Producer Single Commodity Transfer: A Comparison of Policy Intervention between Wine and others European Agriculture Products

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Abstract

The objective of this work is to analyze the wine policy intervention through the evolution of support percentage dedicated from 1986 to 2012 using the Producer Single Commodity Transfer (PSTC) dataset.

In details, the works focus on the different between wine and others three agricultural PSTC: common wheat, milk and rice. The choice of comparing different agricultural products is to highlight the high difference support. All of them were supported by the Common Agricultural Policy (CAP). Until the Mac Sharry reform (1992), common wheat and rice were sustained through “coupled” payments to the quantity produced. The decoupling introduced by the reform market the passage from price support to direct income, which translated into a transfer of costs from consumers to the Community budget.

The CAP still retains its position as the largest component of European Union (EU) expenditure, accounting for approximately 39% of the total EU budget for the period 2014-2020.

The wine system is regulated by the Common Market Organization (CMO). Under the framework of the CAP in 1962, the CMO was created in order to enable a gradual convergence of prices and the elimination of customs barriers, with the aim of establishing a single market for products with one common customs tariff for the rest of the world. From 2007 all the agriculture products were governed by the Single CMO (Reg. 1234/2007). It replaced all 21 CMOs created between 1962 and 1971. The wine has been included in the single CMO in 2009, after the 2008 reform.

The CMO wine has gradually been established with the aim of improving productivity and quality, supporting the income of wine producers, and maintaining a balance between supply and demand. In 1970 were published two formal CMO wine regulations relating table wine, with the goal of market intervention to regulated the wine surplus a rules concerning production and for controlling planting; and regulation for quality wine. These two policies kept their autonomy for 29 years, until 1999(Meloni et. al 2013). The most important regulations being adopted in 1987 (Reg. 822/1987) and then in 1999 (Reg. 1493/99).

After less than ten years the new reform entered into force on 1st August 2009 (Reg. 479/2008). The problem of overproduction and expenditure were addressed by means of a policy of limiting production potential, with a “quota” on new plantations, an incentive for the permanent abandonment of production through a grumbing-up premium (from 2009-2011)i and a gradual withdrawal of distillation subsidies until 2012 (phasing out measure) for crisis distillation, potable alcohol distillation and the use of concentrated grape must measures. At the same time, one of the greatest fears for the European Commission was the “attack” of new wine players or “new world wine” on EU wines market (Corsinovi et. al 2013; European Commission, 2006a, 2006b). The measure of promotion in third countries was established with market oriented in order to recover the market share from EU wines.

The last one changing of the wine sector is represented by the Regulation 1308/2013 within the Single CMO package. The new single CMO is part of the CAP reform (2014-2020) approved in December 2013. Analyzing the budget forecast for wine the sector, we find no major differences between it and the previous years apart from a slight drop in 2015ii. The budgetary limits for National Support Programs in 19 Member State is 1.248.913 million of € in 2014 and 1.105.054 million of € in 2015-16-17. The majority CMO funds are allocated in historical viticulture countries, such as Spain, France and Italy.

Despite the fact that the overarching aim of all the reforms had been to control supply and reduce spending, the gap between surplus and demand had become unsustainable and the measures adopted had
not provided any solution. For all these interventions the result was the increase of the EU cost for support this system.

The following graph (Graph. 1) demonstrate that wine stocks have continued to rise despite multiple policy interventions to attempt to control them since 1962.

Between 1981 and 2012, the level of European wine stocks grew steadily from vintage 1984/1985 and 1998/99. Graph 1 clearly shows how inefficient the measures thus far adopted by the Commission had become at the end of the 20th century and beginning of the 21st century. In 2002/2003, wine stock levels were progressively increased to 30 million hectoliters compared to 1992/93. From 2008-2013, the stocks progressively decreased probably as a consequence of grubbing up system (2009-2011), abolition of distillation measures from 2012.

**Graph. 1: Evolution of opening wine stocks by vintage year (1,000 hl)**

![Graph 1: Evolution of opening wine stocks by vintage year (1,000 hl)](source)

*Source: Authors’ own creation from European Commission*

To confirm this, the estimate from OEC (Economic Cooperation and Development) on the Producer Single Commodity Transfer (PSCT) could be an interesting tool of this analysis.

PSCT represents the value of gross transfers from consumer and taxpayers to agricultural producers at farm-gate level, arising from policy measures directly linked to the production of a single commodity that the producer must produce with the intention of receiving the transfer (OECD, PSE manual 2008).

The data was collected and estimate from the OECD database. PSCT is calculated by adding market price support (MPS) and the Σ of the value of budgetary and other transfers.

**Graph. 2: The percentage value of wine, milk, rice and common wheat PSTC from 1986 to 2012**

![Graph 2: The percentage value of wine, milk, rice and common wheat PSTC from 1986 to 2012](source)

*Source: Authors’ own creation from OECD Producer and Support Estimates database, 2014.*
Looking graphic 2, EU transfers to wine producers went from around 7.21% in 1986 to 9.40% in 1991, were 5.05% in 2001 and 0.21% in 2012.

Milk however, showed values almost ten times higher. In 1986 EU transfers to milk producers were around 72%; whereas they were 48.18% in 1991, 28.35% in 2001 and 1.90% in 2012. Analyzing the rice support, the value seems to be even higher than that of common wheat. However, from 1988 to 1995 and from 2004 to 2014 the percentage values are higher than milk. In details, in 1986 EU transfers to rice producers were around 55.92% while 51.40% for common wheat; whereas they were 54.87% in 1991, for rice and 51.79% for wheat 28.35% in 2001 and almost zero for both in 2012.

It is important to show the reader that at least for wine the value is lower than what one would expect. These probably because, the ∑ of the value of budgetary and other transfers do not include: the incentive for the grubbing-up scheme, the premium for abandonment area, aid for the use of must, National Support Programs, buying-in alcohol from compulsory distillation (considered within the classification of payments based on non-commodity criteria) and general service support estimates. Distillation measures adopted in the past effectively resulted in transferring the structural surplus issue from the wine sector to the alcohol sector at huge cost. The problem persisted as distilleries continued to produce the alcohol because of the profit margin involved. The main beneficiaries of the aid were in fact the distilleries, which were receiving a subsidy to cover the costs of the distillation.

In this ∑ the OECD excludes all distillation and promotion measures, as they are not considered to be specific support to wine producers. However, within the subsidies, the OECD does take into consideration the CSE - Consumer Support Estimate - (Gaeta and Corsinovi, 2014).

In any case, the reduction of PSCT values, especially for the others productions (milk, common wheat and rice), is probably also due to negotiations in the WTO, which required a reduction in protection.

Keywords: wine, CMO, Common Agricultural Policy, PSTC
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References


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i In three years was grubbed up in Europe 161.167 ha (the maximum quota was 175 000 ha in three years) with total cost of 1.024.623 million of euro, €).

ii This budget needs to cover an additional Member State: Croatia.