



Implementation of green harvesting in the Sicilian wine industry: Effects on the cooperative system

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Abstract

This paper contributes to assessing the effectiveness of the GH measure to contribute in reducing the supply of wine grapes, and thus contrasting the fall of wine prices in those years when especially abundant productions are expected. By analysing the application of this measure to the Sicilian wine sector during the three-year period (2010–2012), we assess its effects on the regional wine cooperative system. The results from the analysis of the statistical data show that the GH measure was successful in terms of the number of applications, the supported area and financial expenditures, and contributed with other factors to determining a reduction in wine grape production. The empirical survey shows that GH has been contributing to contrast the fall of wine prices in this region and helping the recovery of the wine market. However, an increase in operating costs as well as difficulties in the planning activities of the cooperatives has been recorded.

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1. Introduction

Over the last few years the world wine market has undergone profound structural changes, in terms of both market supply and demand (Mariani et al., 2012; Vrontis et al., 2011a; Vrontis and Pappasolomou, 2007). Old wine producers, such as France, Italy and Spain, leave room to new producers, among which Argentina, Chile, Australia and South Africa, leading to a significant geographical change of the global productive scenario. The demand for wine has also registered a geographical change, with a fall in the traditional markets in line with the social changes that have occurred through time (Contò et al., 2014; Corsi et al., 2014; Crescimanno and Galati, 2014;

Pomarici and Vecchio, 2014), and an increase in new consumer markets, especially Russia and China.

In particular, the European Union (EU) wine industry, despite a wealth of complex regulations, has suffered in the recent past from structural imbalances caused by the surplus wine production, the concurrent steady reduction in wine consumption, the slower growth in EU exports and the growing competition from new world wines (European Commission, 2006a, 2007a; Čačić et al., 2012; Meloni and Swinnen, 2013; Gori and Alampi Sottini, 2014). To cope with these issues a new Common Market Organisation (CMO) for wine has been launched in 2008 and then reviewed within the general reform of the CAP 2014–2020. Besides tending towards a greater equilibrium between supply and demand, the CMO intends to increase the competitiveness of EU producers in foreign markets. Among the measures adopted, the green harvesting (GH) consists in the “total destruction or elimination of grape bunches while still in their immature stage” in order to restore a sustainable equilibrium in the EU wine market, and to contain the collapse in the product price for the producer. The measure has been implemented in Italy,

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which in 2012 has been the second most important wine producer in the EU (42.7 million hl), and in Slovenia and Cyprus, despite their marginal role in terms of wine production (respectively, 849.8 thousand hl and 84.3 thousand hl) (Eurostat, 2014; Vrontis et al., 2011b). The main reasons that led these two latter countries to adopt the GH can be ascribed to the importance of the wine sector in their economy, and also to the social (family farms involved in production of grapes), environmental and cultural aspects of viticulture and wine production (Vrontis and Paliwoda, 2008; Bojnec, 2006; Noev and Swinnen, 2001).

In Italy, the most active and receptive region for this measure has been Sicily. Sicily is one the most important wine-producing regions, not only because of the quality of the productions but also for the volume of wine production (Chinnici et al., 2013; Di Vita et al., 2013). Among the 9 measures introduced by the Italian National Support Programme (NSP) for wine, the most successful in Sicily, for the financial years 2010–2012, has been the GH, with the highest relative expenditure, equivalent to just over 40 million euro (RRN, 2013). The market recovery in 2012 has pushed the Sicilian regional administration not to provide any tender in the years 2013 and 2014 (differently compared to other Italian regions), despite the pressures from some producers' organisations. In general the GH replaces the distillation measure of the previous CMOs for wine, and strongly implemented by Sicilian wine cooperatives in the past (Nesto and Di Savino, 2013). The adoption of GH has fostered a strident criticism, in particular from the operators of the Sicilian wine cooperatives; these latter continue to be a vital economic resource, especially for growers with small vineyard plots, turning nearly 80% of the regional grapes production in wine (Sarnari, 2011; Schimmenti et al., 2014).

In order to assess the effectiveness of the GH measure to contribute in reducing the supply of wine grapes, and thus contrasting the fall of wine prices in those years when especially abundant productions are expected, an empirical survey on the Sicilian cooperative system has been carried out. In particular, the impact of this measure is analysed with reference to the grape growers' cooperatives operating in the western part of the Island (Trapani, Agrigento and Palermo) where the wine industry holds a significant importance in economic and social terms and the GH registered its quasi-entirety of adhesions at a regional level (99.9% in the three-year period of 2010–2012).

2. Changes in the CMO for wine

The peculiarities of the EU wine sector are reflected in the complexity of the policies adopted over the years and in the framework regulations. The CMO for wine, born in the early 1970s, has always been distinct from the others in agriculture because, in addition to common problems, it has had to deal with questions that are specific to the sector, such as regulations governing the control of, and reduction in, production potential, the movement and introduction to consumption of

viticulture products, the oenological practices and treatments as well as the regulation of the quality of the wines.

The 2008 reform, defined by the Regulation (EC) No. 479/2008 (Regulation abrogated and merged into the single CMO regulated by the Regulation (EC) No. 1234/2007), has been necessary both in relation to the need to correct the measures adopted in the 1999 reform, and in relation to more general changes in the Common Agricultural Policy (CAP). The main reasons that have led to a further reform of the wine CMO must be sought both in a persistent condition of imbalance between supply and demand within the EU market, underlining the ineffectiveness of the measures adopted in the previous regulation, and in a progressive loss of competitiveness of EU wines in the international market to emerging producers (Galati et al., 2014; Begalli et al., 2009). This recent development is due to a greater penetration of non-EU wines on the EU market thanks to a more favourable price quality ratio and to more effective marketing strategies. This legislation seeks to correct such inefficiencies by fostering the shift from an intervention based primarily on market measures towards an intervention aimed at increasing the vine growers' competitiveness, in line with the guidelines of the new CAP (Pappalardo et al., 2013). Together with the progressive elimination of traditional market measures (including potable alcohol distillation, crisis distillation and the use of concentrated musts, known as phasing out measures), the 2008 wine CMO has resulted in the consolidation of two measures previously adopted with Agenda 2000 (restructuring and conversion of vineyards and distillation of by-products of winemaking), and also the introduction of six more measures aimed at improving the competitiveness of the production chain during its various phases (promotion on third-country markets and investments), reducing risks and crises (green harvesting, mutual funds, harvest insurance) and cutting the link between subsidies and production with the decoupling of direct aid to producers (single farm payment) (European Commission, 2006a, 2006b, 2007a, 2007b, 2007c; Meloni and Swinnen, 2013). The reform aims at the reduction of wine surpluses via ex-ante measures (e.g. GH) rather than ex-post measures (aid with private storage or distillation) (Iannettoni, 2009; Meloni and Swinnen, 2013). With the same goals, referring to the control of the production capacity, the Regulations (EC) Nos. 1234/2007 and 479/2008 introduce the grubbing-up scheme until the end of the wine year 2010–2011 and maintain planting rights until the end of 2015. Concerning this latter issue, the Regulation (EU) No. 1308/2013, included in the more general reform of CAP for 2014–2020 period, replaces provision concerning planting right regime with the new regime of authorizations for vine planting from 2016 to 2030. Whether on the one hand the reform introduces the possibility of giving flexibility to the production potential, on the other side it could produce considerable relevant implications for the market equilibrium of grape's production such as oversupply, general fall in prices and reduced negatively affected producer's incomes. The latest regulation proposes some other substantial modifications concerning the wine industry. Referring to the support measures,

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