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Committee on Budgetary Control

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WORKING DOCUMENT

on European Court of Auditors' Special Report No 9/2014 (2013 Discharge) "Is the EU investment and promotion support to the wine sector well managed and are its results on the competitiveness of EU wines demonstrated?"

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Introduction

The European Union (EU) is the world's biggest wine producer. In 2005 there was a structural surplus production of wine estimated at 18,5 million hl and in 2008, the Council introduced a reform of the common organisation of the market (CMO) in wine aimed essentially at improving the competitiveness of EU wine producers and balancing supply and demand.

Since 1 August 2008, market intervention measures, such as distillations, export refunds and storage measures, have been gradually reduced and ended on 31 July 2012. As a result market intervention expenditure fell from 364 million euro a year prior to the implementation of the wine CMO reform (2007/08) to zero in 2012/13.

In the National support programmes (NSPs), for the programming period 2009–2013, promotion and investment measures represent each 10 % of the budget, i.e. 522 and 518 million euro respectively.

Contribution to promotion activities shall not exceed 50 % of the eligible expenditure and the maximum aid rate for investment measure is 40 % of the eligible investment costs.

The Court examined whether the investment and promotion support measures to the wine sector are well managed and whether its results on the competitiveness of EU wines are demonstrated.

ECA findings

The ECA audit focused on the first 3 years of the implementation of the reform (projects funded between wine year 2008/09 and 2010/11) and arrived at the following conclusions:

- the management of investment and promotion support to the wine sector during the initial years was adversely affected by design and implementation weaknesses;
- the need for an additional investment measure specific to the wine sector and the impact on the competitiveness of EU wines was not always demonstrated;
- the investment measure is a source of complexity, created administrative obstacles and in some Member States resulted in implementing delays or in an excessively restrictive scope of the eligible investments;
- the investment measure was not always implemented with due regard to the principle of economy;
- for the implementation of the promotion measure Member States were insufficiently selective funding projects where beneficiaries would have borne the costs of the promotion actions without EU support;
- most Member States audited did not ensure that only viable projects received the aid;

- the reasonableness of projects costs was not systematically evaluated and promotion actions were often used for consolidating markets whereas large enterprises were also funded;
- the costs of promotion actions, overheads and costs of implementing bodies were insufficiently justified;
- the Commission and the Member States do not yet produce sufficient relevant information to show the direct results attributable to the investment and promotion actions measures;
- there is a risk that the 2014–18 budget to the promotion measure is set at too high a level compared to the funds spent in the previous programming period.

Court's recommendations

In light of its findings the ECA recommended that the Commission and the Member States should:

For the investment measure:

1. The Commission should monitor the absorption of funds, analyse the need for the measure and assess whether the wine sector compared to other agricultural sectors needs additional investment aid;
2. Member States should perform a systematic assessment of the reasonableness of project costs and the financial viability of the beneficiary's projects.

For the promotion measure:

1. The governing regulation should restrict individual beneficiaries from presenting in each programming period a promotion programme for the same targeted countries;
2. The Commission should limit the scope of the measure concerning the eligibility of brand advertising and give more emphasis to favouring the accession of SMEs to the promotion measure;
3. The Commission should ensure that Member States in their selection procedures require beneficiaries to clearly demonstrate their need for EU aid and that normal operating costs are not financed by the EU budget;
4. The Commission should ensure that ancillary costs such as implementing bodies' costs and overheads are properly justified and limited to a maximum percentage of the total costs;
5. The Commission should require Member States to evaluate more closely the results of promotion projects;
6. The Commission should analyse how the budget allocated to the NSPs for the period 2014–18 matches the needs of the EU wine sector and the absorption capacity of the Member States and readjust if appropriate the budget.

Recommendations by the draftswoman for possible inclusion in the 2013 Commission discharge report

1. Welcomes the findings and recommendations of the European Court of Auditors' Special Report No 9/2014 on the EU investment and promotion support to the wine sector and its results on the competitiveness of EU wines;
2. Notes the adoption by the Council and the Parliament of the Regulation (EU) No 1308/2013 on the new common organisation of the markets for the period 2014–20;
3. Recalls the Court’s Special Report No 7/2012 (Discharge 2011) on the reform of the common organisation of the market in wine: Progress to date and the Committee on Budgetary Control report that followed;
4. Fully endorses that the aid scheme should be rationalised and the Commission should periodically monitor the absorption of funds; insists on the absolute need that the investment measure should be business and result oriented and that best practice models should be encouraged and lessons learned from them;
5. Expresses its concerns about the unsuccessful efforts to attract more SME's for the EU promotion support to the wine sector; considers that the co-financing rates should be revised thereby benefiting small and medium sized enterprises (SMEs), thus making the participation of potential SME beneficiaries', especially with limited administrative and financing capacities, easier;
6. Considers that a common system of assessment of the promotion measure needs to be in place to ensure that the Commission and the Member States will be able to analyse the extent of progress and achievement of the defined objectives and its impact on the wine sector competitiveness at Member States' level; points out that an increase of global market share of the respective wine company could be part of that common system of assessment;
7. Endorses the Court of Auditors' recommendation that ancillary costs such as implementing bodies’ costs and overheads are properly justified and limited to a maximum percentage of the total costs;
8. Emphasises the key importance that an appropriate policy mix between investment and promotion is available; believes that the Commission and Member States should be more efficient in the application of the measures; notes, in particular, for the promotion measure, that beneficiaries should be required to demonstrate their need for EU aid, normal operating costs should not be financed, and the support for beneficiaries presenting, in each programming period, promotion programmes in the same targeted countries should be restricted; points out furthermore that the results of the promotion actions should be assessed at beneficiary level rather than for the entire EU wine sector;
9. Supports the Court's recommendation that the Commission should analyse how the budget allocated to the NSPs for the period 2014–18 matches the needs of the EU wine sector, the absorption capacity of the Member States and readjust the budget where appropriate;
10. Welcomes the positive evolution of the Union's exports of quality wines; points out that the Union should identify and exploit its competitive advantage in multilateral and ever competitive world wine market and should work for encouraging Union's wine producers,

to develop world-class quality wines that help further match the Union's balance between supply and demand.