

EC WINE REGULATIONS

The scheduled discussion at the informal Council of Agriculture Ministers in Angers on the 29th May was inevitably overshadowed by the demonstration by French farmers and concern over the milk quotas (about which the Minister of State (Commons) is minuting). Nevertheless there was a one and a half hour discussion on wine introduced by M Rocard, who recalled an earlier ill-tempered exchange between himself and the Minister about the cost of the wine regime. He characterised the situation as potentially explosive which meant that measures to limit expenditure could not be taken without regard to the economic and social consequences. Nevertheless, it was clear that something had to be done given the fact that the proportion of FEOGA expenditure devoted to wine had risen dramatically and market prices were significantly lower than last year. Distillation had become a structural rather than an exceptional device. The management of the wine market was not effective, and the rising costs threatened to undermine the Council's successes in March. Spanish accession added a new threat. He advocated :-

- better use of the existing instruments
- some adaptation to them
- quantitative controls over both area and yield

There was a threat that, if the right solutions were not found, there would be a reversion to "frontier controls". He proposed a meeting of the High Level Group or Director Generals under Commission chairmanship to look for a way forward.

Commissioner Dalsager spoke along the lines of the attached press release proposing the six point plan of action which appears in it. He said the current statistics were grotesque, suggesting that Italy and Greece will be short of wine!

In the subsequent interventions:-

- (a) the Greeks did not think production could be frozen. They at least wish to be allowed to expand their quality wine and see exports developed.
- (b) Luxemburg was cautious about reform, but supported the need for better statistical information.
- (c) Mr Jopling spoke on the lines of the speaking note as slightly amended (copy attached). He put forward as his personal idea that countries which reported inaccurately or misleadingly should be penalised.
- (d) the Netherlands broadly supported the UK position and feared that the French idea of a progressive quota system would not be effective.
- (e) the Danes agreed that action should be based on the existing regulations and, as to procedure, wanted the discussion left to the Special Committee.
- (f) the Belgians stressed the need for an effective guarantee threshold.

- (g) Pandolfi (Italy) shared the general analysis but stressed the need for finding better outlets which he thought would be one of the key issues for the CAP over the next decade. The question of market imbalances could not simply be linked to the financial problem. He referred to the fact that Italy was about to introduce reconversion measures but this seemed to refer to milk rather than wine. With 1.6 million wine producers it was "very difficult" to organise the market and information was "patchy"! Italy was anxious to have a wine register. He supported the Greeks on export promotion and the UK on looking for alternative outlets (but I doubt whether he understood what we had been saying). The Community had enough problems with quotas without introducing them in the wine sector. He favoured spending money on grubbing up vines.

After brief interventions from Kiechle, Deasey and Souchon, Rocard wound up the meeting in order to receive the French farming leaders. It was decided that the Commission would call together a High Level Working Party and subsequently the date of 14th June was suggested.

J. Dmond

PP

M D M FRANKLIN
31 May 1984

MR MYERS + 1

cc Private Offices
Mr Mason
Mr Andrews
Mrs Attridge
Mr Hollis



Ministry of Agriculture, Fisheries and Food
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From the Minister's
Private Office

Roger Bone Esq
Private Secretary to the Foreign Secretary
Foreign and Commonwealth Office
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London SW1

1 June 1984

Dear Roger

*A.F.C. 1/6
h.a.*

You may like to see Sir Michael Franklin's record of the discussion on the wine regime at the informal meeting of Agriculture Ministers held earlier this week.

I am copying this letter and enclosures to David Peretz (H M Treasury) and John Coles (No.10).

Yours etc

CI

C I LLEWELYN
Private Secretary

27-30 MAY 1984

SPEAKING NOTE

FRENCH PROPOSALS FOR REFORM OF THE REGIME

cf milk

1. Agree with the French analysis of the problem - increasing production and falling consumption are producing a ^{alarmingly} growing structural surplus of table wine, which at present is of the order of 15-20%. The entry of Spain can only make this worse. The Community must face up to the fact that the wine surplus, like milk, can no longer be financed at its current level. *Something has got to be done*

2. Of course it would be wonderful if consumption could be increased in some miraculous way to remove the surplus, but this is not possible since consumption in France and Italy is falling fast - much faster than it is rising in the non-producer countries, despite the United Kingdom's recent move to cut sharply excise duties on wine and increase those on beer. The only lasting solution is to bring down production of table wine.

~~Can be~~
3. How can this be achieved? We believe, like France, that a sustained programme is required over a period of years. However our object would be to encourage producers to reduce their yields, or to give up altogether, or to divert their production into other outlets, so that better returns can be found in the market place. We believe that this can be done within the existing framework by a relatively few simple changes. *Series of complementary measures*

4. An essential element is a long term policy of restrictive prices. *Never shrink from discipline of price* Over recent years the increases granted to wine have been too generous, and well above the average. This must be reversed and announced as such so that growers come to understand that they will not gain by expansion of their output.

5. Next the structural aids such as abandonment premia must be reviewed. The Commission has said that their uptake is disappointing

.../and it may

and it may be that they should be made more attractive. Funds for this can easily be found from within the regime. For example it makes little sense to aid the longterm storage of wine during a structural surplus. At present over half the wine leaving long term storage is distilled anyway, so that its storage has been unnecessary. Cutting out this aid would release at least 100 MECU which surely could be better spent.

6. A very promising area for savings, which would not hit the producer, is an alternative outlet for grapes. The Community is funding a number of research projects, including one at Newcastle University where concentrated grape juice is being fed to animals as a replacement for molasses. Initial results are promising and I would urge the Commission to pursue this alternative vigorously.

7. The crux of the problem however is how to find effective market supports which do not however encourage production. The Council will remember that in 1982 it decided to introduce an obligatory early season distillation aimed at removing any surplus at low prices. This has not yet been triggered, although this year it quite obviously should have been. We still feel that this distillation could be made to work and could go a long way to meeting the real concerns of producers and tax payers.

Perhaps there should be some penalty for misreporting

8. For example, the Commission could be given more discretion to introduce this distillation - at present they can only trigger it if the preliminary estimates show conclusively that a surplus is likely. *A more fundamental change, but still a simple one, would be to modulate the buying-in price so that ^{the lower the} ~~when there was a~~ large volume to be distilled ^{lower the} ~~then the~~ price would be very low. This change would achieve the same result as the French quota system, but much more simply.*

9. It is not possible to lay out all our ideas at this Council but the United Kingdom is preparing a paper setting them out in detail, which I hope will be tabled shortly.

10. In summary, the present crisis in the wine market, despite record levels of expenditure, demonstrates clearly the need for a

.../more cost

more cost effective regime. It is now essential for the Council to tackle the structural surplus so as to improve producers' incomes, but we believe this can be done by building on the present mechanisms, rather than by a fundamental reform.

Alcoholic Drinks Divison
May 1984

The Commission calls for a plan of action on wine.

Mr Poul DALSAGER, member of the Commission responsible for agriculture, has urged Ministers to set up a special task force composed of market directors to study the situation on the wine market and make urgent recommendations for action.

He was speaking at an informal meeting of Ministers of Agriculture on Tuesday at Angers at the invitation of Mr Michel Rocard, Minister of Agriculture of France and current President of the Agricultural Council.

Mr Dalsager indicated a certain number of tasks which the Community must accomplish as a matter of urgency, taking into account the experience of the last year.

1. First and foremost, find the means to collect rapid and reliable data on supply and demand, which is necessary for effective market management.
2. Examine the border-line between quality and table wines, so as to prevent large quantities of production slipping from one category into another.
3. Analyse the link between the different distillations, particularly between the preventive and obligatory distillation, and draw the necessary conclusions, both as regards the management of the wine market and possible changes in the regulation.
4. Look at the rules on access to distillation of wine from table grapes, Charentes wine and other special cases.
5. Take another look at the problem of sugaring, particularly how to intensify controls on illicit sugaring and other fraudulent wine making practices.
6. Ensure strict adherence to the prohibition on new plantings, and reinforce the measures to encourage the grubbing up of vines.

Referring to the current unsatisfactory situation, Mr Dalsager emphasized that the Commission could not be expected to manage the wine market if Member states did not provide reliable facts and figures. Unfortunately, the Wine Management Committee had not been able to provide more realistic data to replace the official statistics supplied by Member states, which are obviously wrong.

If the quantities under distillation or storage contracts are deducted from the quantities supposed to be available, then stocks in two Member states are apparently so low that they will be unable to supply the national markets until the 1984 wine becomes available. This is not consistent with the state of the market, which is evidently oversupplied. As regards the request to distill a further 5 million hectolitres at 82 % of the guide price under article 15, given the failure of the Management Committee to provide more credible figures, the Commission has no reliable means of judging what the effect on the market would be.

Mr Dalsager said he was still convinced that the existing market regime negotiated in 1982 is fundamentally sound, though its faults must be corrected in the light of recent experience. He was sceptical about the practical possibility of negotiating a radically new market organisation, given the time this would take and the limits within which change is politically acceptable.

On the other hand, the Community cannot afford to do nothing and treat 1984/85 as an exceptional year, if it wants to avoid future disasters. He concluded : "We must have a plan of action which is realistic, coherent and carries conviction as a set of measures which can have an early impact."