

» *Subsidies are trade barriers
with a social veneer.* «

EDITORIAL

BY JOEL B. PAYNE

Politicians tend to postpone delicate matters. Their principle aim is not to solve difficult problems, but to push the right pawns forward to insure the permanence of their own elected office. It is thus not surprising that the reforms necessary for the European Union's wine market have been postponed until the summer.

The original goal was laudable: 1) To increase the competitiveness of European wine producers, strengthen the reputation of quality wine, recover old markets and win new ones; 2) To create a regime that operates with clear, simple and effective rules to ensure a balance between supply and demand; and 3) to preserve the finest European traditions while reinforcing the social fabric of rural areas.

However, as the European foreign trade budget spirals downwards, taxpayers' money is being wasted on relics of the past rather than investing in the future. Paying grape farmers to produce wine that no one wants to drink is pandering to the public. Structural changes will come anyway. Wouldn't it be wiser to invest the 1.3 billion Euros spent annually in distribution and communication to aid those with a future to compete in the rapidly changing world of global markets? It has been more than a year now since the European Commission created a panel of experts to ponder reform. Unveiled last June, the plan included a proposal to grub up 400,000 hectares of vines. Opposition by France, Spain and Italy put the proposal on ice. Meanwhile, most European wines continue to struggle against those of the New World in the all important British, American and German markets - and are encountering increased competition in emerging markets. At the same time, European domestic consumption is falling and, potentially more threatening, the youth no longer sees wine as integral part of their lifestyle.

California went through a phase of overproduction from 2001 to 2004. During those years, grapes were left on the vine due to lack of demand and acreage was reduced. Prices fell, and investors lost money, but the law of supply and demand righted the situation. Most observers expect the industry to be back in balance in a few years. Similarly, Australia today sits atop a vast lake of unsold wine, but few are waiting for the government to step in and bail them out. Even fewer want it. Instead, they have learned to mothball vineyards, sell off excess wine in bulk, even if it be at a loss, and set their sights on new markets.

Sure, their excess production was partially responsible for the severe price compression that we have seen in many markets as supply outpaced demand. On the bright side, these events have put an untenable European model out for the count. Binding the hands of those with progressive ideas is proving to be not only backwards, but also untenably expensive.

