

# Europe's billion-euro wine spillage

A report on EU's wine promotion subsidies

2018



## The European Alcohol Policy Alliance (EUROCARE)

Eurocare is an alliance of non-governmental and public health organisations across Europe advocating for the prevention and reduction of alcohol-related harm. Member organisations are involved in advocacy and research, the provision of information and training on alcohol issues, and services for people whose lives are affected by alcohol problems.

Eurocare's mission is to promote policies that prevent and reduce alcohol-related harm. Our message regarding alcohol consumption is that **"less is better"**.

### Why does Eurocare care about CAP promotion subsidies?

Wine promotion subsidies over the Common Agricultural Policy (CAP) are aimed primarily at increasing European wines' competitiveness in non-EU countries through activities such as information campaigns, market studies and participation at wine fairs abroad.

The CAP features two parallel schemes for wine promotion. One is regulated over Reg (EU) 1308/2013 and amounts to nearly €250 million in 2018.<sup>1</sup> Another one is regulated over Reg (EU) 1144/2014 and has financed more than €22 million in wine related promotion since its inception in 2014.<sup>2</sup> There is a clear trend of increasing budgets for both these schemes. In the following, we will focus mainly on the former.

These promotional measures, draining millions of euros from the EU budget, jeopardize public health, create market distortions and occasionally camouflage serious misuse of funds by the beneficiaries. Furthermore, the European Court of Auditors have questioned the role of EU grants to promote wine, citing lack of demonstrable results over the scheme's lifetime.

European agricultural policies are important tools to support farmers' livelihood and sustainable rural development. However, EU policies must be coherent and cannot be evaluated according to economic metrics alone: Public health perspectives should always be weighed into evaluations, especially when the beneficiaries of a policy are producers of alcoholic beverages.

#### EU ACTS ON WINE PROMOTION

**Regulation (EU) 1308/2013** lays out **support programmes for the agricultural sectors**, including the wine sector, whereby the EU finances various measures.

One of these measures is the promotion and marketing of wines, either «(a) in Member States, with a view to informing consumers about the responsible consumption of wine [...]; or (b) in third countries, with a view to improving their competitiveness.»

**Regulation (EU) 1144/2014** is the legal basis of a separate CAP scheme for the **promotion of agricultural products in third countries**, with the aim of «boosting product image in the eyes of consumers in the Community and in third countries, in particular as regards the quality, nutritional value and safety of foodstuffs».

<sup>1</sup> European Commission, 2017. [https://ec.europa.eu/agriculture/sites/agriculture/files/wine/statistics/2009-2018-overview\\_en.pdf](https://ec.europa.eu/agriculture/sites/agriculture/files/wine/statistics/2009-2018-overview_en.pdf). Retrieved 1 March 2018.

<sup>2</sup> European Commission, 2017. <https://ec.europa.eu/chafea/agri/campaigns/map-and-statistics-target-countries>. Retrieved 1 March 2018.

Worryingly, the wine industry's promotional activities heavily rely on marketing in social media that does not differentiate between youth and adult users. And so kids and youth below legal drinking age are exposed to messages that encourage them to drink European wine. The earlier youth start drinking the worse are the long-term health consequences.<sup>3</sup>

The subsidies favour Europe's big wine producing countries: Almost 90 percent of the funds are awarded to Spain, France and Italy, a situation that reinforces these countries' grip of consumer markets.

In the short history of EU's wine promotion funds, many cases of serious misuse of funds have been exposed. In spite of single farmers being sanctioned, the misconduct continues – which brings the whole scheme into question.

The EU should phase out this expensive market intervention, which could save at least €1000 million per financial period (the amount that was paid in promotion subsidies to producers over the current five-year period).<sup>4</sup> Instead, the grubbing-up scheme should be reintroduced, which pays the wine farmers in cash in exchange for permanent uprooting of their vines. Unlike wine promotion subsidies, it has proven to be an effective measure in stemming the overproduction of wine.

## **EUROCARE POSITION – LIMIT WINE PROMOTION SUBSIDIES**

### **Eurocare's five recommendations concerning EU's wine promotion subsidies**

- While we are supportive of promotional measures for agricultural products that are components of a healthy diet, wine – as a product with scientifically proven health risks – should not be considered a priority product.
- In the evaluation of project proposals, public health perspectives must be taken into consideration next to the other evaluation criteria.
- No promotional measures should be funded that expose youth to alcohol advertisement, in particular through the use of social media.
- The principle should be strictly enforced that no promotional activities should be funded that the beneficiary would have undertaken regardless of EU support.
- The EU should enforce tighter scrutiny of the disbursed funds to combat fraudulent use of the subsidies.

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<sup>3</sup> Journal of Epidemiology and Community Health, 2013.

<https://www.ncbi.nlm.nih.gov/pmc/articles/PMC4158030/>. Retrieved 12 February 2018.

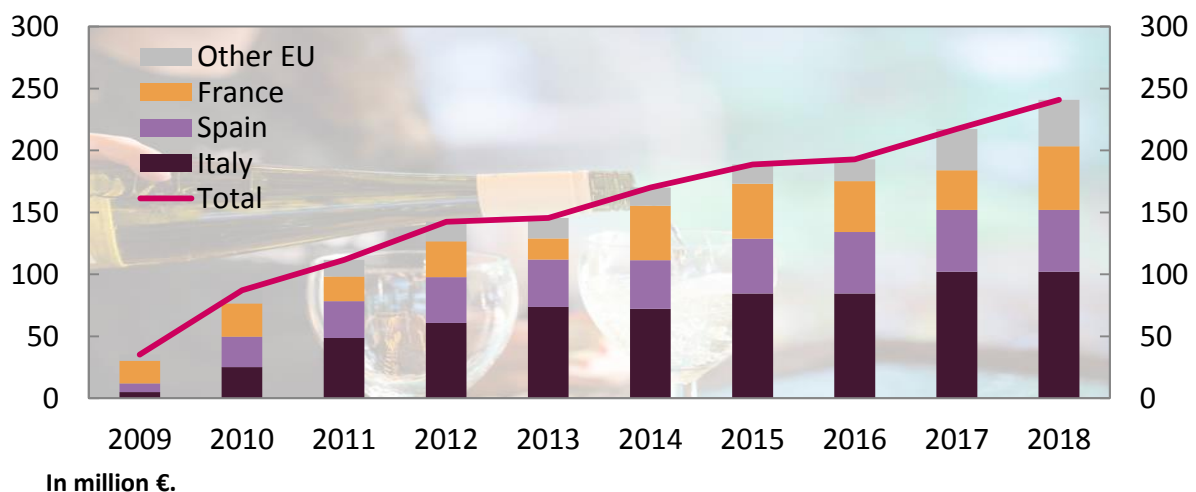
<sup>4</sup> On the assumption of no budget cuts in the wine NSP promotion subsidies (€1009 million in 2014-2018).

## EU wine subsidies in the Common Agricultural Policy

The European wine sector is heavily subsidized by the EU. Wine subsidies through the national support programmes amount to €6024 million between the financial years 2014 and 2018.<sup>5</sup> They are a significant expenditure post under the CAP, whose main objective is to “provide a stable, sustainably produced supply of safe food at affordable prices for Europeans, while also ensuring a decent standard of living for farmers and agricultural workers”.

Subsidies are increasingly directed to the promotion of European wines with the aim of improving their competitiveness abroad. Between 2014 and 2018, €1009 million are earmarked for promotion measures, a doubling over the previous period, 2009-2013.<sup>6</sup> To put the numbers into perspective, EU funding for cancer research totalled €1500 million in 2007-2013.<sup>7</sup> The major wine producing countries Spain, Italy and France receive the lion’s share of the subsidies.

**Wine promotion reaching towards €250 million per year**



The following promotional activities are eligible for support, whereby EU contributions cover up to 50% of expenditures: (a) Public relations, promotion or advertisement measures; (b) participation at events, fairs or exhibitions of international importance; (c) information campaigns; (d) studies of new markets, necessary for the expansion of market outlets; (c) studies to evaluate the results of the information and promotion measures.

This translates into EU taxpayers financing expensive business trips to Asia and America, glamorous wine tastings and networking dinners, glossy ads in wine magazines and enticing

<sup>5</sup> European Commission, 2017. [https://ec.europa.eu/agriculture/sites/agriculture/files/wine/statistics/2009-2018-overview\\_en.pdf](https://ec.europa.eu/agriculture/sites/agriculture/files/wine/statistics/2009-2018-overview_en.pdf). Retrieved 1 March 2018.

<sup>6</sup> Ibid. Retrieved 1 March 2018.

<sup>7</sup> European Commission, 2018. <https://ec.europa.eu/research/health/index.cfm?pg=area&areaname=cancer>. Retrieved 1 March 2018.

messages on alcohol consumption is social media. That's a waste of taxpayers' money and trust. Bestowing upon wine advocates billions of euros violates Europeans' sense of justice: CAP should support toiling farmers who cultivate the agricultural landscape and supply safe food, not pay for a sort of luxury that very few Europeans could afford themselves.

## Ten reasons to reconsider wine promotion subsidies

1. **Cost exceeds benefit.** There are several ways of measuring the impact of the wine promotion activities undertaken by EU's wine producers. The most intuitive and readily available way is to calculate the increase in wine exports from the EU to third countries. If we consider the time period for which there is published data, 2009-2015, the value of wine exports increased by €671 million.<sup>8</sup> Over the same years, promotion subsidies amounted to €692 million.<sup>9</sup> So even in the unlikely case that the entire rise in wine exports is attributable to the promotional efforts outside the EU, the costs are greater than the benefit. That is the equivalent of paying a consultancy firm 100 euros to help achieve company savings of 97 euros (at best). That is a bad deal no matter how one looks at it.

This finding is especially troubling in view of the surging Asian and American demand for wine, which in itself should boost Europe's wine export. Arguably, the export of "Old World" wines would have risen irrespective of Spanish, Italian and French winegrowers attending expensive wine fairs abroad. The promotional activities are an unproductive undertaking in terms of the policy's objective – raising European wine producers' competitiveness abroad.

## EU WINE PROMOTION ABROAD MORE EXPENSIVE THAN INCREASE IN WINE EXPORTS

2. **Unhealthy food.** This unprecedented EU funding of advertisement for a single product disadvantages other major agricultural export sectors such as honey and olive oil, which receive far less EU funding. There is a dissonance between the CAP

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<sup>8</sup> European Commission, 2016. [https://ec.europa.eu/agriculture/sites/agriculture/files/wine/statistics/extra-eu-trade\\_fr.pdf](https://ec.europa.eu/agriculture/sites/agriculture/files/wine/statistics/extra-eu-trade_fr.pdf). Retrieved 19 February 2018.

<sup>9</sup> European Commission, 2017. [https://ec.europa.eu/agriculture/sites/agriculture/files/wine/statistics/2009-2018-overview\\_en.pdf](https://ec.europa.eu/agriculture/sites/agriculture/files/wine/statistics/2009-2018-overview_en.pdf). Retrieved February 2018.

notion of providing a stable supply of “safe food” and EU’s official view that “alcohol related harm is a major public health concern in the EU accountable for over 7% of all ill health and early deaths.”<sup>10</sup>

3. **Public health suffers.** By channelling funds into alcohol promotion without taking public health concerns into account, the promotional activities may undermine the EU’s commitment to the sustainable development goals. In particular, SDG 3.5 requires the EU to strengthen prevention and treatment of substance abuse, including narcotic drug abuse and harmful use of alcohol.
4. **Youth targeted.** Furthermore, the wine industry’s promotional activities heavily rely on marketing in social media that does not differentiate between youth and adult users. And so kids and youth below legal drinking age are exposed to messages that encourage them to drink European wine. The earlier youth start drinking the worse are the long-term health consequences.<sup>11</sup>

## EU-FINANCED ADS TARGET YOUTH IN SOCIAL MEDIA

A recent case involving a Spanish-French collaboration of wine producers from the Iberian border region has an ongoing EU-funded promotion campaign in Canada and the US that specifically targets «millennials» (people born 1984-1994, of which the youngest are 23 years old) and has reached more than 8 million people through their PR work, of which more than 3 million on social media (where youth below legal drinking age are present in large numbers).<sup>12</sup> Alcohol ads in social media quickly spread to kids and youth; once online, preventing the ads from disseminating throughout the web is impossible.

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<sup>10</sup> European Commission, 2018. [https://ec.europa.eu/health/alcohol/policy\\_en](https://ec.europa.eu/health/alcohol/policy_en). Retrieved 21 February 2018.

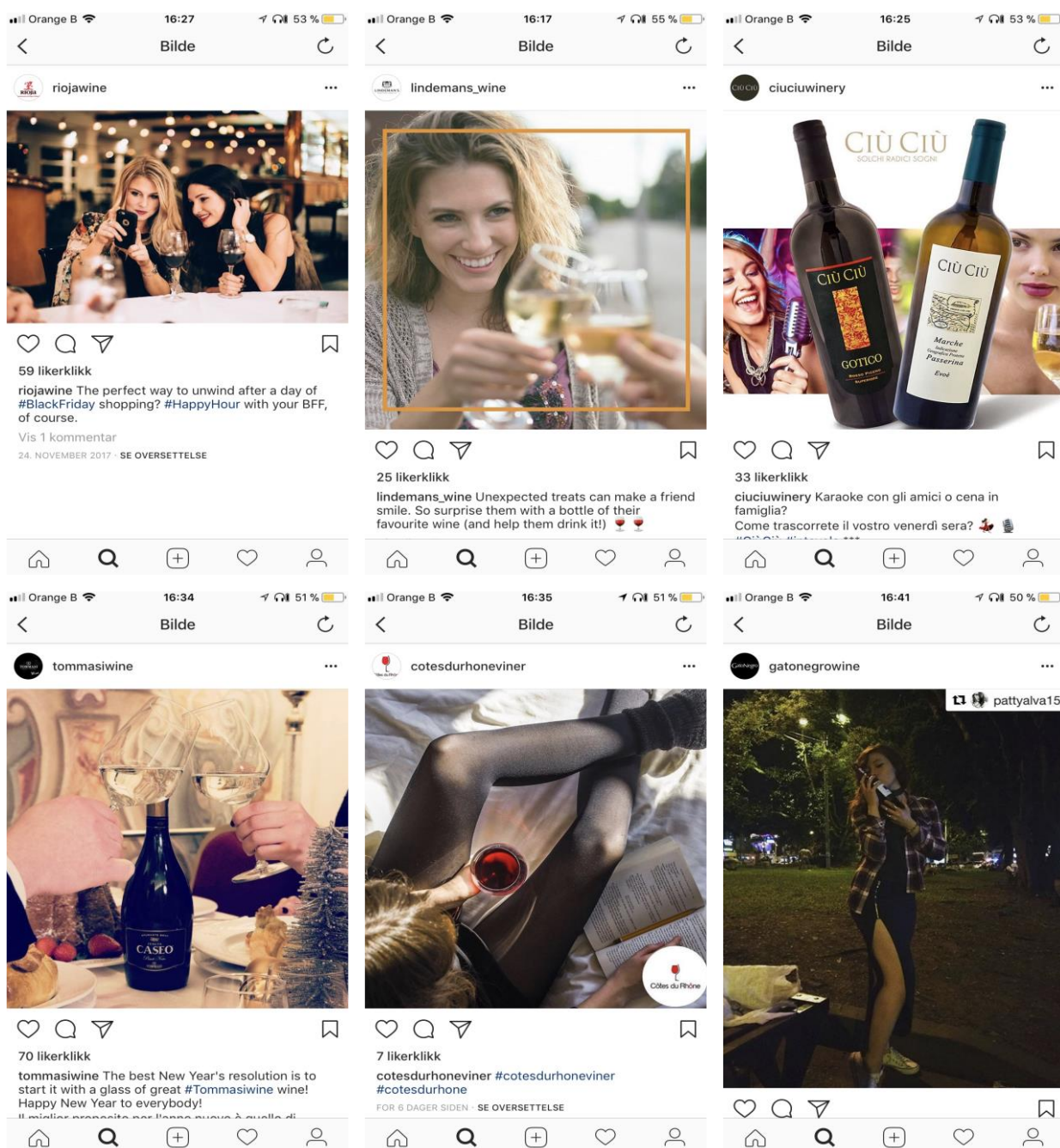
<sup>11</sup> Journal of Epidemiology and Community Health, 2013.

<https://www.ncbi.nlm.nih.gov/pmc/articles/PMC4158030/>. Retrieved 12 February 2018.

<sup>12</sup> European Garnacha/Grenache Quality Wines, 2018. [https://ec.europa.eu/chafea/agri/sites/chafea/files/12-european-garnacha-sofia-gonzalez-and-eric-aracil\\_en.pdf](https://ec.europa.eu/chafea/agri/sites/chafea/files/12-european-garnacha-sofia-gonzalez-and-eric-aracil_en.pdf). Retrieved 1 March 2018.



## Examples of wine advertisement in social media

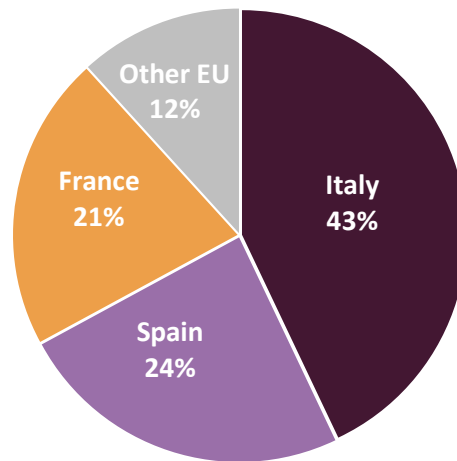


These examples show some of the forms that advertisement for alcoholic beverages can take in social media and their prevalence among wine producers in Europe.<sup>13</sup> The EU should not finance wine ads, of which youth and young adults are evident targets, making this kind of advertisement even more widespread.

<sup>13</sup> Screenshots from the social media app Instagram taken on 28 February 2018.

5. **The «Big Three» get bigger.** The promotion subsidies distort the wine industry by granting already large producing nations almost the whole pie of funds. Council Regulation (EC) 2702/1999 states that the measures «shall not be directed towards particular brand names, nor shall they favour the products of any one Member State.»<sup>14</sup> However, almost 90 percent of the funds are awarded to Spain, France and Italy, which reinforces these countries' grip of consumer markets.<sup>15</sup> Indeed, a 2014 audit concluded that “the promotion actions are often used for consolidating markets, rather than winning new markets or recovering old markets.” Thereby, the big producers get even bigger. The EU wine promotion scheme thereby disadvantages smaller wine producers in the periphery and violates its own core principles.

### Three countries pocket 9 of every 10 euro



6. **Funds are misused.** In the relatively short life of EU's wine promotion funds, many cases of serious misuse on the side of the beneficiaries have been exposed. Although single farmers have been sanctioned accordingly the misconduct continues, bringing the entire scheme into question. Some examples of reported misuse include the following:

In 2015 a prestigious Bordeaux wine maker was found guilty of fraud over the misuse of €592,000 in EU promotional subsidies. The funds were purportedly spent on promoting wines in Russia, China and Brazil, but the state prosecutor found that these services were fictional. The wine maker had used the money privately.<sup>16</sup>

Another case involved a beneficiary that demanded reimbursement for invoices totalling €3,405 presented as “informative travels for journalists, importers,

<sup>14</sup> European Council, 1999. <http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:31999R2702&from=EN>. Retrieved 16 February 2018.

<sup>15</sup> Share of total promotional funds in the period 2009 – 2018.

<sup>16</sup> The Telegraph, 2016. <http://www.telegraph.co.uk/news/worldnews/europe/france/12106391/Top-Bordeaux-wine-maker-guilty-of-misusing-450000-in-EU-subsidies.html>. Retrieved 21 February 2018.



market co-ordinators, etc to the area where the wine is produced.” An EU audit revealed that this amount was actually the payment of three VIP tickets for a tennis championship.<sup>17</sup>

The same audit discovered €2.40 million misused for the promotion of champagne, a brand that is already world-famous and does not qualify for EU subsidization.<sup>18</sup>

In the last years, the EU has been in the process of recovering mismanaged or embezzled agricultural subsidies from at least 15 countries totalling several hundred million euros.<sup>19</sup>

## PROVEN CASES OF FRAUD OVER WINE SUBSIDY MISUSE THROUGHOUT EUROPE

7. **Consolidation instead of commercialization.** In 2014, the European Court of Auditors concluded that “the promotion actions are often used for consolidating markets, rather than winning new markets or recovering old markets.”<sup>20</sup> The auditors also documented a deadweight effect by which the beneficiaries got funding for promotion actions they would have taken regardless of grant aid. Effectively, in these cases EU subsidises are pocketed by farmers as pure profit and not used for reaching new customers.
8. **Administrative burden.** Applicants for funding are subject to complex documentation requirements that are especially overwhelming to small producers with limited capacity. As a result, specialised companies are hired to help wineries compete for these EU funds, giving rise to secondary costs. Due to the costly administrative process of applying for and managing the disbursed funds, large wine companies with better management capacity stand a better chance at winning the

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<sup>17</sup> European Court of Auditors, 2014.

[https://www.eca.europa.eu/Lists/ECADocuments/SR14\\_09/QJAB14005ENC.pdf](https://www.eca.europa.eu/Lists/ECADocuments/SR14_09/QJAB14005ENC.pdf). Retrieved 27 February 2018.

<sup>18</sup> Financial Times, 2015. <https://www.ft.com/content/982ed0e4-8a1d-11e4-9b5f-00144feabdc0>. Retrieved 21 February 2018.

<sup>19</sup> Euractiv, 2015. <https://www.euractiv.com/section/agriculture-food/news/france-told-to-pay-back-1-1-billion-in-eu-farm-subsidies/>. Retrieved 21 February 2018.

<sup>20</sup> European Court of Auditors, 2014.

[https://www.eca.europa.eu/Lists/ECADocuments/SR14\\_09/QJAB14005ENC.pdf](https://www.eca.europa.eu/Lists/ECADocuments/SR14_09/QJAB14005ENC.pdf). Retrieved 18 February 2018.

limited funds than smaller companies. This creates a bias in favour of wine farmers that already hold a relatively large market share.

9. **“Beauty contest” for EU favour.** The competition for EU agricultural promotion funds is stark: In 2017, total applications exceeded total funds ten times.<sup>21</sup> As an illustration, a Florence-based company has helped more than 500 Italian wineries manage the application process – and made good money along the way. Statistically, at least 450 of these wineries will on average not be successful in getting funding.

Wine farmers compete for the funds by hiring professional expertise and spending significant sums on trying to outshine other farmers. Every euro spent on these “business make-up” efforts are wasted resources since they only affect the relative success probability of each winery in the contest for EU grants – it neither determines the amount nor efficiency of funds finally spent on wine promotion in third countries. The new consultancy industry growing on top of the wine industry due to the stark competition is an added cost to the EU community.

## EU WINE FARMERS FACE 90% REJECTION RATE FOR AGRI PROMOTION FUNDS

10. **Lacking accountability.** Moreover, in the case of the promotion measure in the national support programmes, each member state is in charge for the selection of subsidy recipients, for the documentary check and result assessment following the promotion measures. The failure of a state to uncover malpractice or fraud has no direct consequences for the state since the EU as carrier of the financial burden holds the stakes.

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<sup>21</sup> Applies to promotion of agricultural products as regulated by Regulation (EU) 1144/2014.

## EU's support of the wine industry has gotten out of hand

It's time to overhaul EU's wine promotion scheme. Because wine is not a "safe food" the massive financial promotion support over the CAP is ill-placed. Public health concerns have been neglected – they need to be considered alongside profitability criteria. Wine farmers' taste for social media campaigns directed at youth are very troublesome and should grab the attention not only of public health advocates but also of anyone who cares about children's rights.

Within the framework of the national support programmes, wine companies or consortia may receive funding for promoting "responsible drinking" within the EU. The wine industry is not well placed for this type of educational campaigns: It is not a legitimate stakeholder and may send mixed messages about alcohol consumption, considering its interests in increasing total wine sales.

Additionally, to prevent EU taxpayers' money to end up as profit in the pockets of wealthy wine farmers, relevant national authorities should strictly enforce the principle that no activities be funded that would take place regardless of EU support. In the same vein, the EU should enforce tighter monitoring of how beneficiaries use the promotional subsidies. Evidence has shown that fraudulent use of funds among wine farmers is a major problem, to the detriment of the whole wine promotion scheme.