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REPORT FROM THE COMMISSION TO THE EUROPEAN PARLIAMENT AND THE COUNCIL

in accordance with Article 184(7) of Council Regulation (EC) No 1234/2007

on implementation of the measure for the promotion of wines on third-country markets

{SEC(2011) 1371 final}

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1. INTRODUCTION

The reform of the CMO in wine adopted in 2008[1] and incorporated into Council Regulation (EC) No 1234/2007 of 22 October 2007[2] (hereinafter 'the Single CMO Regulation') aims to restore market balance and increase the competitiveness of the sector while preserving the reputation and quality of the Union's wines. Traditional market measures such as distillation, the use of musts and the planting right regime are being gradually phased out and replaced with more structural measures (investment, restructuring and conversion of vineyards) and a new measure in the form of promotion in third countries. All of these measures are implemented by means of national support programmes. Promotion on third-country markets is one of the key measures under this reform and has the main aim of increasing the competitiveness of the Union's wines in third countries.

In accordance with Article 184(7) of the Single CMO Regulation, this report concerns the implementation, during the first two years of application of the reform, of the measure referred to in Article 103p of that Regulation for the promotion of wine on third-country markets. It is based on the findings of audits carried out in some Member States and on the information provided by them, in particular the implementation reports which, in accordance with Article 188a(6), provide an analysis of the costs and benefits of the national programmes and suggestions on how to increase their effectiveness.

Additional reports and evaluations from the Member States are expected in March each year until 2014, concerning in particular the costs and benefits of the support programmes, including the promotion measure. This information will make it possible to refine the analysis of the measure.

2. DESCRIPTION OF THE MEASURE AND CONDITIONS FOR IMPLEMENTATION

The measure for the promotion of wines on third-country markets is governed by Article 103p of the Single CMO Regulation and the implementing provisions thereof contained in Regulation (EC) No 555/2008[3], particularly Articles 2 to 5 specifically concerning the implementation of national support measures and, in particular, the promotion measure, and Articles 35 to 37a and Annexes I, II, IV, V, VI and VIII (reports, evaluations and general provisions).

The Member States submitted their first national support programmes on 30 June 2008, incorporating, on an optional basis, one or more of the eligible measures listed in Article 103m of the Single OCM Regulation. The programmes cover a five-year period (2009-13) and may be modified twice a year (in March and June each year) to adapt to developments in the sector.

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1 OJ L 148, 6.6.2008, p. 1.
2 OJ L 299, 16.11.2007, p. 1.
3 OJ L 170, 30.06.2008, p. 1.

2.1. Conditions for access to the measure and eligible actions

The measure covers promotion or information provision in third countries in respect of wines with a protected designation of origin or a protected geographical indication or wines with an indication of the wine grape variety (hereinafter 'varietal wines').

The legislation provides for five categories of action, namely:

(A) public relations, promotional or advertisement actions, in particular highlighting the advantages of products from the Union, especially in terms of quality, food safety or environmental friendliness;

(B) participation at events, fairs or exhibitions of international importance;

(C) information campaigns, in particular on the Union's systems for designations of origin, geographical indications and organic production;

(D) studies of new markets, necessary for the expansion of market outlets;

(E) studies to evaluate the results of the information and promotion actions.

Originally, the duration of the measure could not exceed three years for a given beneficiary and market. Since 2010[4], a measure for a given beneficiary may be renewed for a maximum of two years after an assessment of the actions carried out during the initial years.

The support granted by the Union must not exceed 50% of the eligible expenditure and may be supplemented by national support. In such cases, the action must be in line with the rules on State aid.

The eligibility conditions are described in detail in the legislation, but it is worth stressing the main conditions, namely that:

- the products covered by the measure must have export opportunities or market outlets in the targeted third countries and display high added value;
- the beneficiaries must have enough capacity and resources to face the specific constraints of trade with the third countries concerned and to ensure that the measure is implemented as effectively as possible;
- the beneficiaries may be private companies as well as professional organisations, producer organisations, inter-branch organisations or (where a Member State so decides) public bodies;
- preference is given to micro, small and medium-sized enterprises within the meaning of Commission Recommendation 2003/361/EC[5];
- the actions selected are those providing the best value for money.

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[4] OJ L 232, 2.9.2010, p. 1.

[5] Commission Recommendation of 6 May 2003 concerning the definition of micro, small and medium-sized enterprises (OL L 124, 20.5.2003, p.36).

The Member States implement selection procedures that take account of the regulatory criteria in order to choose the projects offering the best value for money. During the examination stage in particular, they ensure that the applications fulfil the conditions and meet the statutory time limits.

They also establish indicators for assessing the results and the impact of the measure and regularly send the Commission data and reports concerning implementation of the measure in accordance with the aforementioned provisions of the implementing Regulation.

2.2. Compatibility and coherence with other promotion measures

The wine sector may also make use of promotion measures under horizontal measures, including the promotion of agricultural products (Regulation (EC) No 3/2008[6]) and rural development (Regulation (EC) No 1698/2005[7]). The Member States must ensure that promotion measures funded under the Single CMO are compatible with those funded by other schemes and avoid any double financing.

The main differences between the Single CMO promotion measure and those covered by Regulation (EC) No 3/2008 are that:

- private companies may receive support under the Single CMO;
- only third-country markets are covered under the Single CMO and not those of the Member States;
- actions concerning trade marks are possible under the Single CMO but not under the horizontal promotion measures referred to above;
- the procedure for selecting applications is organised at national level under the Single CMO, while for the horizontal promotion measures there is a preselection at national level and a final selection by the Commission.

3. PROGRAMMING AND IMPLEMENTATION

3.1. Programming

The budget allocation for the national programmes is EUR 5.2 billion for the 2009-13 period (updated figure as at 2011) and, as decided by the Member States, the promotion measure represents 15.6% of this amount, i.e. EUR 768 million[8].

This sum has been on an upward trend over the course of the period, from EUR 35 million committed in 2009 to a planned total of EUR 265 million in 2013.

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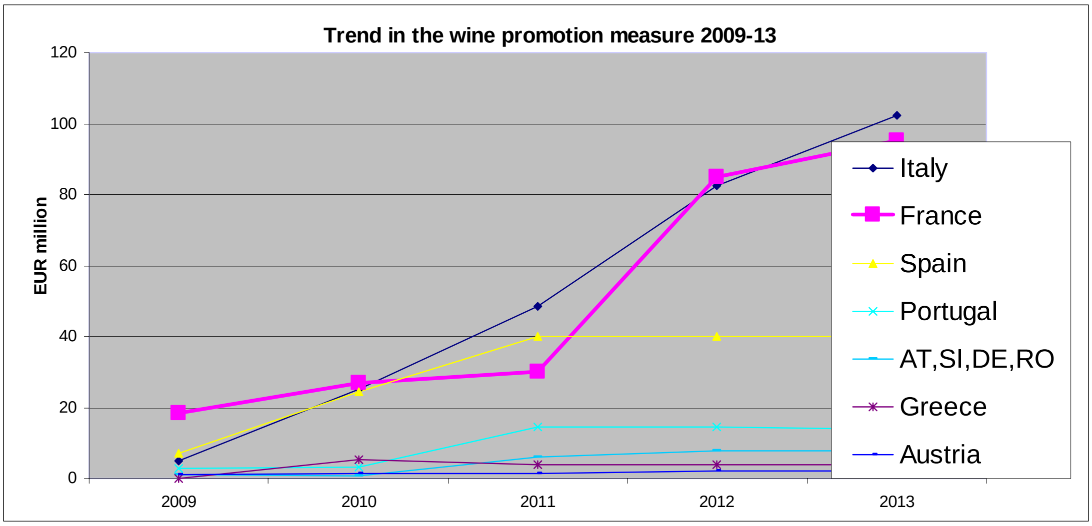
[6] OJ L 3, 5.1.2008, p.1.

[7] OJ L 277, 21.10.2005, p. 1.

[8] In 2007, during the discussions preceding the reform, the Commission proposed an annual amount of EUR 120 million specifically for the promotion measure, a total of EUR 600 million for the 2009-13 period. Subsequently, this measure was integrated into the range of measures under the programmes and the breakdown of sums between measures was left up to the Member States which, as can be seen, have exceeded the amount initially envisaged by the Commission for this measure.

The reasons for the progressive increase include the fact that market measures such as potable alcohol distillation, crisis distillation and support for the use of concentrated musts will expire on 31 July 2012, as well as the need for the sector to adapt gradually to the new wine CMO (see table below).



3.2. Implementation, selection procedures for applications

As for all measures under the support programmes, each Member State has implemented the promotion measure in line with its own administrative structure. In 2009, Member States with a more regionalised structure such as Spain, Italy and Germany had to adopt regional implementing provisions for the measure. This sometimes delayed to a certain degree the implementation of the measure during the first year, as was indeed mentioned by those Member States in the implementation report.

When applications are being examined at Member State level, the provisions taken into account are those of Union law[9] (e.g. expected impact, value added, cost effectiveness of the project, technical and financial capacity of the project in terms of exports, projects jointly submitted by several countries and target market). Moreover, some Member States require applicants to provide, *inter alia*, a detailed strategic and marketing analysis, the duration of the programme, the target countries, the type of promotion, the specific objectives of the project, a detailed description of the actions carried out, a budget with details given for each entry and the expected impact (forecast impact on growth in demand for the products concerned).

So far as the procedures for selecting applications are concerned, the priorities for access to the measure, the conditions for payments and the organisation of checks can differ from Member State to Member State in accordance with each one's administrative structure and the way its wine sector is organised.

In order to select those projects offering the best value for money, the Member States use a set of criteria laid down by the legislation in the wine sector. The 'micro, small and medium-sized enterprise' criterion does not appear to be a predominant criterion.

9 Regulation (EC) No 1234/2007 and its implementing provisions in Regulation (EC) No 555/2008.

By way of example, in France, where inter-branch organisations, producer organisations and professional organisations are highly structured, the selection priorities differ depending on whether programmes are put forward by such organisations or by private companies.

In Italy, 30% of the budget allocated to the promotion measure is managed at national level for projects submitted by inter-branch organisations, national producer organisations and professional organisations, and enterprises or joint ventures representing production in several regions. The remaining 70% of the budget is managed at regional level for projects submitted specifically by enterprises and joint ventures representing production at regional level or even a single protected designation of origin or protected geographical indication.

It may also be noted that the target markets concerned represent an important factor in the selection of applications. Some Member States restrict the target markets or prioritise markets in line with their characteristics ('consolidated', 'potential' and 'emerging' markets (see point 3.6)). The target markets vary between the Member States, with some markets being considered 'consolidated' for some Member States and 'emerging' or even totally unexplored for others. In Germany, for example, the financial contribution is a maximum of 25% of the eligible expenditure for markets that are not recommended.

3.3. Budget implementation

During the first two years of the reform, nine Member States (FR, ES, IT, PT, EL, AT, SI, DE, RO) have actually implemented the promotion measure, for an overall total of around EUR 35 million in 2009 and EUR 87 million in 2010, corresponding to 6.7% of the total value of the national allocations for the same period.

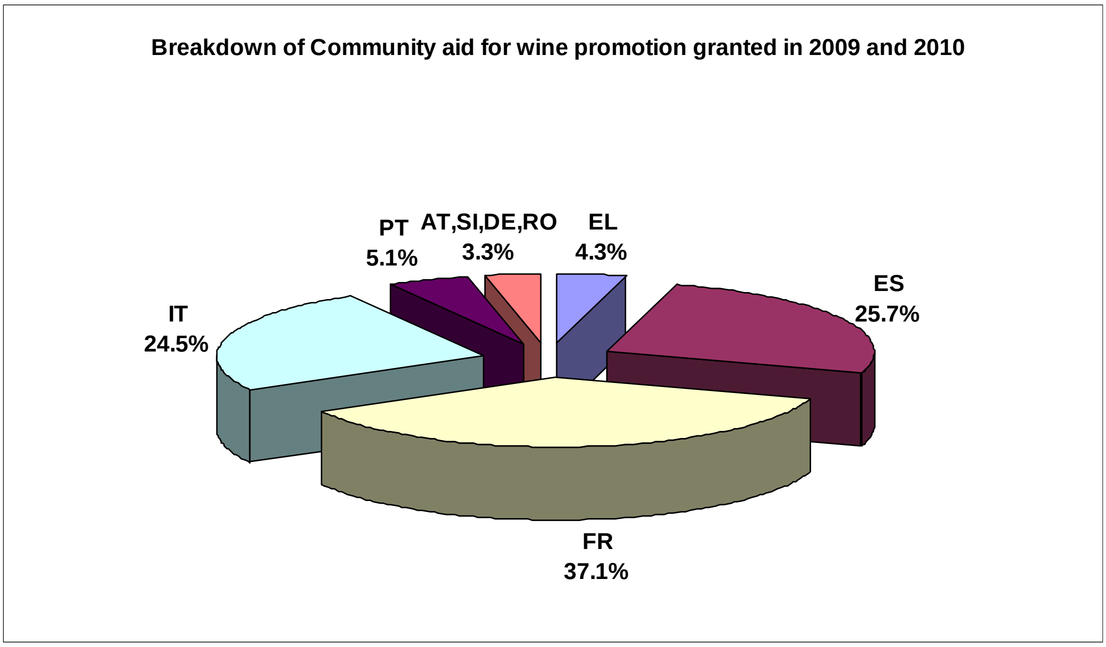
3.3.1. Union participation and supplementary State aid

For all those Member States, the Union aid granted in 2009-10 was 50% of the eligible expenditure, in accordance with the rules which establish a 50% ceiling. The exception was Italy, where the figure was 47% of the eligible expenditure owing to the fact that, in 2009, enterprises other than micro, small and medium-sized enterprises that promoted their brands received maximum Union funding of 30% of the eligible expenditure.

Supplementary State aid was granted during the same period except in Spain and Slovenia. This totalled EUR 5.9 million or 2.4% of the Union's share. In Italy, supplementary national aid cannot exceed 20% of the eligible expenditure and represented 2.2% of the Union aid granted there. In France, only two projects run by the *Comité des interprofessions des vins à appellations d'origine* received supplementary national aid, totalling 25% of the eligible expenditure. In Portugal, State aid corresponded to 5.2% of the eligible expenditure.

3.3.2. Implementation in the Member States

The amounts spent by the three main wine producing and exporting Member States in the Union (FR, ES, IT) accounted for around 87% of the budget implementation in 2009 and 2010 (see graph below).



In general, the Member States significantly cut their estimates for the promotion measure, except for Austria and Greece. Bulgaria reallocated the budget initially planned for the promotion measure to the restructuring and conversion measures (see table below).

Implementation of promotion measures on third-country markets as compared to the national programmes on the whole

2009 + 2010	DE	EL	ES	**FR**	**IT**	**AT**	**PT**	**RO**	**SI**	**EU**
Initial estimate	8.7%	18%	10%	23%	8%	13%	12%	1.0%	23%	**11.6%**
Final implementation	**0.9%**	**15.6%**	**6.3%**	**11.4%**	**5.6%**	**12.3%**	**7.0%**	**0.2%**	**15.6%**	**6.7%**
Implementation rate - promotion	10.5%	85%	65%	50%	71%	93%	57%	17.1%	67%	58.0%

The fact that many Member States reallocated funds to other measures under the aid programme may be explained by:

- the need to bolster other measures.

  France noted, in particular, the economic crisis in 2008 and 2009 and the worldwide fall in wine consumption, which apparently hit 'high-price' French wines hardest, and the need to reallocate funds to the investment measure and other measures with a more beneficial effect on the internal market.

- administrative difficulties in implementing this new measure (in the Member State and the third countries concerned).

  Germany seems to have had the most administrative difficulties owing to the division of powers between the federal administration and the administrations of the federal states. In Germany, two projects were funded at federal level and only one by a federal state, Rhineland Palatinate.

The Member States have also mentioned other factors that may explain this low rate of implementation, such as the economic crisis and the difficulty for many enterprises, particularly micro, small and medium-sized enterprises, to access credit to cofinance the measure. Austria and Cyprus pointed out that a bad harvest may also have had a negative impact on the forecasts.

3.4. Beneficiaries

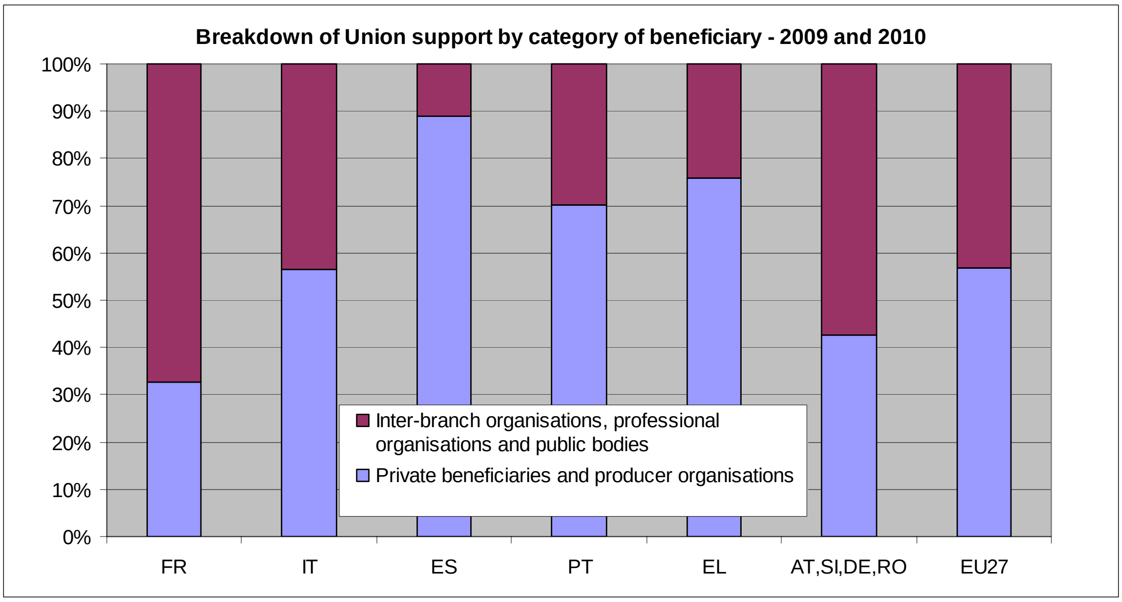
In 2009-10, 672 beneficiaries participated in the promotion measure (see table below). It should be noted that the majority of beneficiaries participate in several projects, which may cover one or more actions and target several markets.

Union support to beneficiaries (2009 and 2010)

In EUR	FR	IT	ES	PT	EL	AT,SI,DE,RO	Total
Amount of support granted	45 313 425	29 978 077	31 222 343	6 232 571	5 233 000	4 405 465	**122 384 882**
Number of beneficiaries	98	89	290	62	42	91	**672**
Average amount of support per beneficiary	462 382	336 832	107 663	100 525	124 595	48 412	**182 120**
Maximum amount	7 571 438	3 753 558	3 657 739		647 320		**7 571 438**

No joint project was submitted between beneficiaries from different Member States.

All categories of eligible beneficiaries are represented (see graph below). It may be seen that, in some Member States where inter-branch organisations, producer organisations and professional organisations are more highly represented, the average expenditure per project is higher and there is greater variability between small and large projects. The Union's average expenditure per beneficiary was EUR 182 120.



In Italy, where the average per beneficiary was EUR 336 832, the creation of joint ventures whose main objective was to carry out joint promotion actions made it possible to a certain degree to overcome the difficulties stemming from the relatively small size of the enterprises.

In France, a greater average level of expenditure per beneficiary (EUR 462 382) may be explained by the high degree of participation by inter-branch organisations, producer organisations and professional organisations, which represented 67% of the budget received from the Union (e.g. *Comité national des interprofessions* on the US and Swiss markets). This allowed improvements in operators' knowledge and the creation of synergies with other players. It should be noted that enterprises accounted for 3% of the budget implemented in 2009 and 53% in 2010, giving an average of 33%.

In Spain, where the average expenditure per beneficiary was EUR 107 663, the majority of projects were submitted by enterprises and producers' cooperatives. It may also be noted that, in Spain, many beneficiaries submitted several projects for different target markets.

3.5. Actions carried out

2 781 actions were carried out in 2009-10.

With regard to the implementation of the actions referred to in point 2.1, which may take various forms (see the table below), there have been an average of 1.7 actions per project, with a significant majority of projects focusing primarily on action (A). This action is carried out on practically all the markets targeted (70-90% of the expenditure) and is sometimes supplemented by actions (B) and (C), for which the amounts paid are significantly lower (5-20% of the expenditure).

Action (cf. 2.1.)	**Description**
(A)	Public relations, aimed in particular at buyers, journalists, sommeliers, wine educators, wine merchants, etc., trade missions, press relations, media publicity and advertisements, tastings, product presentations, production of brochures and other support material, creation of websites dedicated to exports, costs of brand creation and development, promotional activities at sales points, organisation of events (meetings with distributors, communication, workshops).
(B)	Promotional events in third countries, such as fairs, street events, dinners, seminars and tastings organised for different target groups (journalists, representatives of the distribution sector, importers and consumers).
(C)	Information provision concerning production systems and product specifications: meetings with opinion leaders and journalists, seminars, tastings.
(D)	Market studies, marketing expert reports and advice, pre-testing to validate new products, pre-validation studies for brand launches, focus groups, panels.

Uptake of action (D) concerning studies of new markets and studies to evaluate the results of the actions carried out was very low.

Although the main message of the actions under the promotion measure refers to wines from the Union with a protected designation of origin or protected geographical indication and varietal wines, it may be seen that it is often accompanied by a reference to the Member State of production. Indeed, the Member States have confirmed that indicating this information is fundamentally important in terms of the value added of the actions carried out and that it is often difficult for consumers in third countries to pinpoint the origin of wines from the Union, particularly for small wine-producing countries or protected designations of origin or protected geographical indications that are little known or even unknown in third countries.

3.6. Main markets concerned

The actions in 2009 and 2010 concerned 42 third countries, which may be divided into three categories:

- traditional consolidated markets to be further developed: markets on which European producers are already present, which are open to exports and on which an increase in consumption has been noted. These are also target markets for the sale of wines with high value added. (USA, Canada, Switzerland);

- emerging markets: markets which are less developed than the first category, although wines from the Union can still be found. These are mainly Asian markets (China/Hong Kong, Japan, South Korea, Singapore), Russia, Mexico and Brazil. Some of these countries, such as Russia and China, are developing rapidly and have significant potential. Others, such as Japan, remain more stable and hard to develop;

- potential markets: little known markets which, by virtue of their economic growth, may offer significant opportunities. These are countries such as India and some former Soviet republics.

Only 37% of the financed projects targeted a single market, while the majority targeted between two and seven separate markets. There was a very significant geographical concentration in the actions, with 75% of them covering seven countries (USA, China/Hong Kong, Japan, Mexico, Canada, Russia and Switzerland); the six largest of these markets accounted for approximately 75% by volume and by value of the Union's exports in 2010.

The United States market was the most frequently targeted, with 22% of the actions being aimed at it and eight of the nine Member States that participated in the measures targeting it most. It may be noted that certain markets are favoured markets for certain Member States, e.g. Mexico for Spain, Brazil for Portugal, the other former Yugoslav countries for Slovenia, Canada for Italy, China and Japan for France, Russia for Greece and Switzerland for Austria.

Target markets for the actions in 2009 and 2010

United States	China Hong Kong	Japan	Mexico	Canada	Russia	Switzerlan	Brazil	Others
22%	10.9%	9.2%	8.1%	7.9%	7.8%	7.3%	3.7%	23.3%

4. ASSESSMENT AND SUGGESTIONS FROM THE MEMBER STATES

All the Member States that participated in the promotion measure consider it to be very beneficial for the wine sector. They have pointed out that, after the 2008 crisis, the period since 2009 has seen a rise in exports, in particular on the markets targeted by the promotion measure.

4.1.1. Strengths

- the opportunity for companies to avail themselves of the aid scheme, unlike under the horizontal scheme. This opportunity provides an enormous boost to the sector;
- the direct impact in the third countries where the actions are carried out and the creation of new skills (knowledge and opening up of commercial channels, knowledge of markets, legislation and clients, creation of contacts);
- the flexibility and subsidiarity of the measure's implementation allow account to be taken of the specific characteristics of the sector in the individual Member States and their individual administrative requirements;
- the opportunity to create synergies and complementary actions between inter-branch organisations, producer organisations and professional organisations, enterprises and joint ventures and public bodies, creating positive mutual knock-on effects;
- the opening up of new markets and the possibility of gaining better knowledge of markets and obtaining new opportunities;
- the improved tailoring of wines to market needs (production, packaging, labelling);
- a multiplier effect on other beneficiaries. The more actions are carried out, the greater the impact of the measure.

4.1.2. Weaknesses

- the difficulty of managing the measure from an administrative viewpoint, a problem highlighted in particular by Portugal, Italy and Austria (particularly the complexity of examining the supporting documents for costs); on developing markets, the reaction times may be too slow (changes to programmes when they are underway);
- the lack of logistical infrastructure, technical knowledge and support in the emerging markets;

- certain Member States, such as Italy and Portugal, have stressed that micro, small and medium-sized enterprises have encountered more difficulties in satisfying the conditions for accessing the measure (availability of products, technical capacity for exporting and limited funds).

4.1.3. Suggestions from the Member States

In order to improve the cost effectiveness of the promotion measure, some Member States, while not putting forward concrete proposals for amending Union legislation, have suggested:

- extending the measure to the internal market, given that it is the leading world market for wine and that third countries have gained a significant market share; this should be done in such a way as to avoid competition between wines from the Union or, possibly, by restricting the actions to information provision;

- prioritising, in an effective manner, access to the measure for micro, small and medium-sized enterprises;

- encouraging studies of new markets and assessments of the actions carried out. These are fundamentally important for obtaining technical and marketing information that will serve as a basis for other actions;

- creating synergies with other, more structural measures, with a view in particular to facilitating and bolstering the presence of EU operators on new markets (mainly with a view to creating the initial channels together with importers);

- increasing the efficiency of administrative checking, in particular by providing for lump-sum payments for actions entailing standard costs, such as travel expenses.

5. CONCLUSION

After only two years of implementation of the promotion measure by the Member States, it is too early to draw definitive conclusions, particularly in terms of an increase in competitiveness and presence on third-country markets. Although wine exports to some countries, especially the target markets, have been on the increase since 2009 the complexity of the factors influencing trade patterns (exchange rate variations, the economic crisis, local political crises, changes of legislation in the target countries, etc.) means that it is not possible to determine the extent to which the results obtained stem directly from the promotion measure.

It may nevertheless be stated that, with EUR 122 million being spent in the first two years, the measure has been very successful and is very much appreciated by operators. The forecast expenditure of EUR 768 million for the 2009-13 period indicates a growing interest in the measure, resulting in its becoming the second most important measure under the aid programmes, in financial terms, after that on the restructuring and conversion of vineyards.

The promotion measure seems to have made it possible, initially at least, to consolidate the presence of enterprises from the Union on the traditional export markets and seems to have given an opportunity, through market studies, to explore and access new markets.

It is above all the flexibility and subsidiarity of the implementation of the promotion measure that allow the wine sectors in the various Member States, or the various regions, to fine tune it to the specific characteristics of the target countries.

What is more, the possibility of creating new contacts and of obtaining the necessary knowledge to adapt to markets (new products, labelling, etc.) provides an enormous boost to the sector.

In the light of some comments from the Member States, routes that can be explored include (1) possibly strengthening the synergies between the various actions and beneficiaries; (2) better tailoring the market studies in order to reduce the future dependence of exports on a limited number of markets; (3) a more targeted selection of beneficiaries in order to optimise the measure; (4) providing the Member States with guidelines on the criteria for accepting projects.

Further consideration could be given, in the report that the Commission is to submit to the Council and the European Parliament in 2012, to the 'micro, small and medium-sized enterprises' criterion and to the eligibility conditions for the measure.