

PROFESSIONAL PAPER

Reform of the Wine Sector in the EU and its Implications in Croatia

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Summary

The wine sector in EU is one of the most complicated regarding the legislation and preparations for the wine reform have been long and comprehensive. The wide-ranging EU wine reform was implemented in two phases. The first phase implied retrieval of balance on the wine market and casted out market intervention measures allowing enhanced budget use. The second phase included rules regarding protected designations of origin (PDO), protected geographical indications (PGI), wine making practices and the vineyard register.

The primary aim of this paper is contribution to the understanding of the EU wine reform and the next aim is to investigate the impact on Croatia. Using descriptive analysis approach, the quality analysis of the legislation in the European and Croatian wine sector has been conducted.

The wine reform in the EU was necessary because of: (i) the structural surplus on the European market, (ii) the steady decline in wine consumption in the EU and (iii) slower growth in EU exports since 1996. Croatia is obligated to harmonize the legislation in the wine sector as one of the preconditions of the EU accession. The adoption of the new EU legislation in Croatian legal framework started in 2010. The most of EU regulations have been adopted in 2010. The rest of it has to be adopted in 2011.

Croatia has implemented several regulations concerning wine sector into national law framework. Still, the most challenging part of the EU reform, the system of PDO and PGI is waiting to be revised and adjusted to Croatian circumstances. The implementation should support interests of all parties (producers, government, institutions).

Keywords: wine sector, Croatia, legislation, EU

Introduction

The European Union (EU) produces about 175 mil hL of wine every year. It accounts for 45% of wine-growing areas, 65% of production, 57% of global consumption and 70% of exports in global terms (Council regulation (EC) No 1234/2007). There are 2.4 million wine producers in the EU and 2.2 million people work in the wine sector. The EU wine production represents 5% of the total value of agricultural production (Wine, Economy of the sector, 2006).

The common market organisation (CMO) was introduced for the first time in 1962 but the regular organization of the wine market started in 1970 with the Common Wine Policy in Regulations 816/70 and 817/70. The Regulation 816/70 contained the basic provisions to implement the common organization of the wine market, while the Regulation 817/70 contained provisions specially aimed at quality wines. The main goals of the CMO were food security, improving productivity, market stabilisation and income support. As a supplement to the Common Wine Policy (CWP), Regulation 1338/70 set out the general rules for the classification of vine varieties. Regulation 2005/70 completed the classification process by categorizing all the recommended and authorized vines for each region of the Europe.

Since that CMO wine has developed progressively and became the most complex CMO with far-reaching rules under the EU common agricultural policy.

The wine market has been characterised by a very short initial period of balance followed by increase of production and a constant level of demand. The 1980s were years of crises for EU wine sector with overproduction, continuous decline, exploding expenditure and difficulties on the international market.

As a result of such situation new attempt to improve the wine policy was made by coming into force two new regulations: Regulations 822/87 and 823/87. According to Munsie (2002) these regulations were based on a combination of economic and qualitative rules and recognized the need to stabilize markets and ensure a fair standard of living for the agricultural community concerned.

In order to keep their producers competitive within the expanding international wine market and to maintain the balance between supply and demand, as a part of Agenda 2000, new regulation came into force. It was the Regulation 1493/99, which repealed and replaced the major wine policy regulations of the past. Besides this basic regulation in following years nine of implementing regulations have come into force. They were dealing with production potential (Reg. 1227/2000), market mechanisms (Reg. 1623/2000), oenological practices (Reg. 1622/2000), labelling (Reg. 753/2002), quality wines (Reg. 1607/2000), trade with third countries (Reg. 883/2001), accompanying documents and registers (Reg. 884/2001), control (Reg. 2729/2000) and declarations (Reg. 1282/2001).

The 1999 reform of the CMO for wine had following objectives: strengthening the goal of achieving a better balance between supply and demand on the Community market, giving producers the chance to bring production into line with a market demanding higher quality and to allow the sector to become competitive in the long term.

The reform from 1999 proved insufficient to reduce wine surpluses and considerable sums still had to be spent on disposing of them and that is the reason why a new reform of the wine market was needed.

After a decade, the European wine sector was again faced with serious difficulties such as: decline in the consumption, imbalance between supply and demand, loss of competitive-

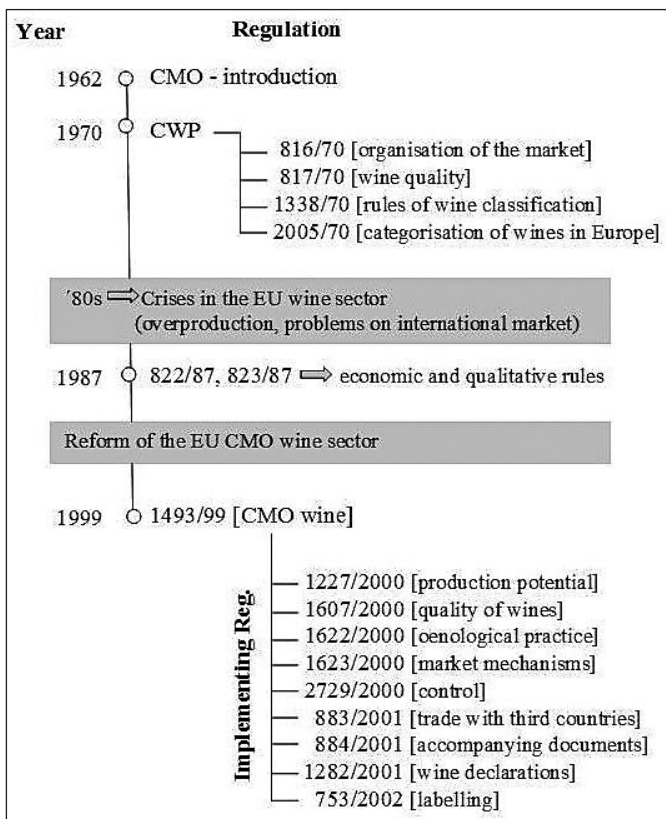
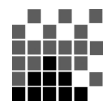


Figure 1. Chart flow of wine regulations development in Europe before last reform in 2000.

ness against "new world" wine producing countries and complexity of the legal framework which constrains EU producers (Commission of the EC, 2006).

Croatia, as a candidate country with long lasting process of EU accession had to harmonise its wine legislation with the EU legislation twice within last few years.

Material and methods

The research is based on the quality analysis of the Croatian and EU wine legislation.

Using descriptive analysis approach the analysis of the legislation in the European and Croatian wine sector has been conducted.

Results and discussion

The legal framework of EU consists of regulations, directives and decisions. In the context of the EU, a regulation "shall have general application. It shall be binding in its entirety and directly applicable to member states" (Article 189 of the Treaty of Rome). Every Member State has to accept the same definition and regulation does not allow Member State the freedom to interpret the ruling in different ways.

According to the same article of the Treaty of Rome, a directive "shall be binding as to the result to be achieved upon each member states to which is addressed but shall leave to the national authorities the choice of form and methods". A directive leaves Member States

the opportunity to adjust legal text to national one to make sure that it fits the national legislation of Member States.

Decisions are not of general application. They may be addressed to particular Member States, individuals or companies and they are binding on those to whom they are addressed.

The EU legal framework in wine sector is regulated only by regulations.

New wine reform was adopted in the EU in 2008. The reform objectives were: increasing competitiveness of the EU's wine producers, strengthening the reputation of the EU quality wine, recovering old markets and winning new markets in the EU and worldwide, operating through clear, simple and effective rules, ensuring balance between supply and demand, preserving the best traditions of the EU wine and reinforcing the social and environmental fabric of rural areas. The reform was market oriented, taking into account consumers concerns, farm income, rural development and environment.

The current EU legislation within the framework of the CMO wine is very comprehensive which is no surprise taking into account that the common market organisation of the wine is one of the largest common market organisations in the common agricultural policy of the EU.

It contains two basic and a few implementing regulations. Basic regulations are:

- Council Regulation (EC) No 491/2009 of 25 May 2009 amending Regulation (EC) No 1234/2007 establishing a common organisation of agricultural markets and on specific provisions for certain agricultural products (Single CMO Regulation) and

- Council Regulation (EC) No 479/2008 of 29 April 2008 on the common organisation of the market in wine.

Implementing regulations are divided into regulations of first phase of the wine reform and the regulations relating to the second phase of the wine reform.

The first phase implementing regulations are:

- Commission Regulation (EC) No 555/2008 of 27 June 2008 laying down detailed rules for implementing Council Regulation (EC) No 479/2008 on the common organisation of the market in wine as regards support programmes, trade with third countries, production potential and on controls in the wine sector and

- Commission Regulation (EC) No 436/2009 of 26 May 2009 laying down detailed rules for the application of Council Regulation (EC) No 479/2008 as regards the vineyard register, compulsory declarations and the gathering of information to



Figure 2. Chart flow of wine regulations development in Europe - new wine reform.

Table 1. Croatian's wine sector legal framework.

Regulations		Official Gazette No.
WINE ACT		96/03
Implementing regulations	List of geographical indication	6/04
	Ordinance on physical and chemical analysis of must, wine, other products from grape and wine and fruit wines	106/04
	Ordinance on organoleptic evaluation (wine tasting) of must and wine	106/04
	Ordinance on advertising of the wines with controlled geographical indication and fruit wines	105/04
	Ordinance on basic technical - technological requirements in production of wine and fruit wines including conditions for selling wine and other products from grape and wine, fruit wines	102/04, 91/05, 71/06, 73/07, 8/08, 88/09, 24/11
	Ordinance on wine-growing regions	159/04, 64/05, 123/07
	Ordinance on condition of analysis of must, wine, other products from grape and wine and fruit wines, and other fruit wine products	102/04, 64/05
	Ordinance on national list of recognized wine varieties	159/04, 14/05, 42/05, 62/05, 3/06, 37/06, 76/06, 44/07, 118/07, 133/07, 86/08, 117/08, 124/08, 148/08, 46/09, 153/09, 46/10, 129/10, 31/11
	Ordinance on wine production	2/05
	Ordinance on designation and protection of geographical indication of wine	7/05
	Ordinance on vinegar and fruit vinegar	121/05, 53/06
	Ordinance on register of approved distillers	137/05, 75/07
	Ordinance on fruit wines	73/06, 24/11
List of traditional terms for wine	96/07, 62/10, 133/10	

monitor the wine market, the documents accompanying consignments of wine products and the wine sector registers to be kept.

The regulations related to the second phase of wine reform are:

- Commission Regulation (EC) No 606/2009 of 10 July 2009 laying down certain detailed rules for implementing Council Regulation (EC) No 479/2008 as regards the categories of grapevine products, oenological practices and the applicable restrictions and

- Commission Regulation (EC) No 607/2009 of 14 July 2009 laying down certain detailed rules for the implementation of Council Regulation (EC) No 479/2008 as regards protected designations of origin and geographical indications, traditional terms, labelling and presentation of certain wine sector products.

The main changes in new wine common market organisation are relating to the national financial envelopes, rural development and environmental protection in wine-producing areas, planting rights, phasing-out of distillation schemes and eliminating subsidies for the distillation into alcohol, introduction of single farm payment, grubbing-up and promoting the replacement of vineyards with alternative crops and

reducing the surface planted with poorly marketable varieties, wine-making practices, simpler labelling rules that will base quality assessment on designations of origin and protected geographical indications, lower limits for added sugar and must and aid for the use of must.

The EU has established a new wine CMO and adopted a new competitive strategy in response to the ongoing challenges that the European wine industry has faced in order to

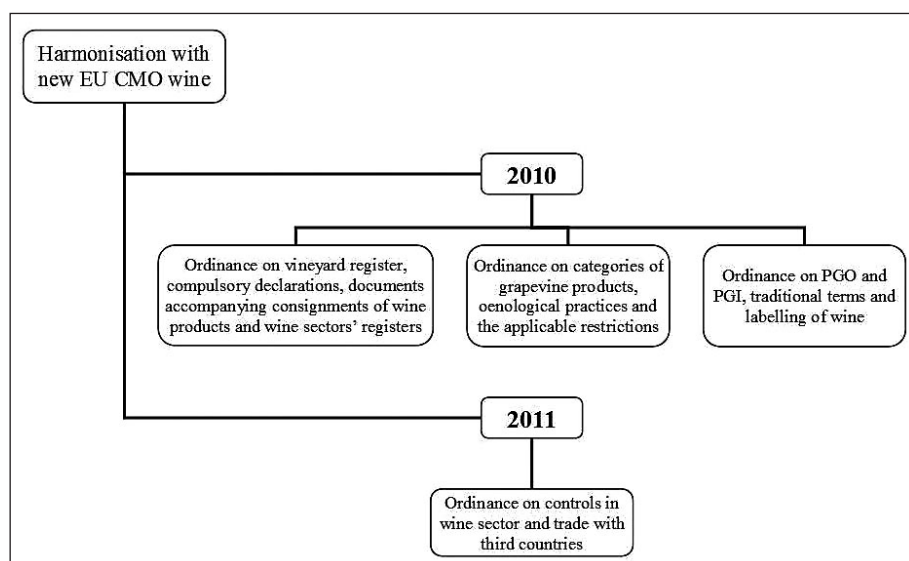


Figure 3. Flow chart of the harmonisation of Croatian wine legislation with new EU CMO wine.



remain strong player on the international market. Although the new wine CMO has been adopted in EU legal framework its implementation in member states is questionable (Čačić, 2008) and member states have not finished yet the process of its implementation.

The strategic goal of the Republic of Croatia is full EU membership. In order to accomplish the membership, Croatia has to fulfil all duties arising from the membership especially regarding the *acquis communautaire*. It means that Croatia has to adopt and implement whole legal framework of EU.

Regarding Croatian wine legislation it has to be emphasized that Croatia has started to harmonize its wine legislation in 2002. The new Wine Act has been adopted in 2003 and it is partially harmonized with Council Regulation 1493/1999 on the common organisation of the market in wine. The Wine Act is basic wine regulation and besides, there are fourteen implementing regulations in Croatian wine sector. Those regulations have been adopted in period from 2004 to 2008.

After Croatia had almost finished the process of legislation harmonization, European Union revised its CMO wine and the new CMO came into force in August 2009. That put Croatia in difficult position because the negotiation process was not finished yet and new regulations have to be implemented before the end of the negotiation process. The implementation was precondition for finishing the process of negotiation.

The adoption of the new EU legislation started in 2010. Some of the regulations have been adopted and implemented into national law framework during 2010. They are related to the vineyard register, compulsory declarations, documents accompanying consignments of wine products, wine sectors' registers (OG 121/10, 132/10), categories of grapevine products, oenological practices and the applicable restrictions (OG 114/10), protected designations of origin and protected geographical indications, traditional terms, labelling of certain wine sector products (OG 141/10). The regulation related to the controls in wine sector and trade with third countries is adopted in 2011. Still, it remains to adopt the regulations regarding support programs and production potentials.

Although Croatia has adopted almost all regulations within the one and half year, the systems arising from them are still not fully implemented. It is a process that lasts and the implementation will make significant changes on the wine market in Croatia.

The most challenging part of the EU reform, the system of protected designations of origin (PDO) and protected geographical indications (PGI) in Croatia is still waiting to be revised.

The EU wine reform gives greater importance to wines with geographical indication. A completely new system of protection of origin has been established. Member states have to decide for their wines between protected designation of origin (PDO) and protected geographical indication (PGI). This new system replaces the existing system of quality wines produced in a specified region. Furthermore a register of PDO and PGI has been established with the aim to defend European names against prohibited third country use.

Establishing the system, connecting these regulatory specifications and the development of the regulatory background, control and sanctions of a PDO and PGI system constitutes a new challenge for Croatia in preparing the accession. For implementation and for further efficient functioning of the system, all subjects on the Croatian market have to be informed and acquainted with the new legislation and changes. The full implementation is only possible with support of all interested parties and it could be stated that introduction of a PDO and PGI system would be the basis for a successful wine sector.

Conclusions

The reform of the EU wine sector is not yet fully implemented in all EU member states although the last regulation concerning wine reform is adopted in July 2009 and the new CMO came into force in August 2009.

Croatia had to undergo the whole process of harmonization wine legislation twice due to long lasting process of accession to EU.

Croatia has adopted almost all regulations within the short period of time but the systems arising from them are still not fully implemented.

The most difficult system of protected designations of origin (PDO) and protected geographical indications (PGI) is still waiting to be revised. For complete implementation and functioning of the system all subjects on the Croatian market have to be informed and acquainted with the new legislation and changes.

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