

Stockpiling in the European Market for Quality Wines PSR

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The alarming increase in the carryouts of Community's quality wines produced in specific regions (psr) raises the question whether they should benefit from special intervention such as distillation. Stocks reached 100 millions hectolitres in 2003, which corresponds to a 2.6% annual increase over the last twenty years, compared to 2.0% and 1.3% for consumption and exports to third countries, respectively.

This situation puts the European Commission in a dilemma. On one hand, the reduction of current surpluses faces constraints. Firstly reclassifying quality wines psr as table wines whose surpluses have been virtually eliminated, would not be acceptable. Besides measures such as 'crisis distillation' and voluntary distillation may have unwanted effects. The major reason for rejecting their application is informed by experience from the market for ordinary wines where the various forms of distillations prevented production from adapting the fall in demand thus creating surpluses (European Commission, 1999). Finally, one should expect the cost associated with the regulation of stocks of wines psr to be dramatically high. On the other hand refusing temporary government involvement shall entail a cost to producers, merely the opportunity cost of storing wines whose quality is likely to decrease dramatically.

This paper discusses the causes of the recent increase in the European stocks of quality wines psr and feasible solutions. Some reasons are known and have been recently identified in Dubos (2003). They are given in section 1 of the present paper. Two main reasons are the increasing competitive structure of the world wine market which deters profit-seeking merchants from buying on the lowest quality segments, leaving some producers with unsold supply, and subsidised vineyard restructuring with too many planting rights allocated to member States.

Other and less known factors can be related to the EC wine regulation. Firstly, in response to restrictions on yields, producers can always manage to extend vineyard size more than output so that to increase sales. With a concave technology relating grape production to surfaces, yields can always be diminished by increasing surfaces. Secondly, the 1999's reform allows to distil quality wines psr where surpluses are abnormally high and after approval from an intervention agency. As suggested above, price supported distillation measures applied at the request of eligible member States may favour surpluses.

In section 2 we suggest two alternative programs to get rid of quality wine psr surpluses. The cheapest solution would involve direct payments in addition to compulsory distillation. The former is known to be more efficient than price supports (see e.g. Helmberger, 1991) and also more practicable. Under this program extra stocks not distilled under the compulsory regime would be sold at the prices final consumers are willing to pay and the direct payment per unit of output spread between taxpayers. An alternative program would allow for voluntary distillation in addition to compulsory distillation. I warn policy makers against the adverse effects of distillation that are not yet known on the market for quality wines psr¹. In existing models, distillation is voluntary and concerns only non premium wines where market price is given thus demand can't be discriminated (Jayet et al., 1997; Jayet, 2001). We extend the basic modelling of distillation paying particular attention to price discrimination, which is a realistic assumption on the market for wines psr.

We conclude in section 3.

JEL codes: L51, Q18

¹ The cost of distillation on the market for ordinary wines reached approximately C= 590 millions in 1998, i.e. more than 80% of the aid financed by the European Agricultural Guidance and Guarantee Fund. Overall, the cost of wine regulation reached C= 806 millions in 1998, although it has never exceeded 5% of the whole EAGGF's expenditures.

Keywords : Wine, Agricultural Policy.

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