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Special Report

# 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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(pursuant to Article 287(4), second subparagraph, TFEU)

# Contents

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# Abbreviations



**EAGF**: European Agricultural Guarantee Fund

**EAFRD**: European Agricultural Fund for Rural Development

**ERDF**: European Regional Development Fund

**EU**: European Union

**EU-27**: European Union of 27 Member States

**ha**: hectare

**hl**: hectolitre

**NSP**: national support programme

**PDO**: Protected Designation of Origin

**PGI**: Protected Geographical Indication

**RD**: rural development

**USD**: United States Dollar

**Wine CMO**: common organisation of the market in wine

# Glossary



**By-product distillation measure**: Support granted for the voluntary or obligatory distillation of by-products of wine making (grape marc and wine lees) which has been carried out in accordance with the conditions laid down in point D of Annex XVb to Council Regulation (EC) No 1234/2007.

**Concentrated grape must**: Concentrated grape must is uncaramelised grape must which is obtained by partial dehydration of grape must carried out by any authorised method other than by direct heat.

**Crisis distillation**: Support granted until 31 July 2012 for voluntary or obligatory distillation of surplus wine decided upon by Member States in justified cases of crisis so as to reduce or eliminate the surplus and at the same time ensure supply continuity from one harvest to the next.

**Deadweight effect**: A situation where a subsidised project would have been wholly or partly undertaken without the grant aid.

**Economy**: The principle of economy is concerned with attaining a given level of outputs or results at the lowest costs.

**Effectiveness**: The principle of effectiveness is concerned with attaining the specific objectives set and achieving the intended results.

**Efficiency**: The principle of efficiency is concerned with the best relationship between resources employed and the outputs or results produced.

**Export refunds**: Under the common agricultural policy the European Union sets minimum price levels for certain farm products. These minimum price levels in many cases are higher than the world price level for the same products. When farmed products have to be exported to third countries (=outside the EU), it is necessary to bridge the price between the EU price level and the world market price level. This bridging is done by paying exporters export refunds. Export refunds vary in time, by product sector and by the products made thereof.

**Green harvesting measure**: Green harvesting means the total destruction or removal of grape bunches while still in their immature stage, thereby reducing the yield of the relevant area to zero. Support for green harvesting may be granted as compensation in the form of a flat rate payment per hectare to be determined by the Member State concerned.

**Grubbing-up premium**: Support granted to vine growers for the permanent withdrawal of all vines in a parcel or holding.

**Harvest insurance measure**: Support aimed at contributing to the safeguarding of producers' incomes where these are affected by natural disasters, adverse climatic events, diseases or pest infestations.

# Glossary



**Investment measure**: Support granted for tangible or intangible investments in processing facilities, winery infrastructure and marketing of wine which improve the overall performance of the enterprise and concern one or more of the following: (a) the production or marketing of products referred to in Annex XIb to Council Regulation (EC) No 1234/2007; (b) the development of new products, processes and technologies related to the products referred to in Annex XIb.

**Mutual funds measure**: Mutual funds shall provide assistance to producers seeking to insure themselves against market fluctuations. Community support for the setting-up of mutual funds may be granted in the form of temporary and digressive aid to cover the administrative costs of the funds. This measure was not chosen by any Member State.

**National support programme/national envelope**: Wine producing Member States use EU wine CMO funds through national support programmes to finance specific support measures to assist the wine sector (Article 103i of Regulation (EC) No 1234/2007). Member States submit to the Commission 5-year support programmes containing measures in accordance with the rules governing the wine sector (Article 103k of Regulation (EC) No 1234/2007).

**Other wines**: Wines non-eligible to the promotion measures, for example table wines without any grape variety indication.

**Potable alcohol distillation measure**: Support granted, in the form of a per-hectare aid, until 31 July 2012 to producers, for wine which is distilled into potable alcohol.

**Programming period**: National support programmes are drawn up for a period of 5 years. Programming period 2009–13 is the first one and the second one is 2014–18.

**Promotion measure**: Support for information or promotion measure concerning Community wines. The promotion measure relates to wines with a Protected Designation of Origin or Geographical Indication or wines with an indication of the grape variety. This measure may consist only of: (a) public relations, promotional 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 markets outlets, and (e) studies to evaluate the results of the promotional and information measures. The Community contribution to promotion activities shall not exceed 50 % of the eligible expenditure (Article 103p of Regulation (EC) No 1234/2007).

**Restructuring and conversion of vineyards measure**: Support for restructuring and conversion of vineyards may only cover one or more of the following activities: (a) varietal conversion, including by means of grafting-on; (b) relocation of vineyards; (c) improvements to vineyard management techniques. The normal renewal of vineyards which have come to the end of their natural life shall not be considered as a restructuring and conversion activity. Support for restructuring and conversion of vineyards may only take the following forms: (a) compensation of producers for the loss of revenue due to the implementation of the measure; (b) contribution to the costs of restructuring and conversion.

# Glossary

**Rural development programme**: A document prepared by a Member State or region, and approved by the Commission, to plan the implementation of the RD policy.

**Single payment scheme**: An aid scheme which replaced most of the pre-existing direct aid payments and in which aid is decoupled from any obligation to produce. Instead, full payment of aid is subject to the condition that farmers keep all their land in good agricultural and environmental condition (GAEC) and respect statutory management requirements (SMRs) — the so-called cross-compliance. Member States may provide support to vine-growers by allocating to them payment entitlements within the meaning of Chapter 3 of Title III of Regulation (EC) No 1782/2003 in accordance with point O of Annex VII to that regulation.

**Sound financial management**: According to Article 27 of the financial regulation applicable to the general budget of the European Communities (the 'financial regulation' (OJ L 248, 16.9.2002)), the concept of sound financial management comprises the principles of economy, efficiency and effectiveness.

**Varietal wine**: Wines without geographical indication which are allowed under certain conditions to mention the grape variety. These wines are eligible to the promotion measure.

**Wine year**: The production year for wine products (described in Part XII of Annex I to Regulation (EC) No 1234/2007). It begins on 1 August each year and ends on 31 July of the following year.

# Executive summary



## I

The European Union (EU) is the world's biggest wine producer. 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, this in the context of a long persisting structural surplus of supply over demand. The main financial instruments of this reform include a temporary grubbing-up scheme and the setting up of national support programmes (NSPs), whereby Member States choose among 11 available measures those best adapted to their particular situation.

## II

The Court covered in a previous audit[1] the grubbing-up of vineyards, which principally aimed at balancing supply and demand. With this audit, the Court examined whether the investment and promotion support to the wine sector is well managed and whether its results on the competitiveness of EU wines are demonstrated. The Court concludes that the management of investment and promotion support to the wine sector during the initial years covered by the audit was adversely affected by design and implementation weaknesses highlighted in this report and the impact on the competitiveness of EU wines was not always demonstrated.

## III

The need for an additional investment measure specific to the wine sector is not demonstrated as it already existed under the rural development policy. This supplementary 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. At the time of the audit, a significant portion of the initial allocations made by Member States to the investment measure had to be reallocated to other measures of the NSPs.

1 Special Report No 7/2012 — The reform of the common organisation of the market in wine: Progress to date (http://eca.europa.eu).

## IV

Furthermore, the investment measure was not implemented with due regard to the principle of economy. Most Member States audited did not ensure that only viable projects received the aid and there is a risk of overspending, as the reasonableness of projects costs was not systematically evaluated.

## V

The promotion actions are often used for consolidating markets, rather than winning new markets or recovering old markets. Despite the intended preference to support SMEs, large enterprises were also funded.

## VI

Member States were insufficiently selective in the implementation of the promotion measure. In particular, the Court found clear cases where beneficiaries would have borne the costs of the promotion actions without EU support. Furthermore, the costs of promotion actions, overheads and costs of implementing bodies were insufficiently justified: supporting documentation was poor or defective. This undermines the effectiveness of Member States' documentary checks to ensure the occurrence and eligibility of promotion actions.

## VII

The available funds dedicated by Member States to the promotion measure are budgeted to more than double for the programming period 2014–18 compared to the funds spent in the previous programming period[2]. Given the difficulties experienced by the Member States to spend the 2009–13 budget initially earmarked for promotion actions, there is a risk that the 2014–18 budget is set at too high a level, thus endangering the application of sound financial management principles.

2 522 million euro were spent under the promotion measure in the programming period 2009–13. For the programming period 2014–18, Member States allocated 1 156 million euro to the promotion measure (EU-27). This means an increase of 121 % compared to the funds spent in the previous period.

## VIII

The Commission and the Member States audited do not yet produce sufficient relevant information to show the direct results attributable to the measures. In the case of the investment measure, the effect of CMO investments cannot be easily separated from rural development investments. In the case of the promotion measure, the result indicators used cover many variables outside the influence of the promotion actions. Consequently, the results of the measures are not yet demonstrated.

## IX

On the basis of these observations the Court recommends the following.

For the investment measure:

(a) In order to rationalise the aid scheme, 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.

(b) Member States should mitigate the risk to the economy by a systematic assessment of the reasonableness of project costs and the financial viability of the applicants. The result of these assessments should be adequately documented. The Commission should ensure that Member States apply these checks effectively.

For the promotion measure:

(a) The governing regulation should restrict individual beneficiaries from presenting in each programming period a promotion programme for the same targeted countries. The Commission should also 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.

(b) In order to minimise the risk of deadweight 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.

(c) 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.

(d) The Member States should ensure a sufficient audit trail linking every promotion aid to specific and adequately documented actions.

(e) The Commission should require Member States to evaluate more closely the results of promotion projects. In particular, the results of the promotion actions should be assessed at beneficiary level rather than for the entire EU wine sector. Member States should make better use of the reports produced by beneficiaries at the end of the promotion actions to assess and consolidate their results.

(f) After a sufficient period of time has elapsed, 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. Based on this analysis, the Commission should readjust where appropriate the budget to ensure that it provides incentives for Member States to be more efficient in the application of the measures.

## The wine sector in the EU

### 01

The European Union is the world's biggest wine producer. With around 3 million ha of vines, the EU produces on average approximately 158 million hl of wine per year. Annual average consumption within the EU is approximately 127 million hl[3]. During the wine year 2011/12, around 23 million hl of wine were exported to third countries and 14 million hl of wine were imported, corresponding to a market value of 8,6 billion euro and 2,4 billion euro[4] respectively (see wine supply balance sheet in ***Annex I***).

### 02

In 2005, when the Commission initiated its preparatory work for a reform of the common organisation of the market (CMO), there was a structural surplus production of wine estimated at 18,5 million hl.

### 03

In a communication to the Council and the European Parliament[5] the Commission stated that the growing imbalance between supply and demand was the principal reason for reforming the CMO. In 2007 the Commission published an impact assessment[6], which evaluated the situation of the EU wine sector. This impact assessment confirmed an unsustainable market imbalance and a loss of competitiveness of EU wines compared to non-EU ones.

### 04

In 2008, the wine CMO was reformed by Council Regulation (EC) No 479/2008[7]. According to the impact assessment, two of the main objectives of the wine CMO reform were:

— to enhance the competitiveness of European wine; and

— to ensure a better balance between supply and demand.

### 05

Since 1 August 2008, market intervention measures, such as distillations, export refunds and storage measures, have been gradually reduced and on 31 July 2012 these measures ended completely[8]. 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.

3 Eurostat, wine supply balance sheet, average last 5 wine years (2007/08–2011/12).

4 Data sources: Eurostat, Comext database, data extraction 24 July 2013.

5 COM(2006) 319 final of 22 June 2006.

6 SEC(2007) 893 final of 4 July 2007.

7 Council Regulation (EC) No 479/2008 of 29 April 2008 on the common organisation of the market in wine, amending Regulations (EC) No 1493/1999, (EC) No 1782/2003, (EC) No 1290/2005, (EC) No 3/2008 and repealing Regulations (EEC) No 2392/86 and (EC) No 1493/1999 (OJ L 148, 6.6.2008, p. 1). In August 2009, that regulation was repealed and the wine CMO was integrated into the single CMO established by Council Regulation (EC) No 1234/2007 of 22 October 2007 establishing a common organisation of agricultural markets and on specific provisions for certain agricultural products (OJ L 299, 16.11.2007, p. 1).

8 Only by-product distillation remained as its purpose is to ensure wine quality production and environment-friendly wine production.

**06**

The main financial instruments of the reformed wine CMO for the programming period 2009–13 are the following.

(a) Voluntary grubbing-up of vineyards, the aim of which was to create a wine sector attuned to market conditions by allowing less competitive vineyards to be permanently removed. This scheme ended in wine year 2010/11. An area of 161 166 ha of vineyards have been grubbed up under this scheme. EU funds dedicated to this scheme amounted to around 1 025 million euro.

(b) National support programmes (NSPs), also known as 'national envelopes': a specific budget is made available to Member States for drawing a 5-year support programme composed of several measures to be chosen from among a list of 11 measures available[9]. Such support programmes are submitted to the Commission for approval. Eighteen Member States receive an annual budget for their NSP. For the first programming period of 5 years the overall budget is 5,3 billion euro. The corresponding annual budgets per Member States are set out in ***Annex II***.

(c) Transfer of amounts[10] to existing rural development (RD) programmes in order to increase rural development support in wine-producing regions.

**07**

Apart from the single payment scheme[11], the financially most important measures introduced by the Member States in their NSPs for the programming period 2009–13 were the restructuring and varietal conversion of vineyards (43 % of the budget for NSPs, i.e. more than 2 billion euro over the 5-year period), promotion and investment (these two measures each represent 10 % of the budget for NSPs, i.e. 522 and 518 million euro respectively) (see ***Graph 1***). These three measures aim to increase the competitiveness of the wine sector and reflect the intention under the new wine CMO to switch from market intervention measures to market-oriented measures.

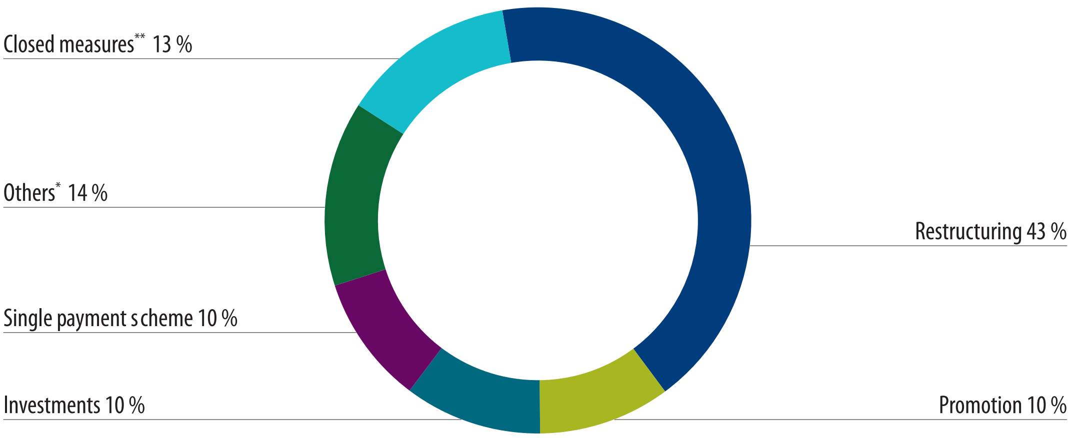
9 These measures are: restructuring and conversion of vineyards, green harvesting, mutual funds, harvest insurance, single payment scheme, promotion, investment, by-product distillation as well as three temporary measures that ended by 31 July 2012 (potable alcohol distillation, crisis distillation and use of concentrated grape must).

10 Amounts fixed in Article 190a(2) of Regulation (EC) No 1234/2007, based on historical expenditure under Council Regulation (EC) No 1493/1999 of 17 May 1999 on the common organisation of the market in wine (OJ L 179, 14.7.1999, p. 1) for intervention measures to regulate markets as referred to in Article 3(1)(b) of Council Regulation (EC) No 1290/2005 of 21 June 2005 on the financing of the common agricultural policy (OJ L 209, 11.8.2005, p. 1).

11 The single payment scheme is one of the measures available under the NSP but is not considered to contribute directly to the competitiveness of the wine sector. Allocation for this measure during the period of 2009–13 amounts to 510 million euro.

Graph 1

## Share of the most important measures from the NSP (programming period 2009–13)




* By-product distillation, harvest insurance, green harvesting, ongoing plans according to Regulation No 1493/1999.

** Measures closed since 2012/13 wine year: potable alcohol and crisis distillations, concentrated grape must aid.

*Source:* Commission — financial table transmitted by the Member States, October 2013.

## 08

The investment measure consists of support granted for tangible or intangible investments in processing facilities, winery infrastructure and marketing of wine. The objective of the support is to improve the overall performance of the enterprise[12]. The Member States have to define the eligible investment operations. The maximum aid rate is 40 %[13] of the eligible investment costs which, in the projects selected by the Court, can vary from 6 000 euro for a new screw capping machine to 10,3 million euro for the building and equipping of a new cooperative regrouping several cooperatives.

12 Article 103u of Regulation (EC) No 1234/2007.

13 Other aid rate: 50 % in regions classified as convergence regions in accordance with Council Regulation (EC) No 1083/2006 of 11 July 2006 laying down general provisions on the European Regional Development Fund, the European Social Fund and the Cohesion Fund and repealing Regulation (EC) No 1260/1999 (OJ L 210, 31.7.2006, p. 25), 75 % in the outermost regions in accordance with Council Regulation (EC) No 247/2006 of 30 January 2006 laying down specific measures for agriculture in the outermost regions of the Union (OJ L 42, 14.2.2006, p. 1) or 65 % in the smaller Aegean islands within the meaning of Council Regulation (EC) No 1405/2006 of 18 September 2006 laying down specific measures for agriculture in favour of the smaller Aegean islands and amending Regulation (EC) No 1782/2003 (OJ L 265, 26.9.2006, p. 1).

## 09

The promotion measure consists of supporting information or promotion measures concerning Community wines in third countries, thereby improving their competitiveness in those countries[14]. This measure comprises:

— public relations, promotion or advertisement measures, in particular highlighting the advantages of the Community products, especially in terms of quality, food safety or environmental friendliness;

— participation in events, fairs or exhibitions of international importance;

— information campaigns, in particular on the Community systems covering designations of origin, geographical indications and organic production;

— studies of new markets, necessary for the expansion of market outlets;

— studies to evaluate the results of the information and promotion measures[15].

## 10

The maximum aid rate for promotion measures is 50 % of the eligible expenditure which, in the projects selected by the Court, can vary from 30 000 euro for public relation actions to 32,6 million euro for a complete set of the promotion actions described in the paragraph above.

## 11

The investment and promotion measures under the NSP are subject to shared management between the Commission and the Member States. This means that the overall responsibility for the management of the measures lies with the Commission, although the implementation is entrusted to Member States. Thus, implementation of the investment and promotion measures and related control systems are to a large extent under the responsibility of Member States[16]. Final beneficiaries of these measures have to respect the conditions required by the EU and national/regional legislation.

14 Based on Council Regulation (EC) No 3/2008 of 17 December 2007 on information provision and promotion measures for agricultural products on the internal market and in third countries (OJ L 3, 5.1.2008, p. 1), the Commission may directly grant aid for information campaigns on the European Union system of wine classification. Such information campaigns of a general character are different from the specific support actions dealt with in this report. On 21 November 2013 the Commission proposed to repeal and replace Regulation (EC) No 3/2008. According to the proposal, aid should be available for information and promotion measures linking wine to other agricultural products, provided that no aid is granted under other EU measures.

15 Article 103p of Regulation (EC) No 1234/2007.

16 Article 76 of Commission Regulation (EC) No 555/2008 of 27 June 2008 laying down detailed rules for implementing Council Regulation (EC) No 479/2008 on the common organisation of the market in wine as regards support programmes, trade with third countries, production potential and on controls in the wine sector (OJ L 170, 30.6.2008, p. 1) implementing the basic Council regulation on the CMO in wine stipulates that: ‘Without prejudice to specific provisions of this Regulation or other Community legislation, Member States shall introduce checks and measures in so far as they are necessary to ensure the proper application of Regulation (EC) No 479/2008 and this Regulation. They shall be effective, proportionate and dissuasive so that they provide adequate protection of the Communities’ financial interests.’

# Audit scope and approach



12
The last special report issued by the Court on the wine CMO was published in 2012[17]. The report covered the two financially most important aid schemes of the wine CMO reform — grubbing-up of vineyards and restructuring and varietal conversion of vineyards — and explored in particular their contribution towards balancing supply and demand in the EU wine market, which is one of the two major objectives of the reform (see paragraph 4). In order to complete its audit of the wine CMO reform, the Court sought to cover the major measures for competitiveness selected by the Member States in their NSPs: investment and promotion. The objective of the audit was to answer the following question: 'Is the EU investment and promotion support to the wine sector well managed and are its results on the competitiveness of EU wines demonstrated?'

13
The audit assessed whether the investment and promotion measures were appropriately designed. The Court also examined the available monitoring and evaluation data to assess whether the Commission and the Member States achieved the expected results efficiently. As regards the investment measure, the Court has already audited the efficiency of similar investment measures under the rural development policy[18]. Therefore, the Court concentrated on aspects linked to the economy of this measure, such as the financial viability and reasonableness of costs of the supported investments. This audit scope is reflected in the following main sub-questions.

(a) Is the investment measure under the wine CMO appropriately designed and implemented with due regard to the principle of economy?

(b) Is the promotion measure appropriately designed and efficiently implemented?

(c) Are the effects of the measures appropriately demonstrated?

14
The audit focused on projects funded between wine year 2008/09 and 2010/11, i.e. covering the first 3 years of the implementation of the reform. The Court visited the Commission's relevant services and the following Member States and regions: Austria, France — regions of Aquitaine and Languedoc-Roussillon, Italy — regions of Lazio and Veneto, Portugal and Spain — region of Catalonia. The five Member States visited account for 95 % and 82 % respectively of the expenditure on the promotion and investment measures in the first programming period (2009–13).

17 Special Report No 7/2012.

18 Special Reports Nos 8/2012, 1/2013 and 6/2013 (http://eca.europa.eu).

**15**

In total 37 beneficiaries of aid were visited on the spot: 23 for promotion projects, 11 for investment projects and 3 for promotion and investment projects. In addition, 73 projects were selected for examination through desk review. In total 113 projects have been analysed (79 for promotion and 34 for investment)[19]. The sample selection was based on the materiality of the projects and the type of beneficiary so as to select a range of projects typical of those financed in the Member States concerned.

19 More promotion projects were analysed than investment projects because in two Member States the selected investment measure's implementation was delayed and one Member State decided to not implement this measure.

# Observations



## Part I — Is the investment measure under the wine CMO appropriately designed and implemented with due regard to the principle of economy?

**16**
Good design is essential for sound financial management. The investment measure grants public support to the type of enterprise that is also eligible for EU funding under the rural development policy. In order to be well designed, the measure under the wine CMO should correspond to a well identified need that is not addressed by existing measures. It should also not cause unnecessary administrative burden on the implementing authorities.

**17**
In order to implement investment measures with due regard to the principle of economy, Member States should put in place administrative checks and procedures to ensure that:

(a) the support is granted to financially viable projects: in order to avoid wasting public money on projects that fail prematurely, Member States should, through adequate viability checks, analyse the soundness of the applicant's financial situation and document such analysis;

(b) the project costs claimed by beneficiaries are reasonable. This check should be performed using a suitable evaluation system, such as reference costs, the comparison of a number of offers or an evaluation committee.

### The need for supplementary investment measures under the wine CMO is not demonstrated ...

**18**
Notwithstanding its specific application to the wine sector (rather than general application across all agricultural sectors), the investment measure under the wine CMO essentially covers the same scope as the RD investment aid measures No 121 ('Modernisation of agricultural holdings') and No 123 ('Adding value to agriculture and forestry products'). Furthermore, as shown in ***Box 1***, the goal of the measure under the wine CMO is the same as that of the two investment measures under RD.

**19**
With the new wine CMO, more RD aid is made available to the wine-producing regions by increasing budget appropriations for RD programmes in those regions. According to Annex Xc of Regulation (EC) No 1234/2007, from 2011 onwards the increase is 121,4 million euro[20] per year.

20 For 2009/10 this budget transfer was 40,5 and 80,9 million euro respectively.

Box 1

## Investment measures under the wine CMO and RD have the same goal

(a) Investment measure under the wine CMO (Article 103u(1) of Regulation (EC) No 1234/2007): 'Support may be granted for tangible or intangible investments in processing facilities, winery infrastructure and marketing of wine which improve the overall performance of the enterprise …'

(b) Measure 121 under the RD (Article 26(1) of Regulation (EC) No 1698/2005[21]): 'Support provided in Article 20(b)(i), shall be granted for tangible and/or intangible investments which: (a) improve the overall performance of the agricultural holding …'

(c) Measure 123 under the RD (Article 28(1) of Regulation (EC) No 1698/2005): 'Support provided in Article 20(b)(iii), shall be granted for tangible and/or intangible investments which: (a) improve the overall performance of the enterprise …'

21 Council Regulation (EC) No 1698/2005 of 20 September 2005 on support for rural development by the European Agricultural Fund for Rural Development (EAFRD) (OJ L 277, 21.10.2005, p. 1).

**20**
For the 2009–13 period, nine Member States (Czech Republic, Germany, Spain, France, Italy, Cyprus, Hungary, Austria and Slovakia) included the investment measure in their NSPs and nine (Bulgaria, Greece, Lithuania, Luxembourg, Malta, Portugal, Romania, Slovenia and United Kingdom) did not[22]. Portugal decided not to include the investment measure in its NSP, considering that adequate support was already available under the RD programme: indeed, for the RD programming period 2007–13, 13,5 % of the total budget for the two RD investment aid measures was attributed to the Portuguese wine sector.

**21**
The Court considers that it is not apparent why the wine sector specifically needed supplementary investment aid, since such aid was already available to all agricultural sectors under the RD policy and budget appropriations for RD aid to wine producing regions were increased (see paragraph 19). No study or analysis underpinned the decision to make the additional support available.

22 Lithuania allocated its whole national envelope to promotion. Luxembourg (from 2009/10), Malta and United Kingdom allocated their whole national envelope to the single payment scheme.

### … and the implementation of wine CMO investments was delayed or restricted in some Member States …

**22**
Because investment measures under the wine CMO and RD were running in parallel from wine year 2008/09 onwards, the risk of double funding had to be minimised. Member States were thus required to finance in the framework of the CMO measures different operations from those financed in accordance with the RD programmes[23]. The necessity to draw and ensure the respect of a dividing line between very similar measures (especially the dividing line between M123 from RD and investment under the wine CMO) increased the administrative burden for the Member States, who had to modify their existing rural development programmes prior to the implementation of the CMO investment measure.

**23**
In Italy and Spain, the obligation to draw the above mentioned dividing line significantly delayed the implementation of the investment measure under the wine CMO[24]. In these Member States, RD programmes are managed at regional level and so the dividing line had to be drawn by each region. There was a delay of 3 years in implementing the measure under the wine CMO. In Italy, only 44 % of the initially forecasted amount was spent.

**24**
In addition, the dividing line between operations eligible under the different measures excessively restricted the scope of the CMO measure in Spain. While the content of the investment measures under the RD did not change, only investments made by Spanish beneficiaries in the EU but outside the Spanish national territory were eligible for aid under the wine CMO. As a result, Spain only spent 295 000 euro for the one project presented, despite an initial forecast of 148 million euro to be spent for the whole 2009–13 period.

**25**
In Austria and France the dividing line was established at central level and the investment measure was implemented already in the wine year 2008/09 without any delay.

### Member States visited give limited assurance that only the financially viable projects are supported …

**26**
Regulation (EC) No 1234/2007 in its Article 103u(2) stipulates that 'support shall not be granted to enterprises in difficulty'[25]. Nevertheless, a weak financial situation of an enterprise not considered to be in difficulty at the time of the grant application can jeopardise the viability of a project presented by such enterprise. The current legislation does not explicitly require Member States to carry out viability checks before granting the aid.

23 Article 20(2) of Regulation (EC) No 555/2008: 'No operation shall be included for support pursuant to Article 15 of Regulation (EC) No 479/2008 under a national support programme in accordance with Title II of that Regulation for a given Member State or region which is included for support in the rural development programme of that Member State or region under Regulation (EC) No 1698/2005'.

24 COM(2012) 737 final of 10 December 2012 states in part 4.3: 'Demarcation problems with similar operations in rural development programmes have caused delays in the implementation of this measure particularly in Italy and Spain'.

25 Community guidelines on state aid for rescuing and restructuring firms in difficulty: 'a firm is regarded as being in difficulty where it is unable, whether through its own resources or with the funds it is able to obtain from its owner/shareholders or creditors, to stem losses which, without outside intervention by the public authorities, will almost certainly condemn it to going out of business in the short or medium term'.

**27**
The Commission has not provided any guidance to Member States as regards project selection procedures concerning the investment measure. The audit found that, of the four Member States visited implementing the investment measure, only one region of Italy (Veneto) carried out meaningful viability checks including verifications of the financial standing of the beneficiaries (see ***Box 2***). The region of Lazio in Italy applied a less detailed evaluation system, based on the comparison of the claimant annual accounts for the year preceding the investment with the expected effects of the investment on the accounts of the year following the investment.

**28**
In Austria and France the selection procedures were based on the 'first come-first served' principle. Even though enterprises in difficulty were ineligible, the lack of selection procedures had the consequence of not guaranteeing that, among all the eligible projects, only the viable ones were supported (see ***Box 2***).

**Box 2**

### Viability checks: Examples of good and weak practices

In Italy, region of Veneto, selection criteria had been laid down, including an informatics tool for assessing the foreseeable performance of the investment on the basis of economic data provided by the beneficiary. Only projects demonstrating an economic sustainability could be subsidised, i.e. non-viable projects were automatically excluded.

In Austria the Court found an investment project of a bottling line for a cooperative granted in 2009 which is currently in liquidation. There was no selection criterion allowing to detect that the project of this cooperative was not sustainable with regard to the cooperative's financial situation. This cooperative had been approved for aid despite having negative annual results and shrinking capital prior to the investment and a continuous loss of members since at least 2006.

**29**
In Spain the selection procedures comprise an evaluation of the viability of the project and of the financial situation of the beneficiary. Nevertheless, no minimum evaluation score is required for a project to be selected.

### … and do not systematically evaluate the reasonableness of project costs

**30**
Member States should check project applications to ensure that costs to be reimbursed by EU funds are reasonable, including verifying the applications against reference costs and the submission of different offers, so that the objective of the measure is achieved at a reasonable cost[26], i.e. in an efficient way. The audit assessed whether the Member States have put in place a formal system to evaluate the reasonableness of the costs.

**31**
The audit found that only two of the four Member States visited that implement the investment measure applied such procedures. Italy (Veneto and Lazio) and Spain evaluate the reasonableness of the costs through formalised procedures before approval of the application. In particular, the applicants are required to submit for their investment operations three different offers with the choice made among these three offers. The validity of this choice can be assessed by an external evaluator.

**32**
However, the assessment of the reasonableness of costs performed by the Italian authorities (Veneto and Lazio) was undermined by the fact that the purchase of wooden barrels for ageing wine was considered as an eligible investment cost although they usually have to be replaced after 3 years. In France and Austria such investments were not considered to be eligible operations.

**33**
Although in recent guidelines[27] the Commission considers the purchase of barrels as a potential eligible investment, the regulation requires a duration of the investment of at least 5 years[28]. Since barrels are generally used only for 3 years, their acquisition does not comply with the EU requirement. Moreover, the limited lifetime of such an investment creates a significant risk that barrels could be purchased to replace existing ones and not to increase the capacity for ageing wine.

**34**
In France and Austria the evaluation of the reasonableness of costs was not formalised. This evaluation relied on the expertise of the person who reviewed the application. Consequently, the Court found no evidence that these Member States systematically assess the reasonableness of project costs. Furthermore there was no obligation to present different offers from potential providers.

26 Article 24(2) of Commission Regulation (EU) No 65/2011 of 27 January 2011 laying down detailed rules for the implementation of Council Regulation (EC) No 1698/2005, as regards the implementation of control procedures as well as cross-compliance in respect of rural development support measures (OJ L 25, 28.1.2011, p. 8), made applicable to CMO investments by Article 77(5) of Regulation No 555/2008 provides that: '[administrative checks on applications for support shall in particular include verification of]: the reasonableness of the cost submitted, which shall be evaluated using a suitable evaluation system, such as reference costs, a comparison of different offers or an evaluation committee'.

27 Guidelines for implementation of the national support programmes in the wine sector according to Regulations (EC) No 1234/2007 and (EC) No 555/2008 of 25 February 2013.

28 According to Article 72 of Regulation (EC) No 1698/2005, to which Article 103u of Regulation (EC) No 1234/2007 refers.

## Part II — Is the promotion measure appropriately designed and efficiently implemented?

### 35

The promotion actions 'relate to wines with a protected designation of origin or a protected geographical indication or wines with an indication of the wine grape variety'[29]. All other wines are ineligible for the promotion measure.

### 36

In order to be appropriately designed and efficiently implemented the promotion measure should:

— target beneficiaries that need public subsidies to achieve the goals of the measure, which are to strengthen the reputation of EU quality wine and to recover old markets and win new ones[30];

— give the preference to micro, small and medium-sized enterprises (SMEs)[31];

— be implemented in such a way to ensure that a sufficient audit trail exists to justify the occurrence and eligibility of promotion actions.

## Support for promotion is also granted to big companies with an already strong reputation and export tradition …

### 37

Despite the preference of the legislator to favour SMEs, in all Member States visited, excepted Austria, promotion aid has been granted to big wine-producing companies that have a long export tradition[32]. Some of those are already present in third countries with local partners or have their own distributors and commercial networks. The need for EU budgetary support for such enterprises is not evident (see ***Box 3***). Furthermore, the availability of EU aid for such purposes incites these enterprises to reduce proportionately their own funding for promotion measures.

### 38

The Court considers that, in this context, grants received under the wine CMO promotion measure do not efficiently contribute to strengthening the EU wine reputation, or to winning new markets or to recovering old ones. In the case of big companies, already well established in those markets, they rather have the effect to protect or consolidate existing market shares. In such cases, since consolidating the presence in a given market is a constant activity to remain present and visible in the market, the EU contribution for this type of action becomes essentially a partial subsidy of the companies' operational costs.

29 Article 103p(2) of Regulation (EC) No 1234/2007.

30 Recital 5 of Regulation (EC) No 479/2008.

31 Article 4 of Regulation (EC) No 555/2008 'Preference shall be given to micro, small and medium-sized enterprises …'.

32 In Spain, France, Italy and Portugal some beneficiaries audited already had subsidiary companies implanted in the third countries' markets to execute their marketing before the CMO funding. In Spain two big beneficiaries executed promotion actions in countries where they were implanted for more than 60 years.

Box 3

## Examples of promotion grants awarded to well-known and big wine producers

**Subsidised promotion actions for champagne**

Between 2009 and 2012, 2,4 million euro of EU funding has been spent to subsidise promotion actions for champagne producers. The reputation of the Protected Designation of Origin (PDO) 'champagne' is long established.

**Spain (Catalonia): six beneficiaries represented 88 % of the total approved funding for the period 2009–11**

In Spain (Catalonia), there is a clear preference to grant promotion aid to beneficiaries with already strong international presence and export experience. As a result, the bulk of the promotion funding for the period 2009–11 was awarded to a few big companies. During this period, 79 claimants were awarded aid amounting to a total of 15,2 million euro. 88 % of this amount — 13,4 million euro — was granted to six claimants comprising enterprises or groups of enterprises that employ more than 750 persons each and have an annual turnover exceeding 200 million euro (such companies are not eligible for the investment measure).

**39**
This is confirmed by the fact that such big beneficiaries apply, year after year, for promotion subsidies for actions in the same third-country markets, such as the United States, which are the most frequently targeted markets[33]. Such promotion measures cannot therefore be considered as being aimed at opening up a new market or recovering shares in existing ones.

**40**
When Regulation (EC) No 555/2008 entered into force, the support for promotion actions could not be granted for more than 3 years for a given beneficiary in a given third country. However, the regulation was subsequently twice amended, each time extending the possibility to allow the same beneficiaries to benefit from the aid for longer periods. The first amendment gave the possibility to renew once the promotion action programmes for a period no longer than 2 years[34]. The second amendment provided the possibility for beneficiaries from the previous programming period to be supported again in the same targeted third country[35] for a maximum of 5 years. Therefore, beneficiaries can receive grants for promotion actions in one targeted market for the whole programming period 2009–13 and renew their promotion actions in the following programming periods (2014–18 and onwards).

33 COM(2011) 774 final of 18 November 2011, p. 11.

34 Article 1(1) of Commission Regulation (EU) No 772/2010 of 1 September 2010 amending Regulation (EC) No 555/2008 laying down detailed rules for implementing Council Regulation (EC) No 479/2008 on the common organisation of the market in wine as regards support programmes, trade with third countries, production potential and on controls in the wine sector (OJ L 232, 2.9.2010, p. 1).

35 Article 1(2)(a) of Commission Implementing Regulation (EU) No 202/2013 of 8 March 2013 amending Regulation (EC) No 555/2008 as regards the submission of support programmes in the wine sector and trade with third countries (OJ L 67, 9.3.2013, p. 10) : 'for each programming period the support for the promotion and information lasts no longer than three years for a given beneficiary in a given third-country; however, if necessary, it may be renewed once, for a period no longer than two years.'

**41**
The Court considers that those two amendments offered an incentive for promotion actions to consolidate markets, which is not an objective laid down by the EU legislation (see paragraph 38).

**42**
Furthermore, advertisement measures to support an established commercial brand name are not excluded from financing. The Court found numerous examples where EU funding simply replaced the advertising expenditure previously undertaken by enterprises. The Court considers that the support for established commercial brands, which merely replaces EU funding for the previous commercial funding by the enterprise itself, does not correspond to the measure's original purpose to support the wine market rather than established brands (see also paragraph 44).

### … and which were likely to have undertaken the promotion actions without public support (deadweight effect)

**43**
In the programming period 2009–13, the amounts earmarked to finance promotion projects were greater than the demand for the aid. In a context of sufficient funds allocated to the promotion measure, the Member States tend to support all eligible projects rather than to apply strict selection procedures to ensure that only the best projects, among those eligible, receive public aid. In this respect, the audit found that none of the audited Member States checked whether applicants were in need of public support. Giving grants to beneficiaries that would have undertaken the investment in promotion actions even without grant funding (the so-called deadweight effect) reduces the efficiency of EU funds, as public expenditure is not needed to achieve the objectives of promotion measures.

**44**
The audit found clear cases of deadweight in four out of the five Member States audited. As an example, the ***Table*** below presents the promotion budget of beneficiaries from France, Austria and Portugal for the years 2007 and 2008 (before the implementation of the wine CMO) and years 2009 to 2011 (implementation of the wine CMO promotion). The audit found that in these cases, EU funds have replaced a significant part of the previous promotion costs incurred by the company. Whereas the Portuguese beneficiary's expenditure in 2008 was 1,2 million euro, in 2009 its own budgetary expenditure has been reduced to 0,3 million euro, with another 0,3 million euro being financed by the EU. A similar trend was observed for the Austrian and French beneficiaries. This illustrates that the EU funding replaced a substantial part of the resources previously spent by the company instead of increasing the overall spending on promotion measures. The Commission's audit services have already noted this phenomenon in their audit reports.

Table

## EU funds partly replace existing promotion expenditures of some beneficiaries

| Beneficiary from | Targeted country | Promotion budget in euro | 2007 | 2008 | 2009 | 2010 | 2011 |
|---|---|---|---|---|---|---|---|
| Portugal | United States | Beneficiary's promotion expenditure | 910 200 | 1 164 900 | 323 866 | 304 305 | 304 200 |
| | | EU fund commitment in the approved application | 0 | 0 | 323 866 | 304 305 | 304 200 |
| | | **Total** | **910 200** | **1 164 900** | **647 732** | **608 610** | **608 400** |
| France | United States | Beneficiary's promotion expenditure | 1 045 000 | 1 186 000 | 725 000 | 743 500 | 797 500 |
| | | EU fund commitment in the approved application | 0 | 0 | 725 000 | 743 500 | 797 500 |
| | | **Total** | **1 045 000** | **1 186 000** | **1 450 000** | **1 487 000** | **1 595 000** |
| Austria | United States Switzerland | Beneficiary's promotion expenditure | 26 983 | 54 278 | 58 442 | 46 143 | 25 993 |
| | | EU fund paid | 0 | 0 | 0 | 8 215 | 25 064 |
| | | **Total** | **26 983** | **54 278** | **58 442** | **54 358** | **51 057** |

**45**
Moreover, the Court found several instances where EU grants covered internal costs that were already being incurred prior to the introduction of the promotion measure. For instance, in Spain, costs of salaries have been funded[36] for staff which had been employed by the beneficiary for the management of promotion in third countries, in the exact same position, since 2002. Furthermore, under the cost item 'Commercial missions of long duration'[37] internal costs which would have been borne by the beneficiary, such as office rental, medical insurance and two additional salaries, were considered as eligible expenditure.

**46**
When the EU subsidy replaces part of the current promotion costs or serves to cover expenditure that the beneficiary would have borne anyway, the Court considers that the expenditure charged to the EU budget has a clear deadweight effect and therefore is an inefficient use of the EU funds.

36 This beneficiary, for the wine year 2008/09 presented 'salaries costs' amounting to 90 761 euro.

37 55 515 euro for the wine year 2008/09.

**47**

As explained above, as the available amount allocated by Member States for promotion measures was greater than the actual demand there was no incentive for the Member States to apply effective selection procedures. Notwithstanding the difficulties encountered in spending the reduced allocation for the 2009–13 period[38], the promotion allocation planned for the next programming period (2014–18) is increased and is set at 1 161 million euro[39], although no analysis was undertaken to show any increased need. Taking into account all the inefficiencies explained in the previous paragraphs, the Court is of the opinion that by making available an excessive level of funds for the measure, the risks of inefficient use of those funds is significantly increased.

## Unclear definition of eligible expenditure until 2013

**48**

Eligible expenditure was defined neither in Regulation (EC) No 1234/2007, nor in Regulation (EC) No 555/2008. The absence of a statutory definition of 'eligible expenditure' has led to uncertainty and instability of national provisions for the application of the measure. An adaptation phase has been necessary, during which several clarifications and amendments have been made to national regulations[40]. This has given rise to diverging practices among Member States. Different interpretations of the term 'eligible expenditure' between different control bodies in some Member States occurred.

**49**

Regulation (EC) No 555/2008 was recently amended[41] to clarify some aspects of 'eligible expenditure'. This amendment stipulates that personnel costs are eligible. However Article 13 of Regulation (EC) No 1290/2005 on the financing of the common agricultural policy states that 'expenditure relating to administrative and personnel costs incurred by Member States and beneficiaries of aid from the EAGF shall not be borne by the Fund'. The provisions of the Regulation (EC) No 555/2008 governing the measure are thus clearly in contradiction with the relevant Regulation (EC) No 1290/2005.

**50**

Personnel costs should not be eligible as they favour deadweight (see paragraph 45).

**51**

The recent guidelines of the Commission[42] despite not being legally binding[43] clarify certain points regarding eligible expenditure.

38 In June 2008, the first allocation for promotion by the Member States in their NSP's amounted to almost 830 million euro. In October 2013 this allocation had been reduced by 37 %, i.e. down to 522 million euro. Except Romania, all Member States who chose to implement the promotion measure reduced their 2008 forecast and funds had to be reallocated to other measures.

39 According to the Member States' NSPs transmitted to the Commission in August 2013 (EU-28).

40 As an example France published at least eight legal texts about the implementation of the promotion measure.

41 Commission Implementing Regulation (EU) No 752/2013 of 31 July 2013 amending Regulation (EC) No 555/2008 as regards national support programmes and trade with third countries in the wine sector (OJ L 210, 6.8.2013, p. 17).

42 Guidelines for implementation of the national support programmes in the wine sector according to Regulations (EC) No 1234/2007 and (EC) No 555/2008 — Promotion of wine on third-countries markets — 26 April 2013.

43 Disclaimer written on the front page of the guidelines: 'This guide is aimed at assisting Member States. It is provided for information purposes only and its contents are not intended to replace consultation of any applicable legal sources or the necessary advice of a legal expert, where appropriate …'

### Member States do not always check whether irregular duplicate funding occurs

**52**
Member States are required to ensure that provision is made for checks to avoid irregular duplicate financing of measures under the wine CMO rules and other Community or national schemes.

**53**
In Portugal four out of six beneficiaries visited benefited from EU aid under the wine CMO and from European Regional Development Funds (ERDF). Although the Court did not find double funding cases, in the absence of evidence of cross-checks with ERDF expenditure carried out by the Portuguese managing authorities, a risk of double financing of the same expenditure from two EU sources persists.

**54**
In some Member States, the coexistence of several national/regional funding possibilities for the promotion of wines in third countries does not ensure transparency concerning promotion aids for the EU wine sector. In France despite a national legal framework which excludes the accumulation of other supports with wine CMO aids, the risk of double funding is not properly managed. In fact, the Court found cases of double financing (see ***Box 4***).

**Box 4**

**An example of double funding from EU and national aids in France**

A beneficiary received for the same promotion action 2 000 euro from the EU wine CMO and 4 250 euro from a national aid scheme. Despite the limited amount, this case demonstrates that the risk of irregular double funding is not properly checked by the French authorities.

### An insufficient audit trail undermines the effectiveness of visited Member States' controls to ensure the occurrence and eligibility of promotion actions

**55**
Controls should be effective, proportionate and dissuasive so that they provide adequate protection for the Communities' financial interests. Contrary to the investment measure, the EU legal framework does not require explicitly on-the-spot controls of promotion operations, but stresses the need for controls to be effective and dissuasive[44].

**56**
Of the five Member States visited, only Italy carries out on-the-spot controls in third countries during the execution of promotion actions. The other Member States do not control promotion actions in third countries. Spain carries out on-the-spot controls only in its territory for the promotion action 'Information travels (journalists, importers, market coordinators, etc.) to the area where the wine is produced'.

**57**
Many promotion actions — such as wine tastings — are characterised by their transient and intangible nature — in the sense that they leave no physical trace that could be checked afterwards. Because controls on the spot are lacking, a thorough audit trail permitting full reconciliation of a specific promotion action with corresponding invoices is essential.

**58**
In Spain, France, Italy and Austria, the audit found that the invoices examined often did not give sufficient details regarding the nature of the promotion actions carried out. Typically, such invoices referred to a global promotion contract or an action that had been carried out, without providing any details of the different expenditure items related to the promotion actions.

**59**
In Italy, certain providers of promotion services systematically presented such global invoices, without any supporting documentation which would allow the expenditure claimed to be traced to specific promotion actions (see ***Box 5***).

44 Article 76 of Regulation (EC) No 555/2008: 'Member States shall introduce checks and measures in so far as they are necessary to ensure the proper application of Regulation (EC) No 479/2008 and this Regulation. They shall be effective, proportionate and dissuasive so that they provide adequate protection for the Communities' financial interests.'

**Box 5**

#### Global invoice, not supported by any other documentation, reimbursed by EU funds

In Italy, an invoice containing the following information: 'Promotional program of Italian wine: February–April 2011 — 482 743,47 USD' was presented for aid payment and 50 % was reimbursed from EU funds. No further details or supporting documentation were given for the invoiced amount, such as copies of the invoices for itemised costs incurred during the execution of promotion actions.

60
In France, for the programming period 2009–13, beneficiaries of the promotion measure could present payment claims based only on a summary table of invoices certified by an audit firm (no invoices supporting the claim were required). The summary tables of invoices do not certify the eligibility of expenditure and the information contained therein is not detailed enough to allow adequate verification of the claim. Given this situation, administrative controls based on such summary tables cannot be effective. This increases significantly the risk that ineligible expenditure is funded under the wine CMO.

61
During the audit visit to France, a number of ineligible invoices included in such tables and funded under the CMO were found by the Court (see ***Box 6***).

Box 6

### Wine promotion actions — VIP tickets to Roland Garros — 50 % financed from EU funds

A summary table of invoices from one beneficiary presenting an amount of 3 405 euro was classified as 'information travels (journalists, importers, market coordinators, etc.) to the area where the wine is produced'. On the basis of this summary table of invoices the French authorities considered the amount as eligible expenditure. 50 % of it, i.e. 1 703 euro, was financed from EU funds.

The amount claimed corresponded in reality to an invoice for three VIP tickets for the French open tennis championship held at 'Roland Garros', which cannot be considered as a wine promotion action.

62
A noteworthy example of insufficient justification of costs incurred by beneficiaries is the case of the so-called implementing bodies. Beneficiaries can appoint an implementing body to organise and coordinate their promotion operations. Expenses of implementing bodies which assist the beneficiary in implementing the measure are eligible in Italy, Portugal and Romania. In these Member States, implementing bodies are often paid based on a flat rate (% of the global costs of the promotion actions) without sufficient justification of the service provided.

63
In Romania, the use of such an implementing body is compulsory. The fees of such bodies are eligible as a flat rate of 13 % of the global project expenditure, without any justification needed for the service provided. Between 2009 and 2012 Romania spent 1,5 million euro of EU funds for promotion actions, of which around 200 000 euro for implementing bodies. In Portugal and Italy implementing bodies may also receive up to 13 % of the cost of the promotion actions.

64
Overheads defined notably as 'costs of coordination, administration and management' are eligible in all Member States visited with the exception of Austria. In 2013, the Commission authorised[45] overheads up to 4 % of the actual cost of implementing the project. The nature of certain overheads (e.g. coordination, management, etc.) is, at least partly, the same as the activities carried out by implementing bodies in the preparation and implementation of the promotion actions.

45 Regulation (EU) No 752/2013 which introduces Article 5a(2) into Commission Regulation (EC) No 555/2008.

Box 7

### Implementing body fees and overheads amounting to a total of 268 110 euro for 1 year

In Italy, the implementing body of one beneficiary was paid fees amounting to 208 530 euro — without a detailed description of the service provided — i.e. 7 % of the cost of the promotion actions amounting to 3 million euro, for a promotion project (wine year 2009/10). In this particular case, the promotion actions had been carried out by the beneficiary. Furthermore, the beneficiary also received 59 580 euro for overheads (2 % of the promotion action). The Court considers that, when promotion operations are carried out exclusively by the beneficiary, remunerating an implementing body represents an unjustified and excessive cost.

## Part III — Are the effects of the measures appropriately demonstrated?

### The monitoring and evaluation of the measures focuses on outputs and financial implementation, but there is not yet sufficient information on the results achieved

**65**

Appropriate management of a public support measure requires, in the first place, that the objectives of the measure are specific and quantified[46]. A regular examination of relevant input, output and results is also essential to obtain up-to-date information on whether the measure is progressing as intended. Periodic evaluations of the support should also be carried out and should use, among other sources, the information produced for monitoring. Only with relevant and reliable monitoring and evaluation information, the Commission and the Member States will be able to demonstrate what they have achieved with the public money.

**66**

The Court assessed whether the NSPs of the five Member States audited include appropriate objectives and key input, output and result indicators to make it possible to monitor and evaluate their achievement.

**67**

For the programming period 2009–13, none of the Member States visited had established quantified objectives for the investment measure in their NSPs. Concerning the promotion measure, among the Member States visited, only Austria, Spain and Portugal had set some quantified objectives concerning the increase of wine exports to third countries[47]. This lack of common quantified objectives determined *ex ante* makes it difficult for the national authorities to have adequate tools to measure the effects of the promotion and investment measures. Furthermore, it prevents the consolidation of the effects of the measures at EU level.

**68**

As regards the indicators for the investment and promotion measures, the annual reports transmitted by Member States to the Commission[48] only provide details regarding input, output and budgetary execution aspects. Indeed, these reports show that monitoring is generally complete for these aspects (number of beneficiaries funded, funds spent, type of investments or promotion carried out) but that there is insufficient information showing the results achieved. Likewise, the information at EU level published by the Commission[49] does not use any result indicators to evaluate the effects of the wine CMO measures. Moreover, for promotion, the only indicators in its management plan relate either to input or output indicators such as 'Share of promotion in wine sector under the national support programmes' or 'Execution level and efficient use of the national support programmes (NSP) in the wine sector'[50] respectively.

46 Article 103l of Regulation (EC) No 1234/2007: 'Support programmes shall consist of the following elements: (a) a detailed description of the measures proposed as well as their quantified objectives … (f) the criteria and quantitative indicators to be used for monitoring.'

47 For the end of the programming period, a 25 % increase in Austria, an increase of 767 000 hl and 537,7 million euro in Spain, and, for 2012, the achievement of 1 million hl of exports to third countries, with a value of 250 million euro, in Portugal.

48 Article 188a(5) of Regulation (EC) No 1234/2007: 'Member States shall submit to the Commission by 1 March each year, and for the first time by 1 March 2010, a report on the implementation of the measures provided for in their support programmes.'

49 COM(2012) 737 final and COM(2011) 774 final.

50 The 2013 management plan of DG Agriculture and Rural Development.

## 69

The Member States visited require from the beneficiaries an activity report at beneficiary level after the implementation of the subsidised promotion actions. Even though the quality of these reports varies considerably, they are not actually used (e.g. to analyse and consolidate data) to assess the effects of promotion projects. Overall, comprehensive information on the results and impact of the measure is missing. In fact, the audit found that only in some country-level evaluation reports[51] or studies the Member States provided some indications on the results achieved by the investment and promotion support.

## 70

More specifically, France and Austria assessed the results of the investments through 'the wine sales trend in volume and value'. Italy used 'the number of enterprises introducing new products, processes and or techniques'. Regardless of the relevance and reliability of these result indicators, the Court found that the duplication of investment support under the wine CMO and rural development (see paragraph 18 and ***Box 1***) makes it impossible to unequivocally attribute the results reported to the wine CMO support (see next section). The results of promotion support are measured through the 'wine exports to targeted third countries'. In the Court's view, this indicator is too general, not confined to the beneficiaries of the measure and covers numerous variables affecting the entire wine sector and which are mostly outside the influence of the promotion actions (see paragraphs 74 to 80).

### The effects of CMO investments cannot be easily separated from the effects of rural development investments …

## 71

As already mentioned in ***Box 1***, the goal of the investment measure under the wine CMO is the same as the two investment measures under the RD. Moreover, the overall volume of funding for the two RD measures in the wine sector is comparable in some Member States to that of the investment measure in the wine CMO[52].

## 72

The coexistence of investment measures under two different schemes makes the evaluation of the results from the investment under the wine CMO particularly difficult. 55 % of the beneficiaries selected for the audit have benefited from investment aid under both schemes wine CMO and RD. Even if the assumption is made that both investments are responsible for the overall increase of performance, it is impossible to attribute a share of this increase in performance to each investment measure (see ***Box 8***).

## 73

It is therefore difficult to evaluate exclusively the effects of the wine CMO measure and thus to be able to assess the effectiveness of the measure.

51 Annex V of Regulation (EC) No 555/2008.

52 For example, in Austria between 2009–12, 20,6 million euro have been spent for investment in the wine sector under the RD and 21 million euro have been spent under the wine CMO.

Box 8

## French beneficiary who benefited from investment aid under RD and under the wine CMO for the wine years 2009/10 and 2010/11

| Type of aid | Investment | Eligible costs in euro | EU participation in euro |
|---|---|---|---|
| Wine CMO | Wine processing equipment (i.e. tanks) | 694 279 | 277 711 |
| M123 under RD | Bottling line and storage equipment | 1 863 483 | 372 697[53] |

53 Regional aid also amounted to 372 697 euro.

These investments are complementary.

Between 2008 and 2011 there was an overall increase of the performance of the enterprise — increase in turnover and net income. To attribute the share of this increase to each investment is not possible.

### There has been an increase of Member States' wine exports to third countries …

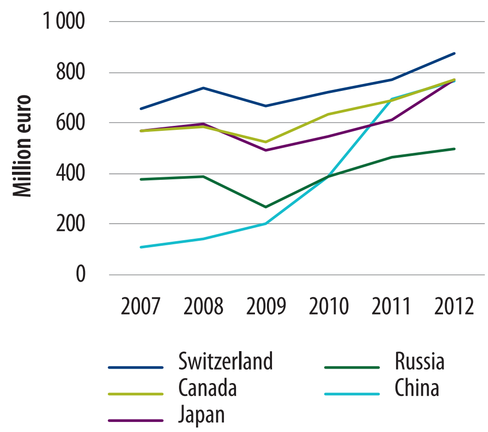
**74**
Since 2009, wine exports from the EU to third countries have grown substantially, reaching an all-time high of 23 million hl and 8,9 billion euro in value terms in 2012 (see ***Graphs 2a and 2b***).

**75**
According to ***Graph 2a***, between 2005 and 2008 EU-27 wine exports increased by 28 % and between 2009 and 2012 — during the implementation of the promotion measure — wine exports increased by a further 64 %. This growth coincided with the introduction of the promotion measures. ***Graph 2b*** also illustrates that the trend in wine exports to third countries is offering a potential increasing outlet for EU wine. Such a positive evolution of intra-EU wine sales is unlikely as the internal market is already saturated (a small potential remains in wine-importing Member States).

Graph 2a and Graph 2b

EU-27 wine exports to third countries and United States (in billion euro)


EU-27 wine exports to main third countries (in million euro)




*Source:* Eurostat, Comext database, data extraction 26 July 2013.

## … but it is difficult to determine to what extent this is directly attributable to the promotion measure

**76**

However, the increase observed cannot unequivocally be attributed to the promotion measure. Several external factors such as increases in purchasing power of consumers in third countries, changes in international trade conditions and wine production in third countries also have had a direct influence on EU-27 wine export. Thus, as already mentioned in several reports of the Commission[54], it is not possible to establish to what extent a causal link exists between the measure and export performance at Member States and at EU level.

**77**

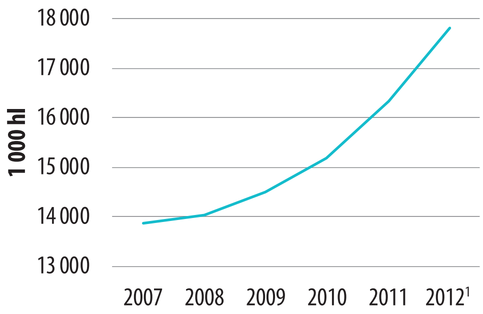
The current growth in wine exports is mainly driven by a limited number of countries, such as China[55], whose wine consumption has increased considerably in the recent past. ***Graphs 3a and 3b*** show that between 2007 and 2012 Chinese wine consumption has increased by 3,9 million hl and EU-27 wine exports to China have increased by 2,2 million hl. This suggests that the evolution of EU-27 exports to China was strongly influenced by external factors such as economic growth and the increase in purchasing power of consumers in that country. Even without promotion action there is an increase of the wine consumption.

54 SEC(2011) 1371 final. Final report 'Evaluation des mesures appliquées au secteur vinicole dans le cadre de la Politique Agricole Commune', October 2012 (http://ec.europa.eu/agriculture).

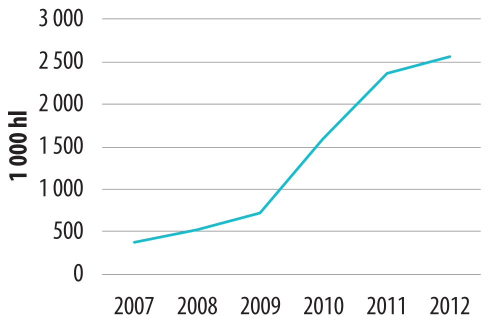
55 Exports from EU-27 to China have increased by 280 % in value between 2009 and 2012.

Graph 3a and Graph 3b

## Wine consumption in China




## EU-27 wine exports to China




1 Forecast.

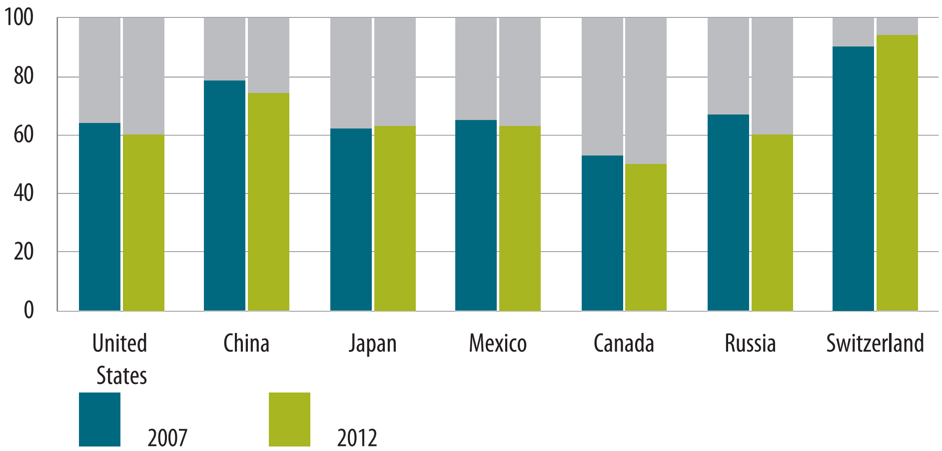
*Source:* Wine consumption: International Organisation of Vine and Wine (OIV): statistical report on world vitiviniculture. EU-27 wine exports: Eurostat, Comext database, data extraction 17 September 2013.

**78**

Furthermore, despite the export growth in absolute terms, EU-27 wines exported have lost market shares in the main third countries targeted by promotion actions (see ***Graph 4***). Only in Switzerland and Japan did EU-27 wines increase their market shares of the wine imported. This loss of market share is to be analysed by the Commission.

Graph 4

## EU-27 share (%) in import of major trading partners




*Source:* United Nations, Comtrade database, data extraction 20 September 2013.

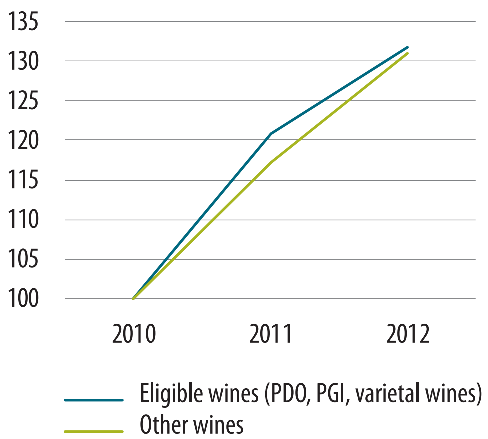
79
According to Article 103p(2) of Regulation (EC) No 1234/2007, not all wines are eligible for the measure. Wines such as table wines without a grape variety indication are ineligible (see paragraph 35). If the promotion measure is effective, eligible EU-27 wine exports to third countries should perform better than other wines.

80
In value terms, however, eligible wines do not clearly perform better than other wines. Eligible wine presents an annual growth rate of 14,8 % to reach an export value of 8 059 million euro (i.e. 15,4 million hl) in 2012 whereas non-eligible wine (other wines) shows an increase rate of 14,5 %[56] to reach an export value of 806 million euro (i.e. 7,1 million hl) in 2012 (see ***Graph 5***). This comparison of the very similar evolution of exports of eligible as opposed to ineligible wines under the promotion measure points to a strong causal effect of other factors at play in the export trends.

56 Average annual growth rate in value of EU-27 exports to third countries between 2010 and 2012 — Comext database.

Graph 5

## Evolution of the values of EU wine exported to third countries (2010=100)




*Source:* Eurostat, Comext database, data extraction 25 July 2013.

# Conclusions and recommendations



81
As part of the wine CMO reform, Member States may use the EU budget to finance investment and promotion projects that seek to increase the competitiveness of EU wine producers.

82
This audit examined the following question: 'Is the EU investment and promotion support to the wine sector well managed and are its results on the competitiveness of EU wines demonstrated?' The Court concludes that the management of investment and promotion support to the wine sector during the initial years covered by this audit was adversely affected by design and implementation weaknesses highlighted in this report and the impact on the competitiveness of EU wines was not always demonstrated.

83
The audit found that the investment measure is not appropriately designed, because, in the first place, the need for an additional investment measure specific to the wine sector is not demonstrated as it already existed under the rural development policy. No study or analysis underpinned the proposed existence of any additional need for the wine sector.

84
The supplementary investment measure is a source of complexity and created administrative obstacles as an artificial dividing line had to be established between the two types of investment aid. In some Member States, this resulted in implementing delays or in an excessively restrictive scope of the eligible investments (paragraphs 18 to 25).

### Recommendation 1

In order to rationalise the aid scheme, the Commission should monitor the absorption of funds, analyse the need for the investment measure and assess whether the wine sector compared to other agricultural sectors needs additional investment aid.

85
The investment measure under the wine CMO was not implemented with due regard to the principle of economy. Most Member States audited did not ensure that only viable projects were granted aid (paragraphs 26 to 29). There is a risk of overspending, as the reasonableness of projects costs was not systematically evaluated before granting the aid (paragraphs 30 to 34).

### Recommendation 2

Member States should mitigate the risk to the economy by a systematic assessment of the reasonableness of project costs. The result of this assessment should be adequately documented. When feasible, benchmarks should be developed for common cost items in order to facilitate the assessment of costs in project proposals.

Member States should carry out viability checks to assess the soundness of the applicant's financial situation and document such analysis.

The Commission should ensure that Member States have effective systems to carry out checks on reasonableness of the costs and the financial viability prospects of projects.

## 86

The audit found that the promotion measure is not appropriately designed and efficiently implemented. Promotion actions are often used for consolidating markets rather than winning new markets or recovering old markets. The need to consolidate a market is constant for a wine producer intending to maintain its market share. This raises the question as to whether such promotion actions can have a sustainable effect without undue reliance on continuous EU support. Furthermore, the support for established commercial brand advertising does not correspond to the measure's original purpose to support the wine market rather than established brands (paragraphs 37 to 42).

### Recommendation 3

(a) The governing regulation should restrict individual beneficiaries from presenting in each programming period a promotion programme for the same targeted countries.

(b) The Commission should also limit the scope of the measure concerning the eligibility of brand advertising to avoid that EU funding replaces operational expenditure of the beneficiary and give more emphasis to favouring the accession of SMEs to the promotion measure.

## 87

The budget available for promotion actions was greater than the demand and thus Member States were not sufficiently selective in the implementation of the measure. In particular, they did not systematically check that applicants had a demonstrable need for public support. Furthermore, despite the intended preference for SMEs, large enterprises were also funded. As a result, the audit found clear cases of deadweight, where the promotion aid covered normal operating costs which would have been borne by the beneficiary in the normal course of operations without EU support (paragraphs 43 to 51).

### Recommendation 4

In order to minimise the risk of deadweight 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.

**88**
The costs of promotion actions, overheads and costs of implementing bodies were insufficiently justified with poor or defective supporting documentation. In the absence of on-the-spot controls, insufficient supporting documentation undermines the effectiveness of Member States' documentary checks to ensure the occurrence and eligibility of promotion actions. Furthermore, Member States did not sufficiently minimise the risk that the same promotion action receives irregular double funding (paragraphs 52 to 64).

### Recommendation 5

(a) The Commission should ensure that ancillary costs such as for the implementing body and overheads are properly justified and limited to a maximum percentage of the total costs.

(b) The Member States should ensure a sufficient audit trail linking every promotion aid to specific and adequately documented actions. They should also systematically check that other EU and national funding sources do not provide irregular double funding to the same promotion action.

**89**
Furthermore, the results of the measures in terms of enhancing the competitiveness of EU wines are not demonstrated. The monitoring and evaluation information on inputs, outputs and financial implementation of the measures is adequate. However, the Commission and Member States produce insufficient relevant information to show the direct results attributable to the measures. In the case of the investment measure, the combination of wine CMO support with rural development investments makes it impossible to isolate the effects of the wine CMO. In the case of the promotion measure, the result indicators used cover many variables outside the influence of the promotion actions (paragraphs 65 to 80).

### Recommendation 6

The Commission should require Member States to evaluate more closely the results of promotion projects. In particular, the results of the promotion actions should be assessed at beneficiary level rather than for the entire EU wine sector. Member States should make better use of the reports produced by beneficiaries at the end of the promotion actions to assess and consolidate their results.

**90**

Finally, the available funds dedicated by Member States to the promotion measure are budgeted to more than double for the programming period 2014–18 compared to the funds spent in the previous programming period[57]. Given the difficulties experienced by the Member States to spend the current budget for promotion actions, there is a risk that the 2014–18 budget is set at too high level, thus endangering the application of sound financial management principles (paragraphs 43 and 47).

### Recommendation 7

After a sufficient period of time has elapsed, 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. Based on this analysis, the Commission should readjust where appropriate the budget to ensure that it provides incentives for Member States to be more efficient in the application of the measures.

This Report was adopted by Chamber I, headed by Mrs Rasa BUDBERGYTĖ, Member of the Court of Auditors, in Luxembourg at its meeting of 9 April 2014.

*For the Court of Auditors*

Vítor Manuel da SILVA CALDEIRA
*President*

57 522 million euro were spent under the promotion measure in the programming period 2009–13. For the programming period 2014–18, Member States allocated 1 156 million euro to the promotion measure (EU-27). This means an increase of 121 % compared to the funds spent under the previous period.

Annex I

## Supply balance sheet at EU-27 level — main items

*in 1 000 hl*

| | 2005/06 | 2006/07 | 2007/08 | 2008/09 | 2009/10 | 2010/11 | 2011/12 |
|---|---|---|---|---|---|---|---|
| Usable production | 171 015 | 174 483 | 159 416 | 160 154 | 160 208 | 153 121 | 156 845 |
| Final stocks | 173 359 | 167 578 | 168 314 | 170 776 | 167 441 | 162 444 | 159 304 |
| Gross human consumption | 138 255 | 134 541 | 130 354 | 127 086 | 127 417 | 121 290 | 127 886 |
| Total distillations[1] | 30 663 | 30 452 | 15 890 | 19 606 | 19 982 | 16 339 | 17 413 |
| Wine exports to third countries | 15 547 | 19 633 | 17 763 | 15 829 | 18 802 | 21 968 | 23 352 |
| Wine imports from third countries | 13 279 | 13 993 | 13 672 | 13 985 | 15 039 | 14 961 | 14 895 |

1 Crisis, potable alcohol and by-product distillations and distillation named brandies (i.e Cognac).

*Source:* Eurostat, wine supply balance sheet, data extraction 25 September 2013.

## Annex Xb to Council Regulation (EC) No 1234/2007

**Annex Xb**
**Budget for support programmes**
**referred to in Article 103n(1) of Council Regulation (EC) No 1234/2007**

*in 1 000 EUR*

| Budget Year | 2009 | 2010 | 2011 | 2012 | 2013 | from 2014 onwards |
|---|---|---|---|---|---|---|
| BG | 15 608 | 21 234 | 22 022 | 27 077 | 26 742 | 26 762 |
| CZ | 2 979 | 4 076 | 4 217 | 5 217 | 5 151 | 5 155 |
| DE | 22 891 | 30 963 | 32 190 | 39 341 | 38 867 | 38 895 |
| EL | 14 286 | 19 167 | 19 840 | 24 237 | 23 945 | 23 963 |
| ES | 213 820 | 284 219 | 279 038 | 358 000 | 352 774 | 353 081 |
| FR | 171 909 | 226 814 | 224 055 | 284 299 | 280 311 | 280 545 |
| IT[1] | 238 223 | 298 263 | 294 135 | 341 174 | 336 736 | 336 997 |
| CY | 2 749 | 3 704 | 3 801 | 4 689 | 4 643 | 4 646 |
| LT | 30 | 37 | 45 | 45 | 45 | 45 |
| LU | 344 | 467 | 485 | 595 | 587 | 588 |
| HU | 16 816 | 23 014 | 23 809 | 29 455 | 29 081 | 29 103 |
| MT | 232 | 318 | 329 | 407 | 401 | 402 |
| AT | 8 038 | 10 888 | 11 313 | 13 846 | 13 678 | 13 688 |
| PT | 37 802 | 51 627 | 53 457 | 65 989 | 65 160 | 65 208 |
| RO | 42 100 | 42 100 | 42 100 | 42 100 | 42 100 | 42 100 |
| SI | 3 522 | 3 770 | 3 937 | 5 119 | 5 041 | 5 045 |
| SK | 2 938 | 4 022 | 4 160 | 5 147 | 5 082 | 5 085 |
| UK | 0 | 61 | 67 | 124 | 120 | 120 |

1 The national ceilings in Annex VIII to Regulation (EC) No 1782/2003 for Italy corresponding to years 2008, 2009 and 2010 are reduced by EUR 20 million and those amounts have been included in the budget amounts of Italy for the years 2009, 2010 and 2011 as laid down in this table.

# Reply of the Commission



## Executive summary

### Common reply to paragraphs I to VIII

The Commission stresses that the reform of the common organisation of the market in wine, adopted by the Council in 2008, has already fulfilled one of its key objectives, i.e. that of restoring market balance; it is also clear that considerable headway has been made towards fulfilment of the second objective, which is to enhance the competitiveness of the wine sector. Large-scale distillation financed by the European budget has been brought to an end without harming the market, and exports to third countries have increased in value and volume, thanks in particular to the reform measures.

Furthermore, the Council and Parliament have just confirmed the utility of the wine reform, by retaining its principles in Regulation (EU) No 1308/2013[1] on the new common organisation of the markets for the period 2014–20, thereby demonstrating their willingness to give the measures time to maximise their impact, while at the same time expanding the range of sub-measures of the aid programmes (new innovation measure, opening up of promotion to actions targeted at the domestic market, extension of restructuring to replanting for plant health reasons).

The investments of the wine support programmes are complementary to those of the rural development programmes. It is a deliberate move on the part of the legislator to have these two programmes running in parallel.

1 OJ L 347, 20.12.2013.

(1) Strategic motive: the wine sector support programmes are designed to increase the competitiveness of the sector, while the rural development programmes are designed to ensure the sustainable development of rural areas. The wine sector support priorities do not necessarily overlap with those set out in rural development policy. Thanks to the wine support programme, the sector is guaranteed a direct allocation from the Community's investment budgets.

(2) Financial motive: under the wine support programmes, Member States are not required to provide a financial, national or regional contribution.

It is generally acknowledged that product promotion is a key way to boost sales and open up new markets, even though the impact is difficult to gauge.

The Commission acknowledges that the implementation of the support programmes encountered some teething problems, as underlined by the Court in its audit covering the first 3 years of programming (2009–13). That is why the Commission made a number of changes to the implementing regulation as well as drafting guidelines to help explain and clarify the procedures governing the selection, eligibility, follow-up and control of measures financed by the programmes. The Commission is, of course, prepared to make any necessary changes to the texts in the light of feedback received.

For paragraph III concerning the demarcation between the investments in both schemes, the Commission wants to highlight that the dividing line is now very clear and averts the risk of double financing and of an unwieldy administrative burden. The delay noted in implementing the measures at the start of the programme can also be explained by other reasons, for instance by the difficulty in obtaining bank guarantees due to the crisis.

For point IV concerning the principle of economy in investment measure, the Commission stresses that during its audits, it verifies that Member States have assessed whether the costs of the measure are reasonable. In accordance with the provisions of Regulation (EC) No 1290/2005, the audits verify that Member States have adopted all the requisite legislative and administrative provisions and any other measures (administrative and supervisory) necessary to ensure proper protection of the financial interests of the Union. In this connection, the audits also serve to verify whether Member States have complied with the principles of sound financial management, which comprise, inter alia, an assessment of the reasonableness of the costs.

For point V concerning the consolidation of markets, the Commission considers that one of the aims of the measure to promote wine in third countries is to increase the number of outlets for the wine. This can be achieved by taking action in established markets as well in new markets or those in which a prior foothold has been lost. If a foothold is gained in new markets, it needs to be consolidated. Community legislation does not rule this out[2]; furthermore, although preference is given to SMEs, large firms may also benefit from the assistance because the issue is one of preference, not eligibility.

2 Article 103p(1) of Regulation (EC) No 1234/2007 states that the support 'shall cover information or promotion measures concerning Community wines in third countries, thereby improving their competitiveness in those countries.'

For point VII concerning the allocation for promotion, the Commission does not share the Court's opinion that there is a risk that the promotion budget was set at too high a level by Member States. There is no budget specifically earmarked for promotion in the financial annex to the Council Regulation. Member States present their aid programme with indicative breakdowns, which they may change twice a year, depending on the needs expressed. At this point, it is worth recalling the objectives of the wine reform adopted by the Council in 2008: (1) to restore market balance ('one shot' grubbing-up 2009–11) and (2) to improve competitiveness (through 'structural' measures). The first stage has been completed and the equivalent of the grubbing-up amount was carried over to the aid programmes, as envisaged in the reform, to increase the amount for these measures, which are more 'structural' than promotion and investment primarily are. The increase in the amounts allocated by Member States to the measures was thus foreseen. When the CMO reform was adopted in December 2013, the Council and Parliament did not wish to change the approach adopted at the time of the wine reform (including in respect of budget allocation). They also strengthened the promotion measure by opening it up to the internal market for measures focusing on information on responsible wine consumption and on the PDO/PGI systems in the Union.

For point VIII concerning the results of the measures, it should be added that it is always difficult to isolate the effects of a given policy from factors external to that policy. However, by carefully establishing the evaluation methodology, it is possible to gauge the effects of the different instruments/measures (for example by using statistical information). The Commission regularly organises evaluations on the general impact of a policy in line with the financial regulation (every 6 years).

### IX

#### For the investment measure

(a) The Council and Parliament have just confirmed, in December 2013, the utility of the wine reform by retaining its guiding principles in Regulation (EU) No 1308/2013 on the new common organisation of the markets for the period 2014–20. They have thus demonstrated their willingness to allow the wine reform tools time to take full effect, while at the same time expanding the range of sub-measures of the aid programmes (new innovation measure, opening up of promotion to actions targeted at the domestic market, extension of restructuring to replanting for plant health reasons).

As far as the absorption of funds is concerned, the Commission carries out monitoring of the amounts received by beneficiaries on a monthly basis.

In accordance with Article 110 of the horizontal Regulation 1306/2013, the Commission will ensure that the combined impact of all CAP instruments is measured and assessed in relation to the common objectives of the CAP. This includes an evaluation of the *coherence* of the CAP instruments by 2018 (first results). In this context, in 2018, the Commission will examine how to include an assessment of the added value of having an investment support both under the wine COM and rural development. It should be noted that information on the impact of a policy can only be obtained after a sufficiently long period of time has elapsed.

(b) The Commission considers that this part of the recommendation is addressed to the Member States.

Community legislation provides Member States with a framework for ensuring the continuity of projects *ex post* (Article 103u(5) of Regulation (EC) No 1234/2007). During its audits of the investment measure, the Commission verifies that Member States have assessed whether the costs of the measure are reasonable.

In accordance with the provisions of Regulation (EC) No 1290/2005, the audits verify that Member States have adopted all the requisite legislative and administrative provisions and any other measures (administrative and supervisory) necessary to ensure proper protection of the financial interests of the Union. In this connection, the audits also serve to verify whether Member States have complied with the principles of sound financial management, which comprise, inter alia, an assessment of the reasonableness of the costs.

The general issue of selecting investment projects, particularly when it comes to verifying the reasonableness of the costs and the viability of the projects (*ex ante*), will be dealt with at CMO Management Committee meetings.

#### For the promotion measure

(a) The Commission considers that depending on the circumstances beneficiaries may have access to the measure in the second programming period, for example to consolidate its market position in the same third country. While the objective of the measure is to improve the competitiveness of PDO/PGI wines and varietal wines and must be met, the rules do not preclude identifying particular brands. It may be important for beneficiaries, who pay 50 % of project costs, to be able to draw attention to their brand so as to be recognised by the target markets and, consequently, to increase their sales. Moreover, the amendments to Regulation (EC) No 555/2008 and the adoption of the guidelines in 2013 allow preference to be given more clearly to SMEs.

(b) The Council regulation allows for aid to be granted if the measures taken comply with the rules in force. The selection procedure, as defined in the regulation and in the guidelines mentioned in (a), provides, inter alia, for the evaluation of the expected impact of the measures on demand growth.
The Commission will discuss with Member States the adaptation of the guidelines in order to ensure a complementarity of EU funded promotion projects with existing actions to avoid the risk of the deadweight effect.

(c) The Commission considers that this recommendation has been taken into account for the programming period 2014–18.
This issue was addressed in Article 53(b) of Council Regulation (EU) No 1308/2013, in Commission Implementing Regulation (EU) No 752/2013 of 31 July 2013 which adds Article 5a to Commission Regulation (EC) No 555/2008 and in the guidelines.

(d) This recommendation is addressed to the Member States.

(e) The Commission considers that this recommendation has been taken into account for the programming period 2014–18.
For the new programming period, the Commission has proposed, in its guidelines, examples of indicators which the Member States can propose to beneficiaries for the purposes of evaluating the results of promotion measures depending on the action taken.

In analysing the projects of the 2014–18 programmes, the Commission required Member States to provide appropriate indicators for each measure. The support programmes now include a section providing clearer information on the criteria and quantitative indicators used for monitoring and evaluation. Member States were invited to demonstrate the link between the objectives they set for each measure and the indicators used to gauge progress towards attaining these objectives.

On 1 March 2014, Member States are to present the second cost/benefit analysis[3] of the support programmes. It must contain relevant information for the purposes of analysing the programmes of the first programming period 2009–13.

The third cost/benefit analysis is to be presented by Member States by 1 January 2017.

The Commission would emphasise that the information on implementation of the measures (monitoring information) should be distinguished from information on the results and impacts of these measures (evaluation information). Evaluation data can only be obtained after a period of time has elapsed.

(f) In accordance with Article 110 of the horizontal Regulation 1306/2013, the Commission will ensure that the combined impact of all CAP instruments is measured and assessed in relation to the common objectives of the CAP. This includes an evaluation of the efficiency of the CAP instruments by 2018 (first results). In this context, in 2018, the Commission will examine how to include an assessment of the use of the budget allocated to the wine support scheme and of its impacts. It should be noted that information on the impact of a policy can only be obtained after a sufficiently long period of time has elapsed.

## Introduction

### 11

The financial regulation stipulates that Member States and the Commission shall fulfil their respective control and audit obligations and assume the resulting responsibilities. In particular, when executing implementing tasks such as the implementation of the promotion and investment measures, Member States shall take all the necessary measures to protect the Union’s financial interests.

3 The first cost/benefit analysis was made available on 1 March 2011 and was, therefore, limited to the first 2 years of implementation of the programmes.

## Observations

### 18

In December 2013, the Council and Parliament confirmed the utility of the wine reform, by retaining its principles in Regulation (EU) No 1308/2013[4] on the new common organisation of the markets, thereby demonstrating their willingness to give the wine reform measures time to maximise their impact, which meant continuing to invest under the two support schemes.

The investments of the wine support programmes are complementary to those of the rural development programmes. It is a deliberate choice on the part of the legislator to have these two programmes running.

(1) Strategic motive: the wine sector support programmes are designed to increase the competitiveness of the sector, while the rural development programmes are designed to ensure the sustainable development of rural areas. The wine sector support priorities do not necessarily overlap with those set out in rural development policy. Thanks to the wine support programme, the sector is guaranteed a direct allocation from the Community's investment budgets.

(2) Financial motive: under the wine support programmes, Member States are not required to provide a financial contribution, either national or regional.

### Box 1

See the reply to paragraph 18.

4 OJ L 347, 20.12.2013.

### 19

Amounts were indeed transferred to rural development and allocated to programmes in wine-growing regions. However, these amounts were not specifically allocated to the wine sector.

### 20

Romania introduced the investment measure from the new programming period 2014–18.

### 21

Given the competitiveness problems in the sector, demonstrated by the large-scale distillation which took place in the early part of the new millennium, and given the gradual phasing-out of market measures, the Commission regarded the possibility of providing support for investments as a positive development for the sector.

See also the replies to points 18 and 19.

### 22

In important Member States there were no delays or restriction in implementation. Given the risks of overlap in the two support schemes, the Commission felt that it was essential to establish a dividing line to ensure sound budget management and alleviate the fears expressed by the Court on numerous occasions.

Three types of demarcation were proposed by the Management Committee and applied to the programmes: (1) demarcation by operation; this demarcation took practical shape with the amendment of Article 20(2) and (3) of Regulation (EC) No 555/2008, (2) demarcation by date of the financial commitments, and (3) exclusion of the measure, or of some of the operations of a measure of a given programme.

Establishing this dividing line, which was not initially provided for in the implementing regulation, meant that programmes had to be adapted under both support schemes. Once clear dividing lines had been drawn up, there were limited additional administrative costs for the national administrations.

## 23

Establishing a dividing line is more difficult in regionalised Member States, such as Spain and Italy.

Wine is grown in all regions of Italy and is an important sector economically, environmentally and socially. Each region has its own characteristics, and for some of them it has been difficult to establish the dividing line. However, this line is now established in detail in the regions concerned. This measure is considered to be one of the most important for improving competitiveness, particularly since intervention measures disappeared. Expenditure on this measure in 2013 should amount to EUR 55 million (17 % of the budget for this measure in 2013).

Other reasons may, however, also explain the delays observed during the first years of the programming period: difficulties in obtaining a bank guarantee because of the financial crisis, or delay in implementing the legislative framework for this measure at national or regional level.

See the replies to paragraph 22.

## 24

See the replies to paragraphs 22 and 23.

## Common reply to paragraphs 26 and 27

The Council and Parliament, like the Commission, have established rules concerning *ex post* control of the durability of operations. Article 103u(5) of Regulation (EC) No 1234/2003 stipulates that Article 72 of Regulation (EC) No 1698/2005 (rural development) shall apply *mutatis mutandis* to investment aid in national aid programmes (wine)[5]. Similar provisions have been established by Article 50(5) of Regulation (EU) No 1308/2013, referring to Article 71 of Regulation (EU) No 1303/2013, which replaces Article 72 of Regulation (EC) No 1698/2005.

The general issue of selecting investment projects, in particular with a view to verifying that costs are reasonable and projects viable (*ex ante*), will be tackled within the framework of CMO Management Committee meetings.

## 28

Application of the 'first come, first served' principle does not necessarily entail a lack of supervisory control of the project's viability. The selection procedures in Austria and France have not stopped the projects finally approved being verified and declared viable.

If there is no specific provision on this issue in Regulation (EC) No 555/2008, the rules of sound financial management apply (cf. Article 9 of Regulation (EC) No 1290/2005).

See the replies to paragraphs 26 and 27.

5 Article 72 of Regulation (EC) No 1698/2005 specifies that all funded projects must be durable, that is to say the Member State must ensure that the operation does not, within 5 years of the managing authority's funding decision, undergo a substantial modification, including cessation of an activity.

## 29

See the replies to paragraphs 26 to 28.

## Box 2

See the replies to paragraphs 26 to 28.

## Joint reply to paragraphs 30 and 31

Member States often use standard price lists that correspond to the market price for certain operations (for example, in construction work). Because the beneficiary contributes financially to the project, it also has an interest in obtaining lower prices.

During its audits of the investment measure, the Commission verifies that Member States have assessed whether the costs concerned are reasonable. In accordance with the provisions of Regulation (EC) No 1290/2005, the audits verify that Member States have adopted all the requisite legislative and administrative provisions and any other measures (management and control) necessary to ensure effective protection of the financial interests of the Union. In this connection, the audits also serve to verify whether Member States have complied with the principles of sound financial management which cover, inter alia, assessing whether the costs concerned are reasonable.

## 32

The guidelines designate the purchase of wooden barrels as an eligible operation.

The Commission would emphasise that, in many cases, oak barrels are used for more than 3 years and sometimes for up to ten.

Mere barrel replacement is not eligible (Article 17 of Regulation (EC) No 555/2008). Indeed, it is important to distinguish the eligibility of barrels from the eligibility of barrel replacement. A barrel is eligible (if it is used for more than 5 years); barrel replacement is not.

## 33

See the replies to paragraphs 26 and 32.

## 34

See the replies to paragraphs 30 and 31.

## 37

The Commission is of the view that the Council regulation enables aid to be given to beneficiaries of this kind if the actions taken comply with the conditions of the regulation.

It should also be emphasised that the measure has enabled a wide variety of firms to be helped, including inter-branch associations and wine-growers' cooperatives, which bring together a large number of winegrowers and winemakers.

The amendments to Regulation (EC) No 555/2008 and the adoption of the guidelines in 2013 make it possible to improve cost eligibility, the quality of project selection and the implementation, follow-up, supervision and assessment of actions taken. The selection procedure provides, for example, for assessing the likely impact of actions on the growth in demand (Article 5(2)(c) of Regulation (EC) No 555/2008) for the products concerned.

**Box 3**
See also the reply to paragraph 37.

**Subsidised promotion actions for champagne**

The Commission considers that even if champagne has a high reputation in the EU and a number of third countries, it also has many competitors that, although they have not yet acquired the same status, are increasing their market share, particularly in certain markets of strategic importance. Moreover, the effects of the economic crisis may, in a number of cases, lead to other types of sparkling wine or similar products being consumed in the place of champagne. If certain products were to be excluded because they had a sufficiently high reputation, the said reputation, in relation to that of other products, would have to be measured objectively, and justification provided for funding the promotion of other products in the same range — a state of affairs that would present difficulties in terms of fair treatment.

**Spain (Catalonia): six beneficiaries represented 88 % of the total approved funding for the period 2009–11**

This is the situation observed in Catalonia, where the focus is on a large firm that received aid of EUR 8.1 million (out of the EUR 15.2 million granted in this autonomous community). Scrutiny of the information submitted by the Spanish authorities in Annex VIII to Regulation (EC) No 555/2008 and analysed by the Commission's departments reveals that total aid of EUR 61 million was granted in Spain during the same period to 350 firms, including the Consejo Regulador DOC a Rioja and the Fundación Castilla la Mancha Tierra de viñedos, which represent a large number of businesses.

**38**
The Commission does not share the Court's view.

Among the aims of the promotion measure in third countries is that of increasing the number of wine outlets, not only in consolidated markets but also in new markets or those in which a foothold has been lost. If new markets are opened, they should be consolidated, partly through an increase in market share. Community rules do not prevent this[6]. Moreover, although preference is given to SMEs, large firms may also benefit from the assistance. Large firms are in the vanguard[7] of promoting all European wines in third countries, where smaller firms have more difficulty taking promotional initiatives. In Italy, for example, large enterprises implement measures by creating multiplier effects through temporary joint ventures.

The amendments to Article 5c) of Regulation (EC) No 555/2008 and the adoption of the guidelines in 2013 should enable the quality of selection to be improved and, in particular, clearer preference to be given to SMEs, new beneficiaries and beneficiaries targeting a new third country[8].

See also the reply to paragraph 37.

6 Article 103p(1) of Regulation (EC) No 1234/2007 specifies that aid is granted for information or promotion measures taken in third countries in favour of Community wines in order to improve their competitiveness in the countries concerned.

7 Where the self-funding capacities of large firms are concerned, it should be borne in mind that promotion efforts are not traditional efforts to invest in a product that meets a carefully gauged need. Rather, the spill-over from promotion campaigns benefits enterprises other than those realising the investment (enterprises making products in the same range and with the same geographical origin). The financial efforts made by the largest firms to promote their products thus benefit all operators in the sector.

8 The guidelines, in particular, recommend examining projects on the basis of a selection grille, with points for each selection criterion, and selecting projects on the basis of an assessment of the merits of each project. The Member State should therefore choose those projects that offer the best quality/price ratio and should give preference to SMEs, new beneficiaries and beneficiaries that are opening a new market.

**39**
The information submitted by the Member States in accordance with Annexes V and VIII to Regulation (EC) No 555/2008 show that, in general, beneficiaries target more than one market.

The Commission's report on the implementation of the promotion measure shows that only 37 % of projects funded target a single market, while the majority target between two and seven different markets. A significant concentration of actions has also been observed, with 75 % of actions covering seven countries (the United States, China/Hong King, Japan, Mexico, Canada, Russia and Switzerland).

The United States is the most frequently targeted market, with 22 % of actions.

Competition in the United States' market is very pronounced. That is why it is vital for firms to have a presence there, partly with a view to securing new outlets and retaining existing ones. It is essential for them to get themselves better known in order to ensure stable trade flows in the future.

See also the reply to paragraph 38.

**40**
The possibility of extending the support by a maximum of 2 years was decided on in 2010, following delays, observed in the Member States and third countries, due to administrative formalities. Such an extension was possible only after an assessment of the actions already taken.

As for the second amendment to the regulation, the Commission is of the view that one and the same enterprise can have access to the measure in the second programming period, in particular in order to consolidate the market, if it complies with the conditions of the regulation, notably where eligible actions and selection are concerned. In any case, what we are concerned with here is a new project and not an extension of the initial project. It has to be the subject of an ad hoc selection.

See also the replies to paragraphs 38 and 43 to 46.

**41**
See the replies to paragraphs 38 to 40.

**42**
While the objective of the measure is to increase the competitiveness of PDO/PGI wines and varietal wines and must be met, the rules do not preclude identifying particular brands. It may be important for the beneficiaries, who pay 50 % of the project costs, to be able to draw attention to their brand so as to be recognised by the target markets and, consequently, to increase their sales.

See also the reply to paragraph 37.

**43**
See the replies to paragraph 37 and footnote 46.

**44**
See the replies to paragraphs 37 and 43.

The Commission will discuss with Member States the adaptation of the guidelines in order to ensure a complementarity of EU-funded promotion projects with existing actions to avoid the risk of the deadweight effect.

**45**
See the replies to paragraphs 37 to 46.

The issue of the eligibility of personnel costs and general expenses is dealt with in paragraph 49.

**46**
It should be noted that it is difficult to exclude situations in which the beneficiaries would have taken such actions without the support of the EU. The object of the measure is to increase competitiveness. All producers must have the same opportunity to apply the measure.

See also the replies to paragraphs 43, 44 and 45.

The Commission will discuss with Member States the adaptation of the guidelines in order to ensure a complementarity of EU-funded promotion projects with existing actions to avoid the risk of the deadweight effect.

**47**
There is no specific allocation for the promotion measure.

The Commission would point out that it is for Member States to provide a breakdown of the amounts for each measure on the basis of their own needs, and within the annual budget granted to the measure via the regulation of the Council and of the European Parliament. This measure-by-measure breakdown is indicative in nature, and the Member States can readjust the amounts for each measure twice a year. It is therefore the Member States that have decided whether or not to give priority to this measure.

See also the reply to paragraph 43.

**48**
To provide further parameters for such measures, the Commission adopted guidelines in 2013 to help the Member States establish their 2014–18 programming on the basis of experience acquired in the first years of the programming (see the Court's footnote 4).

See also the replies to paragraphs 37, 49 and 51.

**49**
This issue has already been taken into account in Article 53(b) of Council Regulation (EU) No 1308/2013, in Commission Implementing Regulation (EU) No 752/2013 of 31 July 2013 which adds Article 5a to Commission Regulation (EC) No 555/2008 and in the guidelines[9].

Before these provisions were adopted, the eligibility of administrative and personnel costs had been the subject, in 2007, of internal interpretation by DG Agriculture[10].

**50**
The personnel costs and general expenses are to be eligible when they are strictly connected to the action; but they must be given a framework, as in fact they have been.

See also the reply to paragraph 49.

9 Article 53(b) of Regulation (EU) No 1308/2013 provides the legal basis empowering the Commission to adopt delegated acts for establishing rules concerning the administrative and personnel costs that may be included in support programmes. Article 5a of Regulation (EC) No 555/2008 provides parameters for the personnel costs and general expenses, which must be strictly linked to the preparation, implementing or follow-up of the action concerned. The guidelines adopted in 2013 define the expenditure concerned more precisely.

10 Adonis note 005778 of 1 March 2007: this pointed out that Article 13 of Regulation (EC) No 1290/2005 is generally designed to prevent the EAGF from assuming personnel costs and administrative expenses when implementing the CAP; the note also pointed out that this same article was not designed to prevent the EAGF from funding the personnel costs involved in supplying specific services. In the Commission's opinion, there is consequently no contradiction.

### 51
The guidelines are a useful tool for the Member States as they implement the promotion measure. It was essential to have a clear definition of eligible expenditure. That is why it has been included in the guidelines. It should be noted that the Member States have particularly welcomed this document supporting the presentation of the 2014–18 programming period. The guidelines also have the advantage of being adaptable to expressed needs, so assuring Member States and producers better security when implementing the measure.

### 53
The Commission accorded particular importance to this issue when analysing the 2014–18 programmes.

The Court's observations will be taken into account by the Commission in its forthcoming audits of the promotion and investment measures.

### Box 4
The Commission will follow up this matter in the context of the clearing of accounts procedure.

### 55
The Commission acknowledges the problem presented by on-the-spot control in third countries, although Community legislation does not require such control.

The issue of on-the-spot controls was raised when the new programming period was being negotiated with the Member States. Romania, Italy, Spain and Slovakia, in particular, envisaged controls in third countries in their programmes. The other Member States argue that controls of this type in third countries would be too onerous and not cost-effective.

To mitigate the effects of the lack of controls in third countries, the Commission guidelines propose that invoices and documents be provided for control purposes[11].

The Commission is alert to the need to improve the quality of controls in relation to this measure, particularly through possible amendments to the guidelines.

### 56
See the reply to paragraph 55.

### 57
The issue of controls on intangible actions such as wine tastings is dealt with in the guidelines, which now require invoices and accompanying documents to be provided. These may consist, for example, of photos, copies of articles, lists of participants, certificates confirming participation in trade fairs, etc.

See also the reply to paragraph 55.

11 Point 8 of the guidelines:
Applications for payment sent to the competent national authority should be accompanied by copies of original invoices and supporting documents of the beneficiary, which should be classified by budget heading.
All these documents should be listed in a summary table, together with the amounts expressed in euro and, in the case of Member States outside the euro zone, in their national currency as well. If needed, translations may be required.
All supporting documents should give the following information: the supplier, the service provided with details of the way it relates to the measure in question, the date, the amount (exclusive of VAT) and the registration number. They should be accompanied by proof of payment. Supporting documents may be for example a certificate confirming the participation in a fair, photos, copies of articles, lists of participants, etc. In case there are subcontractors, their invoices should contain a clear indication to what part of an operation each cost relates to. If there is one invoice, it should be broken down by operation and cost; otherwise there should be a separate invoice by operation.
In the event of an audit on the premises, the competent national authority and the Commission inspectors should be able to inspect the original documents, classified according to these rules.

### 58
See the replies to paragraphs 55 and 57.

### 59
See the replies to paragraphs 55 and 57.

### Box 5
See the replies to paragraphs 55 and 57.

### 60
See the replies to paragraphs 55 and 57.

### Box 6
The Commission will follow up this matter in the context of clearing of accounts procedure.

### Joint reply to paragraphs 62 and 63
Article 5a) of Regulation (EC) No 555/2008 describes the personnel costs and overheads (the latter limited to 4 %) incurred by the beneficiary in preparing and implementing the action. Contrary to current practice in the aid scheme defined by Regulation (EC) No 3/2008[12], relating to horizontal promotion, recourse to an implementing body is not required. If such recourse does in fact take place, the service concerned is one for which invoices and documents in proof have to be produced, as described in the guidelines (see the Court's footnote 56).

Recourse to an implementing body is no longer obligatory in Romania. New provisions were introduced in the 2014–18 aid programme. National legislation now clearly provides for the beneficiary's being able to implement the project entirely itself, provided that certain conditions are met.

See also the replies to paragraphs 55 and 64.

12 OJ L 3, 5.1.2008.

### 64.
The guidelines provide that costs may be considered eligible if they have not already been imputed to another category of expenses[13].

See also the reply to paragraphs 62 and 63.

### Box 7
See the replies to paragraphs 55, 62, 63 and 64.

### 65
It is important to have reliable monitoring data available. However, there are other sources of information, such as statistics and studies. Moreover, a balance must be struck between the amount of information required for policy needs and the administrative costs and charges resulting from data collection.

The Commission would emphasise that information on the implementation of measures (follow-up information) must be differentiated from information on a policy's results and impact (information on the assessment). The latter can be obtained only after a sufficient period of time has elapsed.

### 67
When the Member States' administrations drew up their draft programmes in 2008, they were at the beginning of a learning process. Several Member States have had difficulties in devising proper objectives for the newly introduced measures. Consequently, there has often been a lack of quantified objectives in the first programming period.

13 Point 6 of the guidelines:
Eligible costs cover only the costs of the operations carried out and borne by the beneficiary after the date the contract takes effect and prior to its expiry.
The eligible costs are eligible only in so far as they:
— can be verified;
— include no cost already charged to another expenditure category;
— are not funded from another project.

In analysing the draft programmes for the period 2014–18, the Commission has insisted that Member States supply appropriate indicators for each measure. The aid programmes now include, in a clearer form, a section concerning the criteria and quantitative indicators used for follow-up and assessment. In this section, Member States are invited to show the link between the objectives they have set for each measure and the indicators for measuring to what extent these objectives will have been achieved.

On 1 March 2014, the Member States have to present the second cost/benefit analysis[14] of the support programmes, which should include elements relevant to the analysis of programmes during the first programming period, 2009–13.

The third cost/benefit analysis must be presented by the Member States by 1 March 2017.

See also the reply to paragraph 65.

**68**
The annual reports are intended to supply information on the implementation of the aid programmes. That means that they have to be focused more on information and financial implementation, and less on results and impact; indeed, the assessment can be carried out only after a sufficient period of time has elapsed.

See also the replies to paragraphs 65 and 67.

14 The first cost/benefit analysis was submitted on 1 March 2011 and has therefore been limited to the first 2 years of programme implementation.

**69**
For the new programming period, the Commission has proposed, in the guidelines, examples of indicators that Member States can offer beneficiaries so that the results of the promotion measure can be evaluated on the basis of the actions taken.

Moreover, the Commission regularly organises assessments of the general impact of a policy in line with the financial regulation (every 6 years).

See also the reply to paragraph 67.

**70**
The Commission shares the Court's view that it is always difficult to isolate the impact of a policy from factors extraneous to the policy. However, careful development of the assessment methodology allows us to approximate the effects of the various instruments/measures (for example, by using statistics). It is worth recalling, however, that the reform of the wine sector should be examined as a set of complementary measures.

See also the replies to paragraphs 69, 72 and 75 to 80.

**71**
See the reply to paragraph 18.

**72**
A carefully designed assessment can make it possible to approximate the effects of the measures taken at various levels. The monitoring and assessment system is designed to monitor the implementation of measures at the policy and/or programme level, and not at the level of each beneficiary.

As mentioned in paragraph 18, by design, rural development has a regional dimension, whereas the wine CMO has a sectoral dimension.

## 73

See the reply to paragraph 72.

## 75

The Commission confirms the European wine trade data, which show the advantage of continuing the promotion measure in third countries.

Thus, Graphs 2a and 2b clearly show the increase in exports by value, although this trend is strongly influenced by higher grape and wine prices.

On the Chinese market, EU wines face competition from local wines (83 % of Chinese consumption) and wines from Chile (exempt from customs duties), Australia and South Africa.

Owing to this stiff competition, it is crucially important to promote Union wines to maintain market share.

## 76

It is difficult to isolate the effects of the promotion measure on the competitiveness of a sector. Even when selection and assessment procedures are optimised, a degree of uncertainty always remains.

However, this is not a sufficient reason to call into question the merits of the measure; the measure is fully justified because it is indispensable against a background of trade liberalisation and stiffer competition from our main competitors, such as the United States, which has public promotion policies (its budget allows it to fund aid measures for exports).

However, it should be possible to refine the assessment by using indicators that are appropriate to the beneficiary level (see reply to paragraph 69) and by a more in-depth analysis of the measure by Member States.

See the replies to paragraphs 69 and 70.

## 77

The Chinese market is highly specific. Per capita consumption is less than 1 litre (whereas in Europe per capita consumption is around 30 litres). Although wine consumption is increasing, European wines compete with wines from Australia, Chile and South Africa that may benefit from preferential treatment as regards import tariffs.

See also the replies to paragraphs 39 and 75.

## 78

Without the promotion measure, the losses of market share would probably have been bigger.

The Commission has analysed the outlook and drawn attention to the risk of market share losses in some third countries. The risk may stem from the small scale of EU enterprises, segmentation of the sector or restrictions on varietal wines in various Member States.

European wines must fight to maintain their market shares. Promotion is a very important tool.

It should be pointed out that the Commission has just launched a study of the competitiveness of European wines in third countries and in the EU; the study will examine in particular the key factors in the competitiveness of EU wines in relation to wines from third countries and the obstacles to improving it.

## Common reply to paragraphs 79 and 80

Even if promotion actions are taken in favour of some types of wine, all other wines benefit indirectly from them because they will have a positive effect on the image and consumption of other types of wine.

## Conclusions and recommendations

**82**

The audit covered the first 3 years of the programming period 2009–13, which mark the introduction of these measures. After a 'running-in' period, Member States were better able to implement their programme measures, particularly in terms of budget execution.

The Commission has put in place the tools to improve the implementation, monitoring and control of the measures in the programmes (seven amendments to Regulation (EC) No 555/2008[15], guidelines for restructuring, investment and promotion in third countries[16]).

With regard to competitiveness, it is of course difficult to isolate the effect of those two measures on the competitiveness of the wine sector, which is the second objective of the 2008 wine reform, since the first objective (restoring market equilibrium) has already been met. The reform of the sector should be examined as a set of complementary measures. However, it is worth highlighting the steady rise in exports, in terms of value and volume, in an increasingly competitive global context, in spite of the downturn in 2008 and 2009 following the economic crisis.

15 Regulation (EC) No 42/2009 (OJ L 16, 21.1.2009), Regulation (EC) No 702/2009 (OJ L 202, 4.8.2009), Regulation (EU) No 772/2010 (OJ L 232, 2.9.2010), Regulation (EU) No 568/2012 (OJ L 169, 29.6.2012), Regulation (EU) No 202/2013 (OJ L 67, 9.3.2013) and Regulation (EU) No 752/2013 (OJ L 210, 6.8.2013).

16 Guidelines for implementation of the national support programmes in the wine sector according to Regulations (EC) No 1234/2007 and No 555/2008 of 25 February 2013 and of 26 April 2013.

**83**

The Commission considers that the specific investment measures in the wine COM is important to increase competitiveness.

In December 2013, the Council and Parliament confirmed the utility of the 2008 wine reform by retaining its guiding principles in Regulation (EU) No 1308/2013[17] on the new common organisation of the markets. In this way, they demonstrated their willingness to allow the wine reform tools time to take full effect, including by leaving the investments in the two aid schemes.

See Commission reply to Recommendation 1.

**84**

Given the risk of overlap between the two aid schemes, the Commission has considered it essential to establish a dividing line (not originally envisaged) for the sake of good budgetary orthodoxy. The demarcation between the programmes is now clear and should make it possible to avoid the risks of double funding.

The delays in the implementation of the measure in the first years of the programming period can also be explained by other factors, such as the difficulty of obtaining bank guarantees owing to the economic crisis.

17 OJ L 347, 20.12.2013.

### Recommendation 1

The Council and Parliament have just confirmed, in December 2013, the utility of the wine reform by retaining its guiding principles in Regulation (EU) No 1308/2013 on the new common organisation of the markets for the period 2014–20. They have thus demonstrated their willingness to allow the wine reform tools time to take full effect, while at the same time expanding the range of sub-measures of the aid programmes (new innovation measure, opening up of promotion to actions targeted at the domestic market, extension of restructuring to replanting for plant health reasons).

As far as the absorption of funds is concerned, the Commission carries out monitoring of the amounts received by beneficiaries on a monthly basis.
In accordance with Article 110 of the horizontal Regulation 1306/2013, the Commission will ensure that the combined impact of all CAP instruments is measured and assessed in relation to the common objectives of the CAP. This includes an evaluation of the coherence of the CAP instruments by 2018 (first results). In this context, the Commission will examine how to include an assessment of the added value of having an investment support both under the wine COM and rural development. It should be noted that information on the impact of a policy can only be obtained after a sufficiently long period of time has elapsed.

### 85

See Commission reply to Recommendation 2.

### Recommendation 2

The Commission considers that this part of the recommendation is addressed to the Member States.

Under the principles of subsidiarity and shared management, the selection of projects is a matter for the Member States, and the Commission cannot assess the reasonableness of costs *ex ante*.

The Community rules provide the Member States with a framework to examine project durability *ex post* (Article 103u(5) of Regulation (EC) No 1234/2007).

Moreover, the Commission checks that Member States assess the reasonableness of costs during its audit missions on the investment measure. Pursuant to Regulation (EC) No 1290/2005, audits check that Member States have adopted all appropriate legislative and administrative rules and that they have adopted any other measures (management and control) necessary to ensure effective protection of the financial interests of the Union. In this connection, audits also check that Member States are complying with the principles of sound financial management, which include, inter alia, an assessment of the reasonableness of costs.

The general issue of the selection of investment projects, particularly for the verification of the reasonableness of the costs and the viability of the projects (*ex ante*), will be dealt with at the meetings of the Management Committee for the single CMO.

### 86

The success of the EU wine policy in reaching its objectives including a 50 % increase of exports is a good indicator that the promotion measure has had a very positive effect.

The promotion measure in third countries seeks, among other things, to increase the number of outlets for wine, which can be done through measures in consolidated markets but also by measures in new markets or markets that have been lost. If new markets are opened, they must be consolidated. Community rules do not prevent this[18]. Moreover, although preference is given to SMEs, large undertakings can also receive the aid because it is a matter of a preference, not an eligibility criterion.

18 Article 103p(1) of Regulation (EC) No 1234/2007 provides that 'Support under this Article shall cover information or promotion measures concerning Community wines in third countries, thereby improving their competitiveness in those countries.'

The amendments to Regulation (EC) No 555/2008 and the adoption of the guidelines in 2013 improve the quality of the selection, in particular by giving preference more clearly and effectively to SMEs, new beneficiaries and beneficiaries targeting a new third country.

The rules do not preclude emphasising brands; the objective of the measure is to improve the competitiveness of PDO/PGI wines and varietal wines. For the beneficiaries, who share 50 % of the costs of the actions, it may be important to be able to emphasise brands too so that they can be recognised in the target markets and consequently increase sales.

## Recommendation 3(a)

The Commission considers that depending on the circumstances beneficiaries may have access to the measure in the second programming period, for example to consolidate its market in the same third country.

Moreover, the amendments to Regulation (EC) No 555/2008 and the adoption of the guidelines in 2013 improve the quality of the selection, in particular by giving preference more clearly and effectively to SMEs, new beneficiaries and beneficiaries targeting a new third country.

## Recommendation 3(b)

While the objective of the measure is to increase the competitiveness of PDO/PGI wines and varietal wines and must be met, the rules do not preclude identifying particular brands. For the beneficiaries, who share 50 % of the costs of the actions, it may be important to be able to emphasise brands too so that they can be recognised in the target markets and consequently increase sales. Moreover, the amendments to Regulation (EC) No 555/2008 and the adoption of the guidelines in 2013 allow preference to be given more clearly to SMEs.

The Commission will discuss with Member States the adaptation of the guidelines in order to ensure a complementarity of EU-funded promotion projects with existing actions to avoid the risk of the deadweight effect.

## 87

The Commission has attached particular importance to improving the quality of the selection of projects for the new 2014–18 programming period through the amendments to Regulation (EC) No 555/2008 and the adoption of the guidelines in 2013.

The selection procedure provides for, among other things, an assessment of the foreseeable effects of the actions on growth in demand.

When the new programming period was being negotiated with the Member States, the question of on-the-spot checks on the measure was raised. Some Member States require such checks. The others argue that such checks would be too onerous and disproportionate from the point of view of cost effectiveness.

To make up for the lack of verification in third countries, the Commission proposed in the guidelines listing the invoices and documents to be provided for the purposes of the checks.

See also the replies to paragraphs 43 to 51 and to Recommendation 4.

### Recommendation 4

The Council regulation allows aid to be granted if the actions undertaken meet the conditions laid down in the regulation. The selection procedure, as defined in Article 5 of Regulation (EC) No 555/2008 and in the guidelines provides, inter alia, for the evaluation of the expected impact of the measures on demand growth.

The Commission will discuss with Member States the adaptation of the guidelines in order to ensure a complementarity of EU-funded promotion projects with existing actions to avoid the risk of the deadweight effect.

### 88

The Commission recognises the problem posed by on-the-spot verification of this measure in third countries, even if Community legislation does not require it.

When the new programming period was being negotiated with the Member States, the question of on-the-spot checks of the measure was raised. Romania, Italy, Spain and Slovakia in particular require checks in third countries. The other Member States argue that such verification would be too onerous and disproportionate from the point of view of cost effectiveness.

To make up for the lack of verification in third countries, the Commission proposed in the guidelines listing the invoices and documents to be provided for the purposes of the checks.

The Commission is keen to improve the quality of the checks on this measure, in particular through possible adaptation of the guidelines and rules.

### Recommendation 5(a)

The Commission considers this recommendation has been taken into account for the programming period 2014–18.

The question of the administrative and personnel costs incurred by the beneficiary has already been taken into account in Article 53(b) of Council Regulation (EU) No 1308/2013, in Commission Implementing Regulation (EU) No 752/2013 of 31 July 2013 which adds Article 5a to Commission Regulation (EC) No 555/2008 and in the guidelines.

With regard to the implementing bodies, under the guidelines the costs can be considered eligible if they have not already been allocated to another category of expenditure.

### Recommendation 5(b)

This part of the recommendation is addressed to the Member States.

The existence of a sufficient audit trail is verified by default during 'clearance of accounts' audits. When the regulatory provisions require specific controls and it has been shown that the audit trail has shortcomings, the Commission requires corrective measures and may apply a financial correction. Moreover, to make up for the lack of verification in third countries, the Commission proposed in the guidelines listing the invoices and documents to be provided for the purposes of the checks.

**89**

When analysing programme projects for the period 2014–18, the Commission insisted that Member States provide appropriate indicators for each measure. The aid programmes now include more clearly a part relating to the quantitative criteria and indicators used for monitoring and assessment. Member States have been asked to demonstrate the link between the objectives they have set for each measure and the indicators that are supposed to measure the extent to which the objectives have been met.

Moreover, on 1 March 2014, Member States must present the cost/benefit analysis[19] for support programmes, which should provide useful information for the analysis of the programmes during the first programming period 2009–13. The third cost/benefit analysis must be presented by Member States by 1 March 2017.

The Commission would stress that the information relating to the implementation of the measures (information on monitoring) must be differentiated from the information concerning the outcomes and impacts of the measures (information on assessment). These data can be obtained only after some time has passed.

The subsequent assessment of the costs and benefits must be presented by Member States before 1 March 2017.

19 The first cost/benefit analysis was submitted on 1 March 2011 and was therefore limited to the first 2 years of the implementation of the programmes.

**Recommendation 6**

The Commission considers this recommendation has been taken into account for the programming period 2014–18.

For the new programming period, in the guidelines the Commission has proposed examples of indicators that Member States could offer to beneficiaries to assess the outcomes of the promotion measure, depending on the actions conducted.

See also the reply to paragraph 89.

**90**

The Commission does not agree with the Court's opinion that there is a risk that the promotion budget was set at too high a level by Member States. There is no budget specifically earmarked for promotion in the financial annex to the Council Regulation. Member States present their aid programme with indicative breakdowns, which they may change twice a year, depending on the needs expressed.

At this point, it is worth recalling the objectives of the wine reform adopted by the Council in 2008: (1) to restore market balance ('one shot' grubbing-up 2009–11) and (2) to improve competitiveness (through 'structural' measures). The first stage has been completed and the equivalent of the grubbing-up amount was carried over to the aid programmes, as envisaged in the reform, to increase the amount for these measures, which are more 'structural' than promotion and investment primarily are. The increase in the amounts allocated by Member States to the measures was thus foreseen.

When the CMO reform was adopted in December 2013, the Council and Parliament did not wish to change the guiding principles adopted at the time of the wine reform, including at the level of budget allocation. They further strengthened the promotion measure by opening the domestic market for actions targeted at information about responsible wine consumption and the PDO/PGI schemes in the Union.

## Recommendation 7

In accordance with Article 110 of the horizontal Regulation 1306/2013, the Commission will ensure that the combined impact of all CAP instruments is measured and assessed in relation to the common objectives of the CAP. This includes an evaluation of the efficiency of the CAP instruments by 2018 (first results). In this context, the Commission will examine in 2018 how to include an assessment of the use of the budget allocated to the wine support scheme and of its impacts. It should be noted that information on the impact of a policy can only be obtained after a sufficiently long period of time has elapsed.

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**EU funds are available to support investments in wine production and to promote EU wines in non-EU countries. In this report, the Court examines whether this support for the wine sector is well managed and whether it has improved the competitiveness of EU wines. During its audit the Court found that the need to provide investment aid to the wine sector, in addition to the aid already available under rural development policy, had not been demonstrated. Promotion support was often used to consolidate market share rather than to win new markets. Moreover, the Court identified promotion operations which would have been undertaken anyway, even without public funding. Finally, the impact of the assistance on the competitiveness of EU wine producers was not always demonstrated. The Court has provided the Commission and the Member States with recommendations on how to remedy the weaknesses mentioned in the report.**

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