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# **Wine Economics Research Centre**

## **Wine Policy Brief No. 15**

### **How much government assistance do European wine producers receive?**

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# How much government assistance do European wine producers receive?

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# How much government assistance do European wine producers receive?

For decades the European Union (EU) and its predecessors have had a Common Market Organization for wine that has heavily regulated or influenced the quantity, quality and price of winegrapes and wine produced in the EU. Following a review in 2006, the policy went through a major reform in 2008, which included a 3-year grubbing-up program that paid growers to remove vines. Meanwhile, financial support for generic promotion of EU wines has been expanding considerably, and is budgeted for further expansion during 2014-18.

The OECD has tracked support for farm industries in its member countries since 1986. In the case of the EU (but not other member countries) that has included support for the wine industry. However, using the OECD's generic methodology means that various support measures are not included in its producer support estimates. It also means support is shown only for the EU as a whole, not for individual EU member countries. The omitted measures include subsidies for distillation of low-quality wine, and any domestic price-raising effect of tariffs on imports of non-EU wines. The industry has also benefitted, along with other farm industries, from non-product-specific support to the rural sector of EU member countries. That support is treated as a generic rural benefit rather than support for winegrowers or producers of any other particular industry.

This paper provides a set of more-complete estimates of government support to EU wine producers. The focus is on the period 2007 to 2012, after which the OECD changed its generic methodology for calculating support. We show how much the level and types of support have altered over that period and how unevenly they are spread across EU member countries.

## Data

The OECD's Producer Support Estimate (PSE) database has altered its methodology several times since it was first released nearly three decades ago. The 2015 version not only has updated numbers to 2014 but also has altered past numbers back to 1986. Those estimates are summarized in Table 1. They suggest EU wine producers benefitted from transfers from consumers and taxpayers to the extent of about 800 million Euros per year in the latter 1980s and the 1990s, but that this fell to less

than 500 million Euros per year in the past ten years. Most of that was market price support prior to the policy reforms that began in the early 1990s, but these estimates suggest that has now disappeared, with producer returns being raised by just 0.3% during 2007-13 and zero in 2014 (see the nominal rate of protection row in Table 1), down from around 7% in the latter 1980s and 1990s.

This recent estimate is not consistent with the fact that tariffs still apply on the EU's wine imports from all countries without a free-trade or association agreement with the EU28. Those tariffs would have some positive impact on the domestic price of wine in EU countries, but the OECD chooses not to try to measure that because of the heterogeneous nature of wines.

It is possible to amend the OECD's estimates using the data contained in its database plus data available from EUROSTAT. We focus on EU27 wine production from 2007 to 2012 and domestic support given directly to the industry's producers. We follow the OECD's PSE method prior to its latest revision, which categorizes payments as either 'single commodity transfers' or group commodity transfers. To that we add a pro rata fraction of 'all commodity transfers', based on wine's share of agriculture's gross value of production, and 'other transfers to producers' that are specific to grape and wine production. The value of production (at the farm gate, inclusive of transfers) is taken directly from the PSE tables and originates from the Eurostat Dissemination Database. The single farm payment scheme data for wine are from the European Commission (2013), since the OECD no longer itemizes those payments by commodity.

Additional payments not specifically linked to the wine industry and specified by the OECD as 'general services support estimates' (GSSE) include some general payments from which the wine industry could benefit. Hence these are calculated as a pro rata fraction based on wine's share of agriculture's gross value of production within the EU27 each year. We also calculated how much lower the total support would be had we used the land share instead of the production value share to calculate that non-direct assistance. It turns out to be about one-ninth lower (see footnote b of Table 2).

We decompose the EU27 data into the various receiving member countries, but just for 2012 in the interests of journal page space. The GSSE payments in the OECD database that are not commodity-specific are allocated to each member country using (a) official (but not publicly available) EU data taken from the Clearance Audit Trail System database that includes both EU-funded and national payments by member states, and (b) wine financial execution data on the national support program (European Commission 2013).

Support payments are expressed in millions of Euros. The vine bearing area and wine production volumes are used to calculate support per hectare of vines and per litre of wine produced. Those summary estimates are depicted in Figures 1 and 2, while the key forms of support since 2007 are summarized in Figure 3.

Table 2 aggregates the data for the years 2007 to 2012. These can be compared with the OECD's estimates of transfers to producers, as summarized in Table 1. In Table 2 we report also what our estimates imply in terms of a nominal rate of assistance (NRA) as defined by Australia's Productivity Commission. The NRA is broader than the OECD's NRP in Table 1, the latter referring just to price-support measures whereas the NRA also includes the other identified transfers to producers that may not alter the price they receive for their output.

## Results

The comparison of Tables 1 and 2 suggests the OECD estimates, at least since 2007, understate considerably the full extent of government support to the EU wine industry. In contrast to the OECD's estimate of an average transfer of less than 500 million Euros per year during 2007-12, our Table 2 suggests the number is over 2,300 million Euros per year – and it has not been declining (see also Figure 1). This implies gross returns are about one-fifth above what they would be without those supports (an average nominal rate of assistance for the 2007-12 period of 20.4%). That annual assistance amounts to around 700 Euros per hectare of vines, or 0.15 Euros per litre of wine produced in the EU as measured at the winery gate (Table 2 and Figure 2).

Even these new estimates probably understate the transfers to producers. One reason the numbers in Table 2 are likely to be understated is because the effect of tariffs on imports of non-EU wine in raising producer prices is not included. An upper bound on the extent to which tariffs raised the domestic producer price in 2012 is 5.8%, which is the import-weighted average tariff that year when converted to ad valorem terms. A lower bound might be one-sixth of that (bearing in mind that the EU accounts for a large share of the global wine market and thus is hardly a price taker). As reported in footnote c of Table 2, the 2012 NRA would then be not 18.7% but 26.4% (or 20.0%), and the estimated support per hectare of vines would rise from 712 to 946 (or 754) Euros and the support per kilolitre of wine produced would rise from 144 to 191 (or 152) Euros.

However, the numbers in Table 2 assume wine's shares of General Services Supports are proportional to the gross value of total agricultural production. Had we assumed they are

proportional to the share of vines in the total area of land used for agriculture, the numbers in the 2012 column of that table, apart from direct support, would be one-tenth lower. This may more or less than offset the effect of omitting tariff protection.

It might also be argued that payments for grubbing up vines should be omitted because they are unrelated to current production and are reducing the future EU and hence global supply of wine. However, since this paper is trying to estimate not price distortions but financial support to the industry, their inclusion is appropriate.

In addition to an overview estimate of the size of payments given to the wine sector in the EU27 as a whole, there is also an interest in the allocation of payments between EU member countries. Our estimates of the individual payments by country for the year 2012 for all of the EU27's wine-producing countries are summarized in Figures 1 and 2. Of course France, Italy and Spain get the lion's share of total payments, being by far the largest wine producers (Figure 1). But per hectare support ranges from 300 Euros in Greece to 2350 Euros in Austria (Figure 2(b)), and support per litre of wine produced ranges from 0.11 Euros in Greece to 0.37 Euros in Austria (Figure 2(c)).

By far the largest – and still growing – category of support is for marketing and generic promotion of EU wines. It accounts for about two-fifths of the estimated total in aggregate (Figure 3(a)). Direct price supports were most important in 2007, but since then they have been eclipsed by other direct supports and support for marketing and promotion. While grubbing-up support was non-trivial during the 2008-10 reform period, those payments are no longer being made. In 2012 direct supports were relatively more important to Germany, Slovenia, the Czech Republic and Spain, while marketing and promotion supports were relatively more important to Bulgaria and Romania (Figure 3(b)).

## **Implications and conclusion**

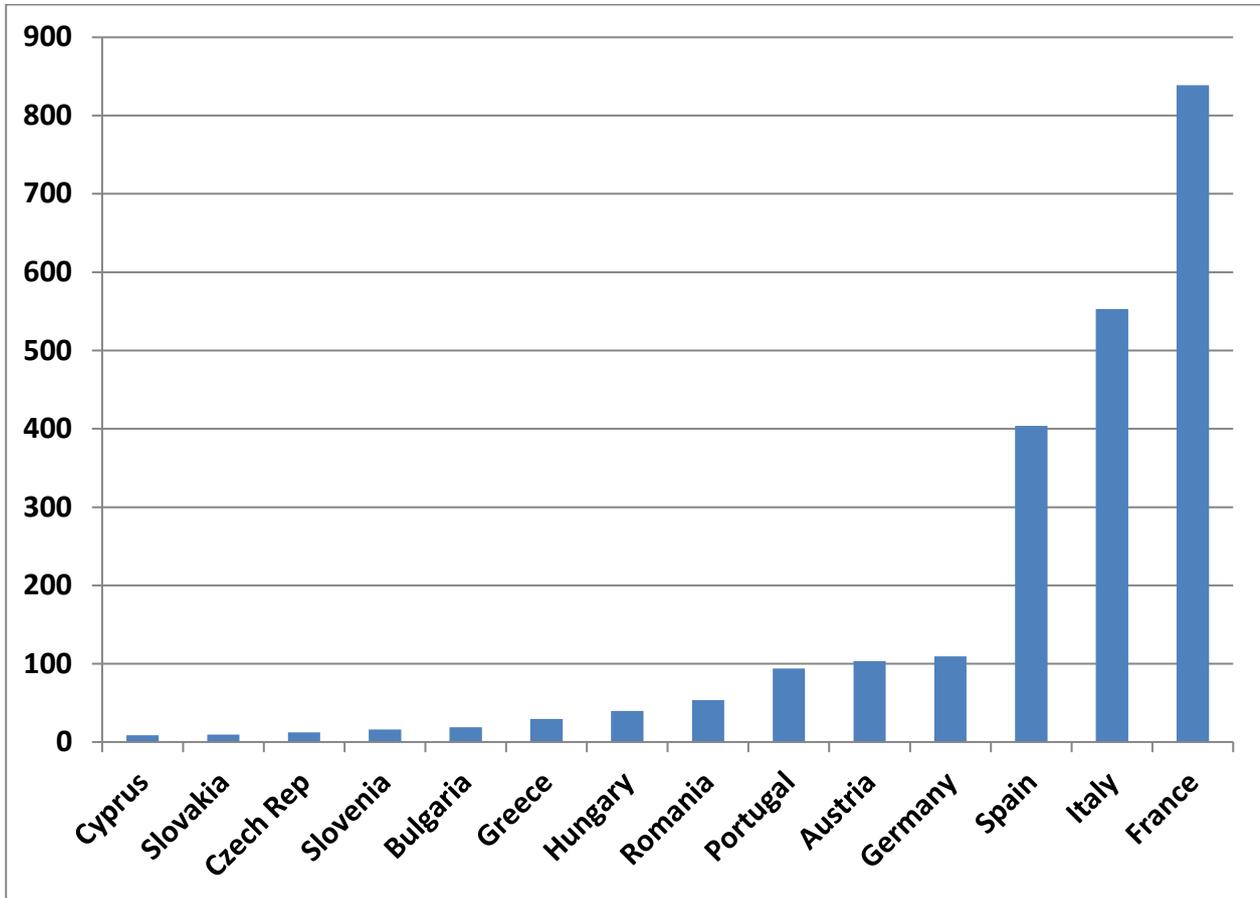
According to the above new estimates, government support for European wine producers continued unabated between 2007 and 2012, albeit in changing forms. The support per hectare of vineyard in 2011 and 2012 exceeded 700 Euros in the EU in aggregate and more than 1000 Euros in Austria, Cyprus, France and Germany. That almost certainly exceeds the support provided by governments in any other major wine-producing country. It is equivalent to an average of 0.15 Euros per litre of wine produced, and more than 0.25 Euros in Cyprus, Austria, and Slovakia.

Generic promotion accounted for a growing share of total EU support, amounting in 2012 to 0.009 Euros per litre of wine produced. By contrast, Australia's expenditure on generic promotion that year was half that (Anderson 2015). The EU provided a total of 522 million Euros for wine promotion during 2008/09-2012/13. Despite the uncovering of many misappropriations, that expenditure is to be more than doubled to 1156 million Euros for the period 2013/14-2017/18 (European Court of Auditors 2014). Given that this promotion item (an average annual 231 million Euros) is but one-tenth of the total support to the EU industry in 2012, it is little wonder that other wine-producing countries worry about their ability to compete in international markets against supported EU producers.

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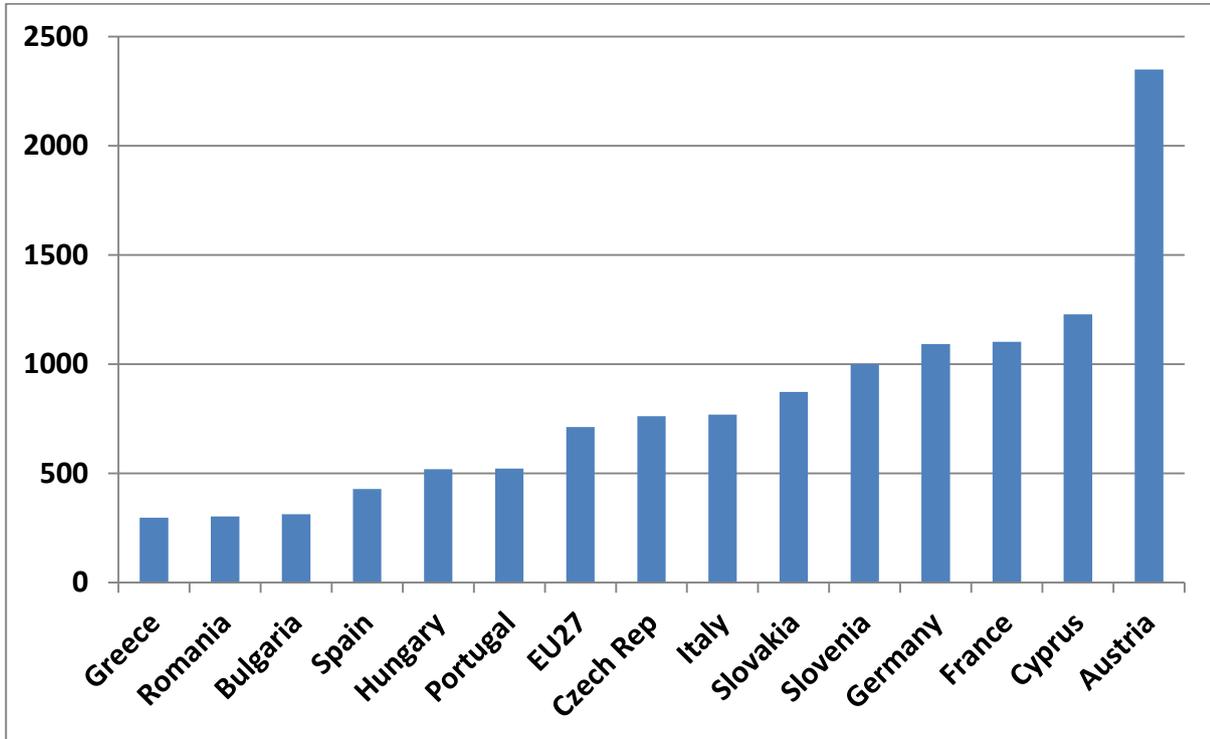
Figure 1: Total support to wine producers, individual EU member countries, million Euros, 2012



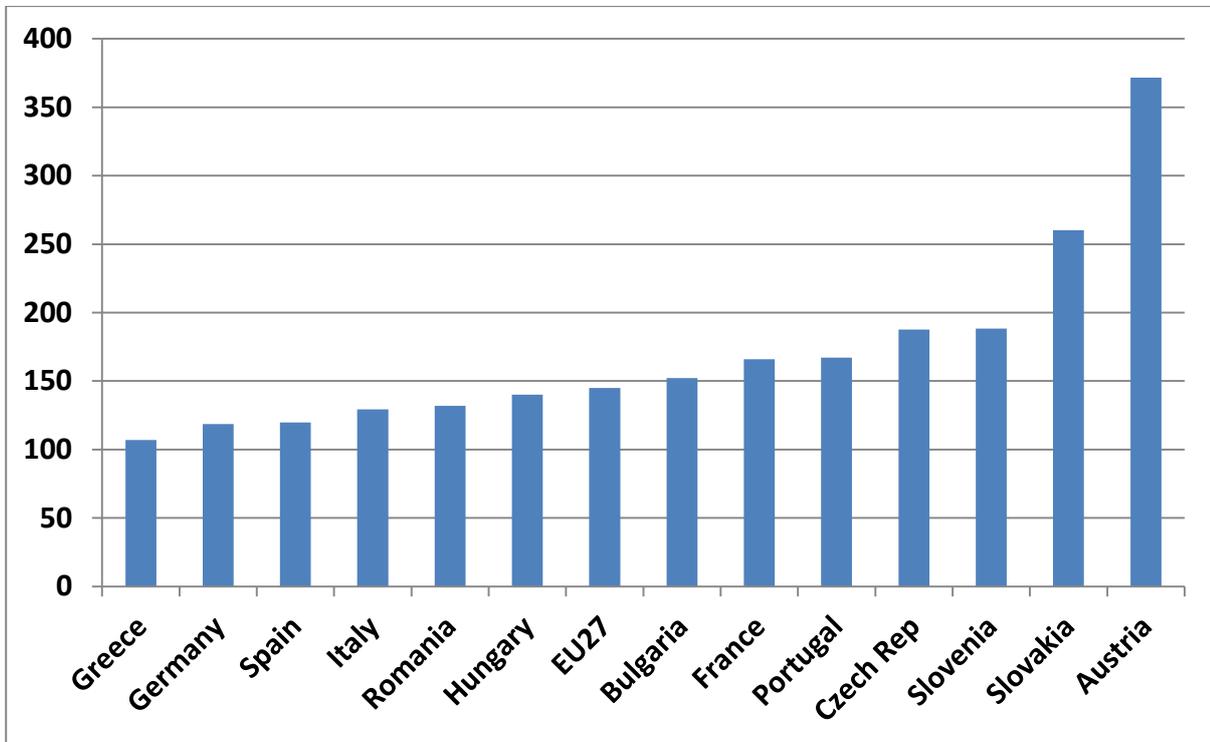
Source: Authors' calculations by summing final rows of Appendix Tables 3 and 4 of Anderson and Jensen (2016).

Figure 2: Total support to wine producers per ha and per KL of wine, individual EU member countries, 2012

(a) Euros per hectare of vines



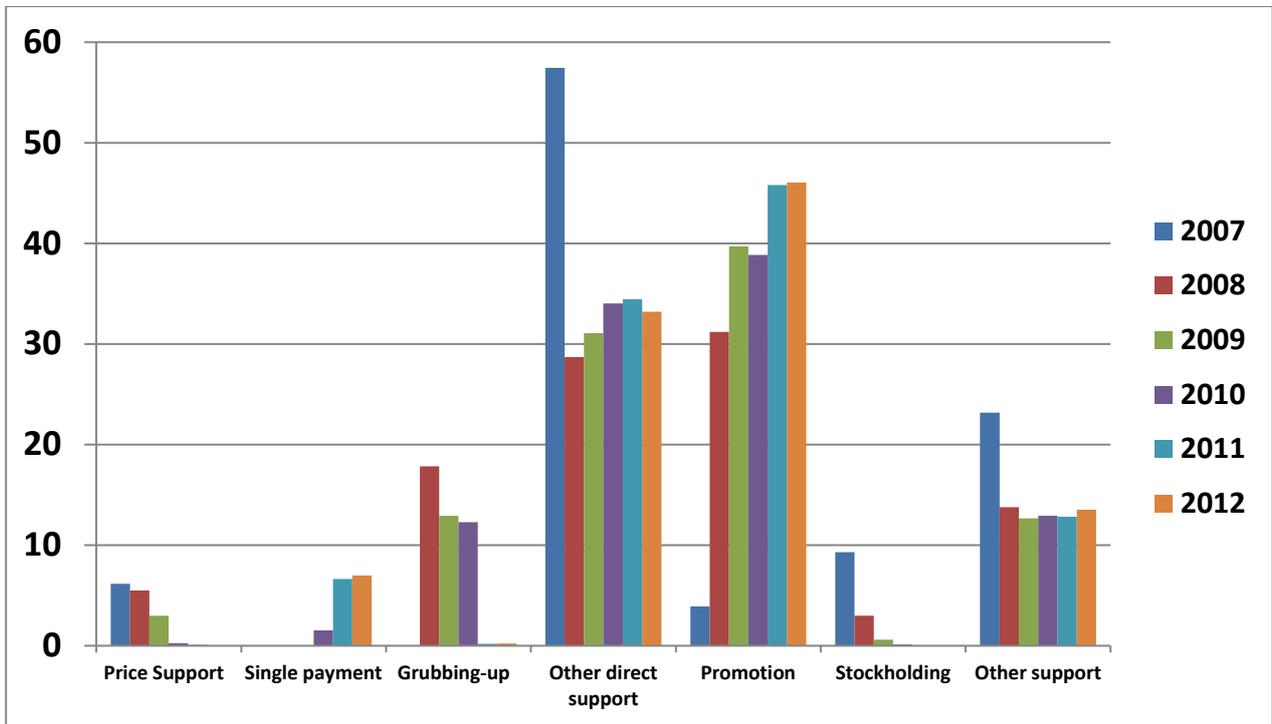
(b) Euros per kilolitre of wine produced



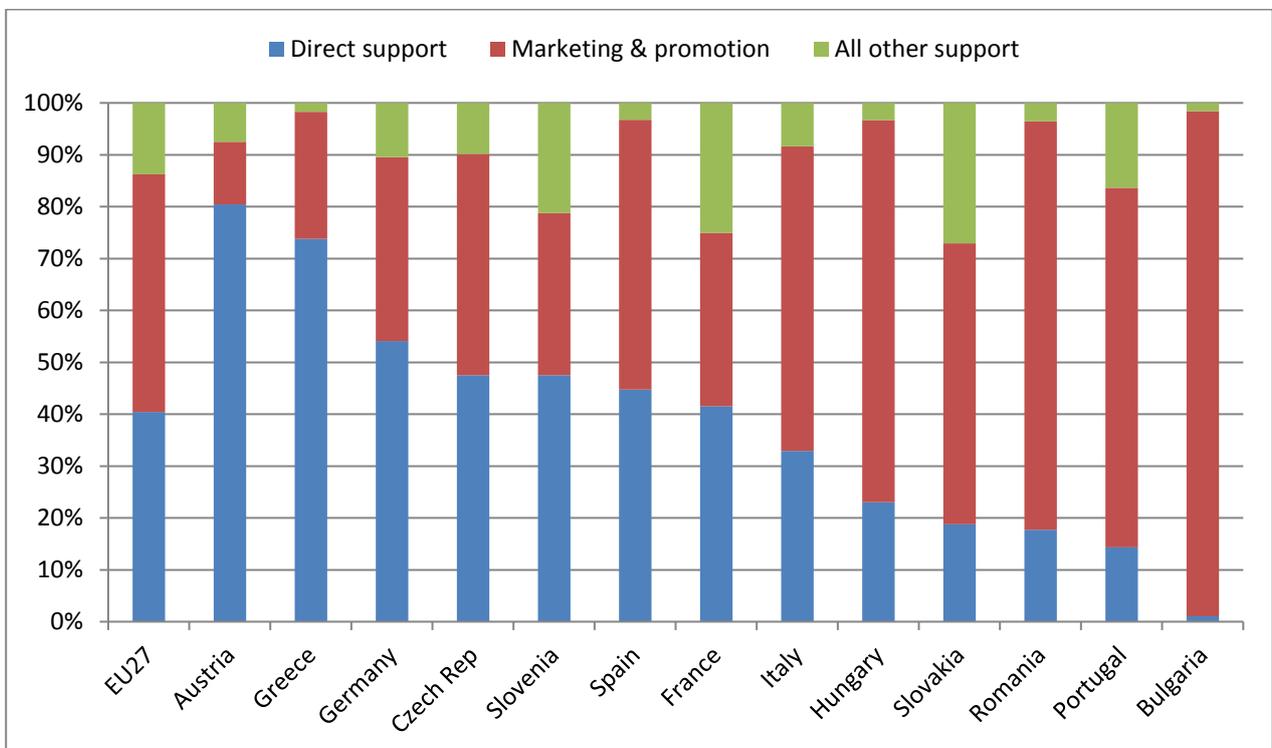
Source: Authors' calculations by summing final rows of Appendix Tables 3 and 4 of Anderson and Jensen (2016).

Figure 3: Shares of EU wine producer supports by measure, 2007 to 2012 (%)

(a) EU27 in total, 2007 to 2012



(b) By EU member country, 2012



Source: Authors' calculations from Appendix Tables 1 to 4 of Anderson and Jensen (2016).

Table 1: OECD estimates of direct transfers<sup>a</sup> to wine producers and their nominal rate of direct producer protection,<sup>b</sup> European Union (EU28), 1986 to 2014 (annual averages)

	1986-92	1993-99	2000-06	2007-13	2014
Transfers to producers (million Euro per year) <sup>a</sup>	858	705	716	417	489
<i>of which</i> transfers due to market price support	848	769	255	51	0
Nominal rate of <i>direct</i> protection (NRP, %) <sup>b</sup>	8.6	6.4	1.7	0.3	0.0

<sup>a</sup> The OECD's Single Commodity Transfers do not include such supports as subsidies to distil unwanted wine and to promote wine generically, grubbing-up premiums, price support from import tariffs, or any proportion of non-product-specific assistance to the agricultural sector and rural areas.

<sup>b</sup> Based on OECD's estimate of nominal protection coefficient (NPC), where  $NRP = 100(NPC - 1)$ . The NRP expresses the estimated direct transfer as a percentage of the gross value of wine production (net of assistance).

Source: OECD (2015).

Table 2: Direct plus other support to wine producers and their nominal rate of assistance,<sup>a</sup> EU27, 2007 to 2012

	2007	2008	2009	2010	2011	2012 <sup>b, c</sup>	2007-12 average
Total (Direct + Other) Support, €million	2225	2488	2495	2189	2364	2285	<b>2341</b>
<i>of which</i> direct support, €million	1415	1295	1172	1053	978	924	<b>1140</b>
Nominal rate of <i>total</i> producer assistance <sup>a</sup> (%)	19.3	22.0	23.2	20.3	18.8	18.7	<b>20.4</b>
Total Support per hectare of vines (€)	616	702	716	655	734	712	<b>689</b>
Total Support per KL of wine produced (€)	140	157	154	141	152	144	<b>148</b>

<sup>a</sup> NRA is total support as a percentage of gross value of wine production (net of assistance). The NRA is broader than the OECD's NRP in Table 1, the latter referring just to price-support measures whereas the NRA also includes the other transfers to producers that may not alter the price they receive for their output but are part of the total support shown in row 1 of this table (see Anderson et al. 2008).

<sup>b</sup> The assumption in Appendix Tables 2 and 4 is that wine's share of some General Services Supports is proportional to the gross value of total agricultural production. If instead it is proportional to the share of vines in the total area of land used for agriculture, the numbers in the 2012 column other than for direct support would be one-tenth lower.

<sup>c</sup> The tariffs in EU wine imports had a weighted average in 2011 of 5.8% when expressed in ad valorem terms (estimated from the latest GTAP Version 8 database, see [www.gtap.org](http://www.gtap.org)). Had they raised the domestic producer price in 2012 by a full 5.8% (an upper bound; or by just 1% as a possible lower bound), the market price support in 2012 would have been not zero but 788 million Euros (or 136 million Euros), thereby raising total producer support by the same amount. The 2012 NRA would then be not 18.7% but 26.4% (or 20.0%), and the support per hectare of vines would rise from 712 to 946 (or 754) Euros and the support per kilolitre of wine produced would rise from 144 to 191 (or 152) Euros.

Source: Authors' calculations based on Appendix Tables 1 and 2 of Anderson and Jensen (2016).