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Impact of the Administrative Regulations in the Wine Value Chain: 
The Spanish Case

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Abstract

The wine value chain is characterized by its traditional nature. The transformation of the raw material makes lasting products with a high added value, which entails large price differences between producers and consumers.

Given the socioeconomic important of this sector, it has specially been taken into account by the administration, with a high level of intervention. There is an ample range of interventions, from a qualitative and from a quantitative point of view. The main objective of all these policies is the intention of controlling the supply and stimulating the demand.

The impact of these measures is considered in the short term, to solve the surplus problems. However, at the long run, it has a negative impact.

The new framework of the wine presents a lower administrative intervention, with the market-management rules more effective in order to achieve a better balance between supply and demand. The recent modification of the CMO will make EU wines more competitive and will enhance the reputation of European wines and regaining market share both in the EU and outside.

Keywords: Wine, regulations, value chain.

1. Introduction

The wine value chain is one of the oldest in the Western world.

The relevance of wine at all its levels is especially important in some EU member states (mainly Mediterranean area). Tradition in production and consumption are related to cultural and socioeconomic factors.

The evolution of production during the last decades (see Figure 1) shows the situation in the main EU countries.

In the last decade, Spain has followed a positive trend, always around 40 millions hectolitres, although it has varied some years. In the present season, 2008/2009, it is expected to produce 40.156 million hectolitres, which is a 1% increase of last years’ season (see Figure 2).
The main producer countries are (by surface) (see Figure 3) Spain, France and Italy, but not in quantity, due to the lower productivity in Spain.
Looking at the EU domestic market, price evolution has been decreasing, especially in France (see Figure 4).

If we focus on the other side of the food chain, the consumption, the situation shows the coincidence between producers and consumers’ countries. The main producers are also the main consumers per capita (France, Italy and Spain) with the appearance of Portugal as an important wine consumer country too.
2. International market

The current situation of the wine production regions differentiates two main groups of countries: European traditional producing ones versus new producing countries. The first group of countries have a vast culture in production and consumption and there could be included France, Spain and Italy, among others. The new countries have burst onto the wine stage with new marketing strategies and a strong component of innovation; the interests of the companies dominate their performances over the administrative regulations. In this category there may be included, for example, Australia, USA, Argentina, Chile or South Africa.

The foreign trade provides us with interesting information. The export-import evolution in quantity (Figure 6) has had an increase in the export and certain stagnation on imports during the period of years 2004-2006. In the export chapter, looking at the most significant EU countries, we appreciate in volume (Figure 7) a trend to equalize their exports in 2003. However, in value (Figure 8) the difference is notorious in favour of France, and after Italy.
Source: MAPA, 2007

**Figure 6.** Evolution of EU imports and exports (volume)

Source: MAPA, 2007

**Figure 7.** Evolution of foreign trade by countries (volume)

Source: MAPA, 2007

**Figure 8.** Evolution of foreign trade by countries (value)
The Spanish Exports, in 2006 were concentrated towards Germany, France and UK. One of the main factors of competition is the lower price, what it is a serious barrier due to the comparative advantage of non-EU producer countries.

The imports have been increasing in general, with some exceptional periods. But there are new producer countries, applying innovation techniques in production and marketing strategies, with very positive results. We may appreciate the evolution (Figure 9) from very low levels, where Australia, Chile, USA and South Africa have a good performance.

Source: MAPA, 2007

Figure 9. Evolution of EU imports by country of origin

3. Administrative regulations in the value chain

Since the beginning of last century, the Wine market has had a long tradition of administrative regulations in Spain. Wine is one of the prototypes for regulation: it has a high added value in the marketing chain and the capacity to storage, where quality increases over the time in a certain period.

Administrative regulations try to maintain the market equilibrium, acting over supply and demand along the different links along the chain, either in the domestic or foreign market.

The new framework of the wine presents a lower administrative intervention, with the market-management rules more effective in order to achieve a better balance between supply and demand.

In a surplus situation with increasing consumption, the general rule is to control the planted area (favouring the pull-up of vineyards) and stimulate the consumption.

The EU commission, considering the situation, has proposed several measures. These measures have the following goals:

- To increase the competitiveness of the producers
- To establish clear measures easy to apply, trying to match supply and demand
- To maintain the wine tradition in rural areas, within a sustainable development
- To protect the consumer’s health and welfare
- To develop the Wine Common Market organization in the framework established by the Common Agricultural Policy and the International Organizations.

To adapt the regulations to the new situation, some of the traditional administrative rules have
to be eliminated: distillation, export subsidies or private stock subsidies among others. There are other measures, like allowance of adding sugar or using grape juice to increase the proof spirit that is the object of certain controversy. This measure has been maintained although it has been debated, since products not initially considered wines are now included in this category.

For decreasing wine supply, one of the measures proposed has been to uproot vineyards. There is a prohibition until 2016 of new vineyard plantation with a potential extension to 2018. Producers are encouraged to root out 175000 hectares in the EU during a three-year period. There are some environmental restrictions and the subsidy is related to historical yields in every region. Total subsidy is around 5000 euro per hectare, and the payment system is coordinated in one administrative act.

In order to adapt the product to the market demand, other measure is to change the structure and production. It is being stimulated the transformation of vineyards into other crop alternatives (5 years program).

There is also an investment program focused in buildings, machinery and equipment, software and new technologies. It is starting in 2009 and no overlapping is allowed with other rural development subsidies.

Most of the previously mentioned administrative regulations have a quantitative dimension, with the intention to limit the supply. However, in a competitive wine market, there are factors like adequate quality very important. In this horizon, the idea is to have more flexibility in “oenological and laboratory practices”, according to international regulations.

Other elements such as Denomination of Origin or Geographical Indication should be considered in the new market segmentation. Labels should be easy to read and understand by the consumers. Therefore, their standardization in EU markets will be a useful instrument of transparency.

The recent modification of the CMO will make EU wines more competitive and will enhance the reputation of European wines and regaining market share both in the EU and outside. Traditionally, subsidies to exports have been focused on this way, but now there are not allowed by WTO agreements. With measures like encouraging the promotion in foreign trade (up to 50% of total cost) it is expected to give a boost to the international market. The issue is oriented through promotion programs. Promotions may be generic and specific. Wine generic promotions mention the quality and attributes or call the attentions over a certain area (EU), country (Spain), or region (La Rioja). Specific are focused in a brand or company. Both types of promotion may be (in fact, should be) combined for getting better results. The EU have developed generic wine promotions in several countries (USA, Canada, Japan) but the results have not been very successful. There is a project for 32 Million Euro during 3 years, focused on SME collective brands. It will be available for private companies and public organizations. The EU will cover 50% of the total costs, to activities related to: New Market Studies, promotion, public relations, participation on International Fairs and Expositions and evaluation of the results.
In summary, the expected results in the Wine Common Market Organization measures are the following:

- Priority to market dynamic versus administrative intervention
- Increase Competitiveness of EU wines
- EU market liberalization opening foreign trade barriers
- Higher transparency and better information to consumer through labelling simplification
- Increase friendly measures toward better environment situation

4. Conclusions

The wine sector is under pressure for a big change in the Administrative regulations. There are several reasons: liberalization processes in the World Economy, the intention to reduce the budget and the fiscal burden to the contributors.

The EU domestic wine market has been in an unstable situation: increasing supply and decreasing demand which have as consequence surpluses. Therefore, administrative intervention has to change the orientation: move towards new measures to increase competitiveness and transparency in the market, with the possibility to expand the foreign trade.

The increase of the consumption per capita faces the paradox of alcoholic drinks. Even wine has some special attributes with beneficial effects for health preventing heart coronary diseases. However, there is a rational limit, if the consumption is exceeded, it may cause alcoholism. Therefore, promotion should deal with those aspects.

Simultaneously, farmers affected with the new non-intervention measures, should be oriented towards new agricultural crops or activities and socioeconomic programs have to be developed. Last but not least, the stakeholders of the wine value chain especially entrepreneurs, should pay special attention to marketing strategies. The success of new emerging countries in the European market, should be carefully analysed and see the possibility to be applied. Other aspects such as sustainability, environment protection have also to be considered.

In summary, the new framework of the wine regulations offers a lower administrative intervention, with the market management rules more effective, looking for a better balance supply-demand. Modifications of CMO will make EU wines more competitive and will enhance the reputation of EU wines, getting better market share in domestic and foreign markets.