, compared with 4,7% estimated for 1984 - the Commission considers that a market-oriented price policy requires adjustments in common agricultural prices for 1985/86 no less prudent than in 1984/85. Account must also be taken of the fact that, by comparison with previous years, the disparity of Member States' rates of inflation has been reduced, and the margin of manoeuvre for price adjustment through adaptation of green rates is limited. In such circumstances, it is normal that the adjustment of prices in national currency should correspond more closely to the adjustment of prices in ECU than has been the case in the past.

Agricultural revenues in the Community have increased in real terms in 1984 by about 4% after a decrease in 1983; by comparison with the average of the three-year period 1979/80/81, agricultural revenues in 1984 have improved by about 7%. However, the development has been very varied according to the sector of production with extremely negative results for milk and beef but very positive results for cereals.

The Commission concludes that for the majority of products it is appropriate to propose price adjustments of between 0 and + 2%. In certain specific cases, a reduction in prices is justified because the guarantee threshold has been exceeded (this is the case for cereals and rapeseed) or because of the market situation (this is the case, in particular, for tobacco and for certain fruit and vegetables where the withdrawals from the market or the quantities receiving aid have increased excessively).

In its proposals for the different products, the Commission has paid special attention to the need for internal consistency within the agricultural sector as a whole. Prices for animal products cannot be viewed in isolation from costs of animal feed: the prices of some of the components entering into animal rations have fallen in the later part of 1983 and during 1984, and will be further influenced in 1985 by the proposed adjustment of cereal prices. At the same time, following the introduction of production quotas for milk, great prudence must be exercised in fixing prices for other sectors to which productive resources may be transferred from the milk sector. Finally, within the crop sector, the same prudence demands that the price level for cereals - for which the application of the guarantee threshold mechanism will entail a price reduction in the coming season - should be properly related to the prices for other crops which may be grown in place of cereals.

The proposed adjustments of common prices in ECU are given in full in Table 1 at the end of this volume. In summary, the proposals are: :

Cereals	Target price and common intervention price (increase of 1,5%, corrected by abatement of 5% due to guarantee threshold being exceeded)	- 3,6%
	Rye - target price	- 4,4%
	Durum wheat - intervention price	0,0%
	- production aid (Italy, France)	0,0%
Rice	Intervention price for paddy rice	0
Sugar	Basic price for sugar beet	0
	Intervention price for white sugar	+ 1,3%
Olive oil	Intervention price	0
	Target price and production aid (increase in aid to be used to finance action to combat "dacus oleae")	+ 2%
Oilseeds	Colza and rapeseed	- 3,6%
	Sunflower seed	- 1,5%
	Soya beans	+ 1%
Protein Products	Dried fodder	+ 1%
	Field beans - minimum price	- 6,2%
	Lupins, peas - minimum price	0
Fibre Products	Flax and hemp	+ 1%
	Cotton	+ 2%
Wine	Guide prices	0
Tobacco	Guide prices and premiums according to variety	from 0 to - 5%
Fresh Fruit and Vegetables	Basic prices and marketing premiums, according to product	- 6% to + 1%
Milk	Target price	+ 1,5%
	Intervention prices (after adjustment of butterfat/non-fat ratio from 50: 50 to 46,9: 53,1)	
	- butter	- 4,0%
	- skimmed milk powder	+ 6,8%
Beef	Guide price and intervention price	0
Sheepmeat	Basic price until 5.1.1986	0
	from 6.1.1986	+ 2%
Pigmeat	Basic price	0

(b) <u>Proposals for related measures</u>

The Commission accompanies the proposals for common prices with proposals for certain related measures. In order to streamline the task of the Council, and taking account of the numerous modifications already decided in the 1984/85 prices package, it has tried in the 1985/86 package to limit these measures to a minimum. The following paragraphs summarise the more important aspects, which are explained more fully later in this volume in part B (explanatory memoranda, product by product).

For wine, the Commission considers that, following the discussions which have taken place in the course of 1984, particularly at the meeting of Heads of State and Government in Dublin in December, it is not opportune to propose additional related measures; it requests the Council urgently to adopt the proposals for wine which it has already submitted.

B. EXPLANATORY MEMORANDUM PRODUCT BY PRODUCT

Preliminary comments on market prospects

1. In its memorandum "Guidelines for European Agriculture", presented to the Council in 1981, the Commission stressed the need to base agricultural policy on plans concerning several years. Since then a set of measures has been adopted implementing the principle of guarantee thresholds for various products. This is one of the reasons why the Commission has periodically revised and updated its medium- and long-term projections (based on the hypothesis of unchanged Community rules) in order to provide the Council with better information concerning the consequences of decisions already taken and also, in some cases, to warn it of the risks of the situation deteriorating if the measures proposed by the Commission are not adopted.

   It was against this background that, in connection with its proposals for the 1984/85 prices, the Commission produced forecasts for the period up to 1990. In preparing the 1985/86 price proposals the Commission has revised its forecasts, taking the new horizon of 1991.

   Although the forecasts primarily concern supply and demand within the Community, the trend in Community imports and exports and the outlook for world markets are also mentioned where possible. Figure 2 shows the trends in the Community's external trade in agricultural products in recent years.

   As regards guarantee thresholds and related measures, Table No 4 at the end of this volume gives an overview of the thresholds fixed in the past and those proposed here.

2. Any forecast of demand depends on a forecast of population and incomes. According to the Commission's estimates, the total population of the Ten will increase from 272 million in 1983 to 275,6 million in 1991, which represents an annual growth rate of 0,16%, compared with 0,35% for the period 1971 to 1981. The level of private consumption per head of population (Community average at 1970 prices) is expected to increase at

a rate of 2,18% a year from 1983 to 1991, compared with 2,5% during the period 1971 to 1981. Since population and income growth will be slower than in the seventies, the outlook for food consumption is not as good as in the past.

3. Spain and Portugal are due to join soon, so that the common agricultural policy will cover twelve countries. Enlargement will affect the markets for most agricultural products and in some cases the impact will be great. However, for the sake of consistency, the forecasts have been worked out on the basis of the Community's present membership.

WINE

SITUATION AND OUTLOOK

Despite the structural measures aimed at reducing the area under vines in production adopted in 1976 and tightened up in 1980, and despite the application of the new management instruments introduced in July 1982, surpluses of table wine continue to grow. In order to stabilize the market, increasing quantities have had to be taken off it and distilled with Community aid. In the four years from 1980/81 to 1983/84 the quantities involved were respectively 14, 23, 21 and 34 million hl. Forecasts for the 1984/85 wine year indicate that the figure will still be around 30 million hl.

The main reasons for the structural surpluses are the following:

- the falling consumption of table wine in the two major wine-growing countries (France and Italy), which is not offset by the slight increases in the other Member States

- the increase in yields, which has more than offset the reduction in the area under vines.

Figure 7 shows that harvests fluctuate greatly from one year to the next. Production, however, has been rising since 1971/72 (by about 1% a year for all wines together and by about 0,3% a year for table wines); thus, while until 1979 production rarely exceeded 165 million hl, since then it has been above that level in most years. This trend is due solely to the increase in yields, which has more than offset the fall in the area under vines (from 1976 to 1982, 10% of the area was grubbed definitively).

If yields per hectare continue to grow by more than 1% a year (as has been the case since 1971), total wine production will be between 155 and 165 million hl by 1991; that is to say, table wine production will level out at between 110 and 120 million hl while production of other wines will rise slightly to around 45 million hl.

. The downward trend in consumption noted in the two main producing countries (France and Italy) has continued. It has not been offset by the rise in consumption in other Member States. In some cases the application of excise at a high rate is still likely to restrain the consumption of wine. Thus, average consumption which, until 1979, stood at between 140 and 150 million hl has since fallen to less than 140 million hl. The fall in consumption is therefore progressing at an annual rate of 0,75%. On the basis of this trend, internal consumption in 1991 can be expected to be 130 million hl.

This situation is disturbing and the Commission still believes that the only way to achieve a fall in production in the medium and long term is by means of a substantial reduction in the area under vines, combined with a cautious price policy.

In order to bring about an improvement in the short term, the Commission has adopted measures to rationalize the market management instruments for which it is responsible. These include measures to make the forward estimate more reliable, since it is the major instrument on the basis of which some intervention measures are activated.

PRICES 1985/86

. In formulating its price proposals in this sector for 1985/86, the Commission must bear in mind not only the present market situation but also the continued implementation of the structural measures and the results expected from the use of the market management instruments.

As regards the present market situation, Article 2(2) of Council Regulation (EEC) No 337/79 of 5 February 1979 on the common organization of the market in wine provides that the guide price for each type of wine during the two wine years preceding the date of fixing and on the basis of price trends during the current wine year.

. Wine prices in the Community (on the basis of communications from the Member States under Regulation (EEC) No 337/79 have moved as follows:

Year	R I ECU/°/hl	R II ECU/°/hl	R III ECU/hl	A I ECU/°/hl	A II ECU/hl	A III ECU/hl
1982/83	2,624	2,484	87,27	2,401	33,51	57,02
1983/84	2,536	2,312	45,77	2,207	35,71	76,88
1984/85	(1) 2,407	2,216	74,81	2,005	46,46	69,03

(1) Quotations from September to November 1984.

Prices for white table wine of types A II and A III (German and Luxembourg wines) have stayed well below the guide price but seem to be firming since the start of the year. Prices for red wine of type R III are well above the guide price.

As regards table wine of types A I, R I and R II, the gap between French and Italian prices has narrowed in the case of red wines but grown wider in the case of white ones.

. Present market prices (average for September to November 1984) are at the following levels in relation to the current guide prices:

Types	% of guide price
R I	70,4
R II	64,8
R III	140,4
A I	63,2
A II	65,4
A III	85,1

Average market prices for the year in progress are below those for the previous year, which confirms the downward trend recorded for the last two years.

(ECU/% vol/hl)

FRANCE	R I	R II	A I
1982/83	2,636	2,519	2,770
1983/84	2,564	2,327	2,569
Change	- 2,7 %	- 7,6 %	- 7,3 %

(ECU/% vol/hl)

ITALY	R I	R II	A I
1982/83	2,562	2,375	2,366
1983/84	2,425	2,280	2,163
Change	- 5,3 %	- 4 %	- 8,6 %

Production and direct human consumption have been as follows in recent years:

Year	Production	Consumption
1978/79	143.942	127.184
1979/80	182.414	129.458
1980/81	163.866	128.284
1981/82	140.064	124.848
1982/83	171.935	121.944
1983/84	167.303	125.433

These figures show that there is a continuing discrepancy between availabilities and normal use. Availabilities remain high while use is steadily declining (except in 1983/84).

This trend is continuing in 1984/85.

Although the harvest forecasts indicate that production will be down on the two previous years (150 million hl), stock forecasts are higher (56 million hl of table wine), resulting in comparable surpluses (about 30 million hl). It is hoped, however, that the intervention mechanism, in particular compulsory distillation, will make it possible to rationalize the market from the very beginning of the marketing year.

In these circumstances, and although every effort should be made to maintain producers' incomes at an acceptable level, the medium-term objective of reducing the gap between output and demand is of prime importance. In view of the gap between availabilities and normal use, the Commission, in a proposal for amending the basic wine Regulation, introduced the principle of a "freeze" on the institutional prices for table wine so long as the quantities distilled, which reflect the size of the wine surplus, substantially exceed table wine production (COM(84)515 final of 12 September 1984).

In view of the level of surpluses forecast for 1984/85 and those foreseeable for 1985/86, the Commission proposes that the guide prices for all types of table wine be set for 1985/86 at the same levels as for the previous year.

PART IV

Statistical information, Extracted from "The agricultural Situation in the Community, 1984 Report", published January 1985.

1. Area under vines, yield and production of wine and must
2. Wine supply balance.
3. Producer prices for table wines.
4. EAGGF Guarantee Section expenditure by sector.

M.9.1 Area under vines, yield and production of wine and must

	Area					Yield					Production				
	1 000 ha			% TAV		hl/ha			% TAV		1 000 hl			% TAV	
	1980/81	1981/82	1982/83	1981/82 / 1972/73	1982/83 / 1981/82	1980/81	1981/82	1982/83	1981/82 / 1972/73	1982/83 / 1981/82	1980/81	1981/82	1982/83	1981/82 / 1972/73	1982/83 / 1981/82
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16
Deutschland	89	89	89	1,5	0,0	54,4	84,1	181,2	−2,2	115,5	4 872	7 485	16 133	−0,7	115,5
France	1 095	1 078	1 064	−1,0	−1,3	63,9	53,5	75,1	0,8	40,4	69 984	57 702	79 953	−0,3	38,6
Italia	1 122	1 108	1 095	0,3	−1,2	75,5	63,7	66,3	1,5	4,1	84 750	70 500	72 648	1,7	3,0
Nederland	—	—	—	×	×	—	—	—	×	×	—	—	—	×	×
Belgique België	0	0	0	×	×	×	×	—	×	×	4	4	3	−2,4	−25,0
Luxembourg	1	1	1	×	×	43,7	85,8	216,0	−4,3	151,7	50	97	256	−4,0	163,9
United Kingdom	0	0	0	×	×	×	×	—	×	×	2	2	7	8,0	250,0
Ireland	—	—	—	×	×	—	—	—	×	×	—	—	—	×	×
Danmark	—	—	—	×	×	—	—	—	×	×	—	—	—	×	×
EUR 9	2 307	2 276	2 250	−0,3	−1,1	69,2	59,7	75,1	1,0	25,8	159 662	135 790	169 000	0,7	24,5
Ellas (1)	98	92	91	×	−1,1	47,7	50,8	41,7	×	−17,9	4 653	4 689	3 806	0,8	−18,8
EUR 10	2 405	2 368	2 341	×	−1,1	68,3	59,3	73,8	×	24,5	164 315	140 479	172 806	0,7	23,0

Source: Eurostat.

(1) Excluding the quantities of wine produced by table grapes or grapes destined to be dried.

M.9.2 **Wine supply balance** **EUR 10**

	1 000 hl			% TAV	
	1980/81	1981/82	1982/83	1981/82 / 1972/73	1982/83 / 1981/82
1	2	3	4	5	6
Usable production	163 866	140 064	171 935	0,6	22,8
Change in stocks	−2 651	−14 992	+12 871	×	×
Imports	5 544	5 833	5 079	×	−12,9
Exports	7 365	11 095	9 006	×	−18,8
Intra-Community trade	22 725	22 144	19 656	×	−11,2
Internal uses:	164 696	149 794	155 137	0,1	3,6
– losses – production	484	417	513	−6,3	23,0
– marketing	557	509	450	−0,8	−11,6
– processing	35 371	24 020	32 230	7,9	34,2
– human consumption	128 284	124 848	121 944	−0,8	− 2,3
Human consumption (l/head)	47,4	46,0	44,9	−1,1	− 2,4
Degree of self-supply (%)	115,6	103,1	128,4	1,5	24,5

Source: Eurostat.

M.9.3 **Producer prices ([1]) for table wines**

	ECU			% TAV ([2])	
	1981/82	1982/83	1983/84	1982/83 / 1973/74	1983/84 / 1982/83
1	2	3	4	5	6
Type R I: Red, 10 to 12°, % vol./hl					
Bastia	2,472	2,532	2,371	×	– 6,4
Béziers	2,582	2,640	2,560	3,6	– 3,0
Montpellier	2,584	2,632	2,569	3,6	– 2,4
Narbonne	2,590	2,635	2,556	3,5	– 3,0
Nîmes	2,589	2,631	2,576	3,5	– 2,1
Perpignan	2,628	2,706	2,651	3,5	– 2,0
Asti	2,566	2,712	2,533	0,5	– 6,6
Firenze	1,770	2,266	2,171	–0,9	– 4,2
Lecce	—	—	—	×	×
Pescara	1,868	2,360	—	2,0	×
Reggio Emilia	2,157	2,617	2,380	1,3	– 9,1
Treviso	2,099	2,505	2,420	1,6	– 3,4
Verona (local wines)	2,117	2,599	2,439	1,4	– 6,2
Heraklion	3,093	2,935	—	×	×
Patras	—	—	—	×	×
Type R II: Red, 13 to 14°, % vol./hl					
Bastia	2,455	2,519	2,327	×	– 7,6
Brignoles	—	—	—	×	×
Bari	1,987	2,366	2,286	0,2	– 3,4
Barletta	2,069	—	—	×	×
Cagliari	—	—	—	×	×
Lecce	1,793	—	—	×	×
Taranto	2,054	2,398	2,249	1,3	– 6,2
Heraklion	—	—	—	×	×
Patras	—	—	—	×	×
Type R III: Red, Portuguese type, hl					
Rheinpfalz-Rheinhessen (Hügelland)	107,34	87,27	45,77	16,4	–47,6
Type A I: White, 10 to 12°, % vol./hl					
Bordeaux	3,704	2,848	2,615	4,5	– 8,2
Nantes	3,341	2,712	2,534	4,7	– 6,6
Bari	1,866	2,293	2,047	2,9	–10,7
Cagliari	1,952	—	—	×	×
Chieti	1,837	2,305	2,037	3,5	11,6
Ravenna (Lugo, Faenza)	2,138	2,459	2,318	2,2	– 5,7
Trapani (Alcamo)	1,875	2,172	2,030	2,9	– 6,5
Treviso	2,298	2,683	2,478	2,4	– 7,6
Athena	2,223	2,141	2,415	×	12,8
Heraklion	2,034	2,047	—	×	×
Patras	2,438	2,161	—	×	×
Type A II: White, Sylvaner type, hl					
Rheinpfalz (Oberhaardt)	77,47	33,37	35,67	5,2	6,9
Rheinhessen (Hügelland)	79,18	33,86	35,79	2,8	5,7
Moselle luxembourgeoise	—	—	—	×	×
Type A III: White, Riesling type, hl					
Mosel/Rheingau	79,06	57,02	76,88	3,9	34,8
Moselle luxembourgeoise	—	—	—	×	×

Source: EC Commission, Directorate-General for Agriculture.

([1]) ∅ weighted average market prices.
([2]) Calculated on the basis of prices in ECU.

43 EAGGF Guarantee Section expenditure by sector

(Mio ECU)

Sectors	1981 [1]	1982 [1]		1983 [1]		1984 [2]		1985 [3]	
	Mio ECU	Mio ECU	%	Mio ECU	%	Mio ECU	%	Mio ECU	%
1	2	3	4	5	6	7	8	9	10
Cereals	1 921,4	1 824,5	14,7	2 441,2	15,3	1 935,0	10,5	2 672,0	14,8
Refunds	1 206,3	1 064,9	8,6	1 525,0	9,6	1 151,0	6,3	1 588,0	8,8
Intervention, of which:	715,1	759,6	6,1	916,2	5,7	784,0	4,2	1 084,0	6,0
– production refund	129,2	135,4	1,1	129,7	0,8	179,0	0,9	159,0	0,9
– aid for durum wheat	171,2	165,8	1,3	218,5	1,4	220,0	1,2	221,0	1,2
– storage	341,7	453,4	3,7	565,6	3,5	384,0	2,1	704,0	3,9
Rice	21,7	50,3	0,4	92,9	0,6	95,0	0,5	97,0	0,5
Refunds	17,2	41,0	0,3	67,9	0,4	71,0	0,4	73,0	0,4
Intervention	4,5	9,3	0,1	25,0	0,2	24,0	0,1	24,0	0,1
Sugar	767,5	1 241,9	10,0	1 316,2	8,3	1 602,0	8,7	1 381,0	7,7
Refunds	409,2	744,0	6,0	758,1	4,8	1 140,0	6,2	996,0	5,5
Intervention, of which:	358,3	497,9	4,0	558,1	3,5	462,0	2,5	385,0	2,2
– refund of storage costs	344,3	489,9	3,9	550,5	3,5	446,0	2,4	370,0	2,1
Olive oil	442,7	493,1	4,0	675,3	4,3	888,0	4,8	875,0	4,9
Refunds	2,9	8,8	0,1	9,7	0,1	24,0	0,1	19,0	0,1
Intervention	439,8	484,3	3,9	665,6	4,2	864,0	4,7	856,0	4,8
Oils and fats	582,7	720,7	5,8	945,6	5,9	748,0	4,1	1 143,0	6,3
Refunds	5,4	3,8	0,1	3,7	0,0	5,0	0,0	5,0	0,0
Intervention, of which:	577,3	716,9	5,8	941,9	5,9	743,0	4,1	1 138,0	6,3
– colza, sunflower, rape seed	566,1	703,0	5,7	924,8	5,8	706,0	3,8	1 084,0	6,0
– soya beans	2,2	7,3	0,1	6,2	0,0	29,0	0,2	38,0	0,2
– flax seed	8,6	6,7	0,1	14,5	0,1	7,0	0,0	15,0	0,1
Protein products	65,5	82,8	0,7	142,3	0,9	179,0	1,0	150,0	0,8
Refunds	–	–	–	–	–	–	–	–	–
Intervention, of which:	65,5	82,8	0,7	142,3	0,9	179,0	1,0	150,0	0,8
– peas, broad beans, field beans	31,4	41,1	0,3	84,6	0,5	133,0	0,7	104,0	0,6
– dried fodder	34,1	41,7	0,4	57,7	0,4	45,0	0,2	43,0	0,2
Textile plants and silk worms, of which:	72,3	116,4	0,9	160,0	1,0	141,0	0,8	210,0	1,2
– flax and hemp	17,0	19,5	0,1	19,3	0,1	24,2	0,1	24,0	0,1
– cotton	54,9	96,2	0,8	140,1	0,9	116,0	0,6	185,0	1,0
Fruit and vegetables	641,1	914,3	7,4	1 196,1	7,5	1 343,0	7,3	1 175,0	6,5
Refunds	42,8	59,5	0,5	58,1	0,4	64,0	0,3	72,0	0,4
– fresh	40,9	53,1	0,4	51,9	0,4	57,0	0,3	64,0	0,4
– processed	1,9	6,5	0,1	6,2	0,0	7,0	0,0	8,0	0,0
Intervention	598,3	854,8	6,9	1 138,0	7,1	1 279,0	7,0	1 103,0	6,1
– fresh	180,0	305,3	2,5	397,9	2,5	454,0	2,5	330,0	1,8
– processed	418,3	549,5	4,4	740,1	4,7	825,0	4,5	773,0	4,3
Wine	459,4	570,6	4,6	659,2	4,1	1 107,0	6,0	647,0	3,6
Refunds	25,8	31,9	0,3	20,2	0,1	25,0	0,1	33,0	0,2
Intervention, of which:	433,6	538,7	4,3	639,0	4,0	1 082,0	5,9	614,0	3,4
– aid for private storage	85,7	108,4	0,9	142,5	0,9	143,0	0,8	91,0	0,5
– other (especially distillation)	314,9	390,5	3,1	391,4	2,5	765,0	4,2	375,0	2,1
Obligatory distillation of the by-products of wine-making	0,3	9,0	0,1	63,1	0,4	55,0	0,3	49,0	0,3
Tobacco	361,8	622,6	5,0	671,3	4,2	795,0	4,3	773,0	4,3
Refunds	5,8	17,3	0,1	27,9	0,2	31,0	0,2	31,0	0,2
Intervention	356,0	605,3	4,9	643,4	4,0	764,0	4,1	742,0	4,1
Other sectors, of which:	46,7	53,4	0,4	55,6	0,3	55,0	0,3	49,0	0,3
– seeds	38,8	43,5	0,4	43,0	0,3	44,0	0,2	40,0	0,2
– hops	5,9	5,4	0,0	8,2	0,0	10,0	0,1	9,0	0,0
Milk products	3 342,7	3 327,7	26,8	4 396,1	27,6	5 811,0	31,6	5 132,0	28,5
Refunds	1 886,3	1 521,3	12,3	1 326,8	8,3	2 129,0	11,6	2 212,5	12,3
Intervention, of which:	1 456,4	1 806,4	14,6	3 069,3	19,3	3 682,0	20,0	2 919,5	16,2
– aids for skimmed milk	1 157,4	1 310,5	10,6	1 630,7	10,2	1 908,0	10,4	1 859,9	10,3
– skimmed milk storage	83,4	135,4	1,1	634,5	4,0	808,0	4,4	785,9	4,4
– butter storage	214,7	196,6	1,6	410,8	2,6	837,0	4,5	942,3	5,2
– butter disposal	211,8	414,1	3,3	496,4	3,1	629,0	3,4	199,1	1,1
– cost milk producers	–478,5	–537,3	–4,3	–527,4	–3,3	–972,0	–5,3	–1 283,0	–7,1
– extension of the markets	106,2	105,7	0,9	154,2	1,0	239,0	1,3	201,9	1,1
Beef and veal	1 436,9	1 158,6	9,3	1 736,5	10,9	2 056,0	11,2	2 073,0	11,5
Refunds	825,2	643,5	5,2	828,2	5,2	1 066,0	5,8	1 099,0	6,1
Intervention, of which:	611,7	515,1	4,1	908,3	5,7	990,0	5,4	974,0	5,4
public and private storage	393,1	341,5	2,7	632,4	4,0	692,0	3,8	784,0	4,3
– premiums for calving	102,4	74,4	0,6	103,0	0,6	124,0	0,7	83,0	0,5
– premiums for suckler cows	95,4	91,4	0,7	91,1	0,6	94,0	0,5	79,0	0,4
Sheepmeat and goatmeat	191,5	251,7	2,0	305,6	1,9	509,0	2,8	390,0	2,2
Refunds	–	–	–	0,0	0,0	0,0	0,0	0,0	0,0
Intervention	191,5	251,7	2,0	305,6	1,9	509,0	2,8	390,0	2,2
Pigmeat	154,6	111,6	0,9	143,0	0,9	207,0	1,1	182,0	1,0
Refunds	132,6	96,1	0,8	120,2	0,7	166,0	0,9	151,0	0,8
Intervention	22,0	15,5	0,1	24,8	0,2	41,0	0,2	31,0	0,2
Eggs and poultrymeat	83,9	103,9	0,8	123,3	0,8	126,0	0,7	127,0	0,7
Refunds	83,9	103,9	0,8	123,3	0,8	126,0	0,7	127,0	0,7
– eggs	18,1	24,2	0,2	30,4	0,2	33,0	0,2	34,0	0,2
– poultrymeat	65,8	79,7	0,6	92,9	0,6	93,0	0,5	93,0	0,5
Non-Annex II products	282,4	414,4	3,3	343,2	2,2	351,0	1,9	365,0	2,0
Refunds	282,4	414,4	3,3	343,2	2,2	351,0	1,9	365,0	2,0
Fishery products	28,0	34,0	0,3	25,7	0,2	42,9	0,2	24,1	0,1
Refunds	12,6	13,8	0,1	8,2	0,1	13,5	0,1	0,5	0,0
Intervention	15,4	20,2	0,2	17,5	0,1	29,4	0,1	23,6	0,1
Total common organizations of markets	10 902,8	12 092,5	97,5	15 431,1	96,9	17 990,9	97,8	17 465,1	96,9
Accession compensatory amounts (ACA) in intra-Community trade	0,1	0,4	0,0	0,3	0,0	1,0	0,0	1,0	0,0
Monetary compensatory amounts (MCA)	238,3	312,7	2,5	488,3	3,1	409,0	2,2	118,0	0,7
– intra-Community trade	–31,7	23,6	0,2	149,1	1,0	54,0	0,3	–7,0	–0,0
– extra-Community trade	270,0	289,1	2,3	339,2	2,1	355,0	1,9	125,0	0,7
Total common organizations of markets + ACAs + MCAs	11 141,2	12 405,6	100,0	15 919,7	100,0	18 400,9	100,0	17 584,1	97,6
Community compensation measures						–	–	112,0	0,6
Special measures to reduce stocks						–	–	328,0	1,8
Grand total	11 141,2	12 405,6	100,0	15 919,7 [4]	100,0	18 400,9 [5]	100,0	18 024,1	100,0

Source: EC Commission, Directorate-General for Agriculture.

[1] The items of expenditure are taken from the statements submitted by the Member States under the system of advances and are charged to a given financial year under Article 109 of the Financial Regulation.

[2] Supplementary and amending budget No 1/84, transfers Nos 14 and 21 included.

[3] 1985 draft budget.

[4] This amount does not take into account a sum of –108,1 Mio ECU by way of accounts clearance for 1976/77. With this amount, the total becomes 15 848,1 Mio ECU.

[5] This amount does not take into account a sum of –25,0 Mio ECU by way of accounts clearance for 1978/79. With this amount, the total becomes 18 375,9 Mio ECU.