Economic integration and the availability of alcohol: the case of the European Economic Community

BY PEKKA SULKUNEN

Pekka Sulkunen is a research scientist at the Social Research Institute for Alcohol Studies, Helsinki, Finland.

Introduction[1]

The postwar period, until the end of the 1960s, was characterized by widespread belief in free international trade. During that time, a large number of international agreements, both global and regional, were reached to liberate international trade. Of the regional agreements, the creation of the European Economic Community (EEC), established by the Rome Treaty in 1958, was the most ambitious. It aimed not only toward a total abolition of quotas and tariffs among community members but also toward creation of a supernational economic union with a common monetary unit and centralized fiscal, industrial

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and agricultural policies, as well as a coordinated system of social security. Even the fiercest proponents of The United States of Europe have by now been convinced that this goal is unrealistic, at least in the foreseeable future. Yet a lot of progress has been accomplished, especially in certain areas such as agricultural and industrial policies.

In the same period a large number of countries, the community countries included, saw a considerable improvement in the availability of alcoholic beverages. This applies to price developments in several countries, as well as to physical availability.[2] As this was, furthermore, a period of universal increase in the consumption of alcoholic beverages, it is of interest also from the social or public health point of view to consider in which way and to what extent the process of economic integration has been related to improving availability and increasing consumption. This is especially relevant in western Europe, where the production of alcohol of all sorts is at a high level, where consumption has increased very rapidly and where the issues related to the production and trade of alcoholic beverages have been closely knit with some of the central issues in the process of developing the community.

Furthermore, the case of the EEC is interesting from this point of view because wide historical differences exist among the systems of alcohol control of the member countries. Notably Ireland and the U.K., but also Denmark, the Netherlands and Belgium have a tradition of social concern about alcohol consumption. Thus, they have still some restrictions in force that in fact are obstacles to free trade. This is especially notable in the level of taxation, which is considerably higher in the new member states (Denmark, Ireland and the U.K.) than in the original six. It is of interest to see in what way the existence of the community limits the autonomy of its members in the area of social and public health policy in alcohol control.

The approach of the Common Market[3]

The general and unchallenged purpose of the EEC is to provide free trade within the community and to regulate trade with third countries in a coordinated manner. This aim has been pursued by various interrelated means.

The first and most significant move in this direction has been the abolition of tariffs and quotas at the international borders. This move went on progressively since the signing of the Rome Treaty in 1958 until 1968 when the rest of these impediments to trade for most industrial products were removed.

Nevertheless, the abolition of tariffs and quotas in 1968 was not complete for all products, particularly those of agricultural origin. Furthermore, there remained other kinds of distortions of trade, such as price controls and supports, export subventions and various other kinds of aid in the area of agriculture. Therefore, the next step towards completely free trade was the adoption of the Common Agricultural Policy, especially requested by France. The CAP, as it is called, has a notoriously crisis-ridden history, and its creation is still incomplete.

Since wine and partly also spirits belong to the sphere of agricultural production, the markets of these commodities must, according to the principles of the CAP, be regulated by special market organizations. Such a market organization for wine was established in 1970, but the efforts to organize alcohol and spirits markets have failed thus far.

Another related impediment to completely free trade after the elimination of tariffs and quotas is the existence of different systems and levels of excise and consumption taxes within the community. This is especially true for alcoholic beverages, but many other commodities are also involved. Therefore, the third step toward free trade has been the likewise difficult process of tax harmonization, which is also closely related to the establishment of the Monetary and Economic Union.

Finally, there are some "invisible barriers to trade," such as differences in technical norms and standards, regulations concerning advertisements and distribution, etc. The invisible barriers to trade have not been very important in the case of alcoholic beverages. True, certain differences in the standard size of containers created difficulties in beer trade until 1974, and the still-existing Reinheitsverbot in Germany prevents competition from foreign brewers using additives and chemicals that are outlawed in Germany. Also, the Belgian Vanderwelde system and the French regulations on advertisement have been discussed in the institutions of the community, but no action has been taken in these cases. Nevertheless, these problems have been of minor importance. Therefore, we shall concentrate on describing the market organization of wine, or the Common Wine Policy, and the discussions on the alcohol regime and tax harmonization. Some observations on the effects of these policies will also be made.

Common Wine Policy

The organization of the wine market was established in 1970 as one of the last phases in the CAP. This market organization is very complicated, and only a crude outline is presented here.

The wine regime, as it is often called, consists of (a) a system of price control and of intervention procedures, (b) a common organization of trade in wine with third countries, (c) rules regulating the production and planting of vines and rules concerning some oenological practices, as well as (d) classification of wines and viticultural areas within the community.[4] The aims of this system are those of the CAP: to secure a tolerable and stable income for the farming sector through a stable price level; to achieve a stable balance of supply and demand within the community; to regulate trade with third countries in a coordinated manner; to promote structural reform within agriculture towards greater productivity and rationalization; and to ensure equitable supplies to consumers.[5]

The adoption of the wine regime meant, first of all, that all remaining customs duties and quotas were to be abolished at internal borders within the community. Secondly, the wine regime means that the EEC Council tries to uphold a common price level throughout the community for each type of wine. The price control and intervention system is a very complicated one. The skeleton of this system is that every year an "orientation price" for the producers is fixed for each type of wine on the basis of producers' prices during the last two years. Then an intervention or activation price is fixed at a level somewhat lower than the orientation price. If at any of the designated wine market centers the market price falls below the intervention price, intervention purchases to stocks will be made. In certain cases subsidies will be paid to support distillation of wine.

The price fixing and supporting mechanism has pushed the price level upwards in the long term, particularly in southern Italy. This is because orientation prices as well as intervention prices are fixed at the average community level on the basis of two years' average producer prices. This will automatically raise producer prices in areas where the price level has, prior to the establishment of the system, been low. Also the intervention measures for the years when the price level falls influence the orientation on prices in following years. The result is a continuous—although moderate—increase in the intervention (or activation) price level.[6]

The internal price level is protected from outside competition by the substantial rates of the Common External Tariff. These rates are specific to types of wine. Another element protecting the internal price of wine is a system of minimum entry, or reference prices. Reference prices for each type of wine are set according to the price level prevailing in the community (orientation price plus a margin for costs and profits between the producer and the import stage) and on the basis of the annual forecasts of supplies and requirements. Whenever the duty-paid price of wine offered to the Common Market is lower than this reference price, the difference will be taxed away to the coffers of the European Agricultural Guarantee and Guidance Fund (EAGGF). On the other hand, the community promotes exports by means of "restitutions" to exporters, intended to cover the difference between the high community price and the lower world market price.

The crucial problem facing this wine policy as well as the CAP in general is the uneven development and relative backwardness of agriculture. Elaborate agricultural policies are necessary precisely for this reason. Therefore, the key to simpler and less regulated agriculture in Europe is what is commonly called structural transformation. In the course of setting up the CAP, continuous stress has been laid on the importance of support for structural change.[7] The adoption, after painful negotiations and numerous modifications, of the so-called Second Mansholt Plan in 1971 concerning the harmonization of structural policies for farming shows that the need for common responsibility in this area is recognized.[4] For viticulture this means that certain regulations concerning aid to new plantings and replantings are already in force. The aim of these regulations is mainly to improve productivity and the quality of wine.

The general principle is that government aid to new vineyards or plantings is prohibited. Also, aid for replanting is allowed only insofar as it will not increase production in excess of the effects of rationalization and will improve the quality of wine. Nevertheless, national aid may be authorized by the commission when viticulture is an essential element of agriculture revenue and when this aid is intended to support the revenue. The types of vines have also been classified and ranked according to their recommendability, and a program was set up in 1970 to dig up all nonrecommended vines by the end of a 15-year period. In 1976 a new program was adopted in order to prohibit new plantings other than for the production of quality wine.[9]

The EAGGF also supports some replanting projects; in fact this support has taken up 12% of the expenditures on all structural improvement projects by the EAGGF during 1964-1975. In the more recent years this share has tended to increase quite substantially.[10] Of course, the grants by the EAGGF are only a fraction of the total support for structural transformation in viticulture, the bulk of which comes from the national governments.

One of the most complicated and sensitive operating parts of the CAP, the Common Wine Policy has had to face the same ravaging effects of the instability of the international exchange system and trade imbalances as agricultural policies in general. The system began to deteriorate almost as soon as it began to operate. Common price levels for cereals, milk and milk products, beef and veal, rice, sugar, oilseeds and olive oil were first applied in 1967 and 1968.[1] In 1969 the French franc and the German mark were adjusted in different directions. As a result, the French producer prices could have risen, thus encouraging a further increase in surpluses, while the German price level could have shrunk, resulting in revenue losses for German farmers. Therefore, French agricultural prices had to be lowered by a common decision at Brussels, and a temporary customs barrier was set up.[2]

When the system of fixed exchange rates collapsed in the early part of the 1970s, similar difficulties emerged throughout the agricultural sector. The reaction was to establish a special agricultural unit of account or a system of exchange rates to be used especially in the agricultural sector. This system also partly damaged the results of the common price level policy for wine.[13]

Common Alcohol Policy

Ethyl alcohol is another commodity—or rather a group of commodities—that failed to become an object of free trade by the general elimination for other industrial products of tariffs and quotas at intracommunity borders. Other kinds of national regulations control the trade, production and use of this commodity, and even some quotas and tariffs still remain in force. The state of alcohol markets resembles that of the markets of agricultural products before the implementation of the CAP, and partly for the same reasons. Furthermore, in France certain kinds of alcoholic beverages cannot be advertised, and the Commission of the European Communities has interpreted this as an obstacle to free trade, although it has not attempted to implement formal sanctions against these restrictions.[14]

The major forms of trade barriers have been the state alcohol monopolies in France and Germany and differential taxation in some other countries, particularly Denmark and Italy. The reasons for such regulations lie first in production and second in the uses of alcohol.

Alcohol is mainly produced by distillation of various fermented products. It can also be made of certain industrial by-products, and an increasingly important method is to synthesize alcohol from hydrocarbon oil. These methods of production vary greatly in effectiveness, and therefore the prices of different kinds of alcohol also vary considerably, although the product is for most purposes quite the same regardless of the method of production. Because a large number of alcohol requirements in the EEC countries are satisfied with alcohol produced from agricultural produce (grain, fruit, grapes), alcohol markets are closely related to this problematic sector of the economy. The need to protect agricultural alcohol arises from the fact that it is the most expensive kind of alcohol and its production and price level secure farm incomes and absorb surpluses. Agricultural alcohol is also vulnerable to wide fluctuations in production according to variations in the harvests of the various crops (grapes, fruit, cereals).

The other side of the coin is that alcohol is used for many purposes: as a solvent, an effective antiseptic, a means of heating, etc. In fact, direct human consumption in the form of alcoholic beverages comprises in France, for example, less than a third of the total domestic utilization of ethyl alcohol.[15] Many countries have reserved the beverage sector and sometimes also pharmaceutical uses for agricultural alcohol in order to secure a demand for it despite its high price. Since the origin of the alcohol is also often irrelevant in the beverage industry, many elaborate means of control have been applied to avoid abuses.

It is for these reasons that both France and Germany have in the course of several decades developed their elaborate systems of state monopoly of alcohol. In these countries, a state alcohol administration has in principle—with many exceptions and practical modifications—the sole right to supply alcohol to the industries that use it (the beverage industry, pharmaceutical industries, etc., but also other industries which use alcohol as an auxiliary chemical—for example, as a detergent or as a solvent). Except for certain limited cases, all alcohol produced in or imported to these countries must be first sold to the respective monopolies.

The monopolies give the German and French governments the ability to regulate the prices of the various kinds of alcohol, to determine which kinds of alcohol will be used for which purposes, to secure the income level of alcohol-producing farmers, to balance out annual variations in the production of agricultural alcohol, and to influence the quantities produced by the different methods of manufacture. Neither of these monopolies handles the production or trade of alcoholic beverages in their final retail form, but both have rectifying and storing installations as well as transportation equipment.

The approach of the commission towards obstacles in alcohol trade has been twofold. First, it has requested the monopoly countries and countries in which it considers a discriminatory tax system to exist to modify their alcohol regimes to comply with the maxims of free trade and nondiscrimination. Second, it has attempted for a long time to establish a common market organization for alcohol that could cope with all problems simultaneously.

Germany opened up quotas as early as 1963 and regularly increased them so that they were totally abolished by 1972. By 1969 the German system satisfied the commission except for some minor issues relating to alcohol used as a raw material for drinks and in other industries, and in 1972 the commission felt that the German system was in agreement with the dictates of free trade, considering that no common alcohol markets had been established.

Also the French monopoly has largely complied with the commission's requests, but some of the taxes on alcohol made from grain are still higher than similar taxes on wine-based alcoholic beverages.[16]

The commission made its first attempt to find an overall solution to the problems created by alcohol markets in 1972, when it submitted to the council a proposal for an alcohol regime. The proposal was based on strict regulation of the market by a common monopoly. Some of the goals were to decrease the production of agricultural alcohol, to reserve for agricultural alcohol certain uses such as production of beverages and to prohibit the distillation of imported raw materials. The costs of the system were laid on the consumer in the form of a heavy tax on grain-based spirits. However, the enlargement of the community and the oil crisis intervened, and the proposal was essentially revised as a result of various criticisms lodged particularly by the new member states.[17]

The new proposal, submitted to the council in December 1976,[18] is a compromise between producers of agricultural alcohol (France, Italy, Germany) and the new member states in which synthetic alcohol is extensively produced. It also attends to the fact that scotch whisky is largely made from imported raw materials. The new proposal emphasizes the security of community supplies, includes alcohol resulting from the distilling operations of the Common Wine Policy, provides for freer rules in producing molasses alcohol and makes it possible to get aid for rationalization projects from the EAGGF. These measures were proposed in order to satisfy the agricultural lobby, whereas the producers of industrial alcohol and whisky were appeased by excluding nonagricultural alcohol largely from the regime altogether, abolishing the earlier principle of prohibiting distillation of imported raw materials and distributing the costs of the system more evenly by not placing the main burden on grain-based spirits as was suggested in the earlier proposal. Furthermore, the new proposal emphasizes that the community should resume its earlier role as an exporter, and a levy protecting the community price level is included. The new proposal has not so far led to a working compromise, and it is difficult to see at this time how long this may take.

Tax harmonization

Closely related to the success of the Common Wine Policy and to the objectives of alcohol policy in the making is the need to harmonize indirect taxes levied on alcoholic beverages. Both the systems and the levels of such taxation vary greatly in the community countries. This makes it necessary to retain border controls and tax adjustments in trade. Furthermore, tax differences severely violate the cherished principle of consumer equity.

The Rome Treaty stipulates, although in rather vague words, that indirect taxes in the community shall harmonize (articles 99 and 100). Furthermore, it lays down that

> no Member State shall impose, directly or indirectly on the products of other Member States any internal taxation of any kind in excess of that imposed directly or indirectly on similar domestic products. Furthermore, no Member State shall impose on products of other Member States any internal taxation of such a nature as to afford indirect protection to other products (article 95).

The reasons for the importance of tax harmonization in recent years are related not only to free trade and undistorted competition but also to the Monetary and Economic Union. The greatest amount of work—and not without progress—has been done to guarantee the community its own resources to replace contributions from the member states. This has been achieved in the course of the 1970s through harmonizing turnover taxation into a common system of Value-Added Tax (VAT).

As far as alcoholic beverages are concerned, the most significant elements in European tax systems are excise duties. Only in some cases is the VAT used to extract revenue from alcohol by means of special high rates.

In 1967 the commission stated that the harmonization of excise duties was a matter of urgency, because the time was near when customs duties would no longer exist for most industrial products. It classified the excise duties existing in the member states into four categories: (a) those that shall be fully harmonized (on alcoholic beverages, tobacco, mineral oils, sugar); (b) those that require further investigation (on nonalcoholic beverages and substitutes for sugar); (c) those that require no harmonization at all (certain local taxes and duties that do not influence international trade); and (d) those to be eliminated altogether (on certain tropical products such as spices, and some others such as on matches, playing cards, etc.).[19]

While efforts were concentrated on adopting the VAT as the general consumer tax, the work on excise duties went on and surged up in the famous Resolution of March 22, 1971, of the council and of the representatives of the governments of the member states on the introduction of the Monetary and Economic Union. This resolution includes a program on excise harmonization which lays down that harmonization will take place in two phases: the tax structures shall be harmonized first within three years; the problems of tax levels should be tackled only later.

The commission prepared a set of proposals in this regard in 1972. It was suggested that the five traditional excises—and only they—should exist in the community from January 1, 1974. These were on mineral oils, tobacco, spirits, wine and beer. The main reasons for retaining these were fiscal; these are the excises that yield the largest revenue. They also exist in all member states, except in Italy, Luxembourg and Germany, where no excise duties are imposed on wine. Consideration was also given to social and health aspects and to the need to avoid taxing necessities (food) or products used in industry. The proposal to retain an excise on wine and in fact to fix its minimum rate at 1 EEC unit of account per hectoliter was based on an interesting argument that later proved too weak to hold back the pressure against such policy. It was maintained that there is a possibility of product substitution or competition between wine and beer and therefore neither or both should be taxed.[20] In fact, the same argument was later used in the opposite direction to demand reductions of duties on wine in the beer-producing countries.

The issue of the number of excise duties remaining to be harmonized was probably one of the reasons why the commission's proposals of 1972 never came to be discussed at the council. The countries with no excise duties on wine were unwilling to establish them. At last in 1976 the council, having adopted the Sixth Directive on VAT to solve the problems of the community's own resources, declared its willingness to resume the work on excise duties. The commission promptly submitted a communication urging rapid progress on the question.[21] The commission stated that it was unrealistic at this stage to impose a general excise on wine and wanted to restrict the discussion to alcohol and beer only.

Thus progress in harmonizing excise duties on alcoholic beverages has been negligible. This is remarkable in view of the fact that the first directive on manufactured tobacco was adopted in 1972. Curiously enough, regulations concerning "exemption from duties in internal passenger traffic" (tax-free imports by tourists) were also adopted as early as in 1972.[22]

While the council has been slow to take legally binding action, the commission has not remained silent. Its first line of approach, pending legal progress, has been to address recommendations to member states. It is worth observing that in 1975 the commission, arguing that in some countries duties on wine are so high as to "have harmful repercussions on the marketing of wines in the Community," asked the governments to reduce them appreciably or at least forgo any plans to increase them.[23] This recommendation had no effect, and some states raised these duties shortly after it was published.[24]

The second line of action has been to take some member states to the European Court of Justice for failure to comply with the above-quoted article 95 of the Rome Treaty. Many of these infringement cases are not very important. However, in France duties levied on grain-based spirits (particularly gin, vodka and whisky) are higher than those levied on spirits distilled from fruit or wine. Similar discrimination is practiced by Italy by means of an especially high rate of VAT on other than fruit-based spirits. This practice was ended in 1977 as a result of the infringement procedures initiated by the commission.[25] In Denmark the low special rate of duty for aquavit has attracted legal objections by the commission. In the U.K., British wines bear a lower tax than imported wines, and the commission also has objected to the wide difference between duties on beer and duties on wine.

The experience of tax harmonization and the difficulties encountered on the way seem to indicate that the pressure to lower duties on wine is very heavy and directed at the nonproducing countries. The pressure to lower the relatively high duties on beer in Denmark, Ireland and the U.K. is much less intense, since these countries would hardly be of very great interest to the brewers of other community countries. The difficulties in accepting the common organization of alcohol markets are, again, very complex—over and above the problem of setting duties—and relate to the crucial problems of raw materials and the uses of various kinds of alcohol. As far as distilled beverages are concerned, the major concrete issue involves the terms on which whisky and gin are able to compete with continental products.

It is interesting that the European Parliament has tended to side with wine producers. For example, when the commission's proposal of 1972 implied that there should be a minimum duty on wine in every member state, the European Parliament opposed this and proposed that such duties be abolished where they exist, on the grounds that they do not yield essential revenue anywhere. The parliament has proposed a solution that would in effect limit the rate of duty on wine to within a certain range of that on beer, thus following the argument that wine and beer are competitive drinks.[26]

At this point it is very difficult to predict the further development of Common Market effects on availability. Some tentative suggestions, however, may be made. Although progress will probably continue to be slow, it is quite likely that the excise duties on beer and spirits, at least, will be harmonized. The effect of such measures will be to lower the rates for those countries where they are considerably above the community average: Denmark, Ireland and the U.K. For example, John Dodsworth has estimated on the basis of the situation in 1971 that adoption in the U.K. of the community average in duties on beer would result in a reduction from 4.7 p per pint to 1.7 p or even less. Even a 50% reduction would imply a revenue loss of £200 million per year, despite a probable increase in consumption.[27]

Dodsworth obtains a similar result with respect to spirits. The 1971 rate of duty for scotch whisky was 2.20 per bottle whereas in other community countries it varied from 0.46 (France) to 1.3 (the Netherlands). Even a 50% reduction would still leave the U.K. duty as the highest in the community but would lead to a revenue loss of over £150 million.

Another possible consequence of integration on taxation is so-called spontaneous harmonization. Sometimes fiscal reforms planned by individual states tend towards the existing or expected common norm independently of the commission. In other cases, a confrontation between national plans and commission thinking has oriented the national reforms toward community standards. Schneider[38] believes that such harmonization has been extensive. It is difficult to judge to what extent such policies have influenced the tax rates in the absence of legal regulations, but, considering the wide differences among the levels and forms of taxes on alcoholic beverages in different member states, it seems that without such autonomous harmonization a legal solution will also be difficult to reach.

Effects of integration on trade and production

At this point it is not possible to evaluate systematically the real effects of the existence of the community on trade and production of alcoholic beverages, partly because it is too early and many of these effects are only beginning to appear. In addition, this problem requires a detailed and laborious study that cannot be attempted here. Therefore, the following observations should be seen only as conjectures on the most obvious consequences of community policies.

The most remarkable effect of the EEC on alcohol supply in the community countries has been in the area of trade in wine. Even before the establishment of the wine regime but especially since then, the share of intracommunity trade in wine has grown drastically at the expense of imports from third countries. The imports of wine from third countries, for the most part from the Maghreb countries (Algeria, Morocco and Tunisia), totaled 13 million hectoliters in 1968-1969, and shrank to 3 million hectoliters in 1970 as the result of adopting the wine regime and the coinciding record harvest in the same year. Since then the imports from third countries have varied considerably according to the EEC harvests. The most important element in the total imports to the community from third countries is Algerian exports to France, which were squeezed to a minimum in 1970-1972. Algeria was originally considered a member in the community but she has lost her status of preference step by step. An essential barrier blocking Algerian wine from the European market is the prohibition, instituted in the common wine regime of 1970, against blending non-community wine with wine of community origin.

On the other hand, intracommunity trade has increased rapidly. Its total amount in 1968-1969 was 4.5 million hectoliters, and in 1974-1975 it was 14.5 million hectoliters for the Community of Six and 15.8 hectoliters for the Community of Nine.[29] The development of the share of imports from the community as compared to total imports of each member country is shown in table 1.

TABLE 1 **Development of intracommunity trade in wine as compared with total imports 1968-1969 to 1974-1975 (Heading No. 22.05 Brussels Nomenclature: wine of fresh grapes.)**

Importing member state	Community of Six 1968-1969 %	1969-1970 %	Community of Nine 1970-1971 %	1971-1972 %	1972-1973 %	1973-1974 %	1974-1975 %
France	2.2	7.8	82.7	92.2	67.0	50.0	85.2
Belgium-Luxembourg	53.9	43.2	60.1	68.7	68.7	75.1	78.0
Netherlands	29.4	34.2	36.4	41.5	48.0	55.4	60.6
FR Germany	63.8	70.6	80.2	85.4	84.5	86.3	82.3
Italy	47.2	66.7	84.2	76.6	71.7	62.3	63.3
United Kingdom			34.2	39.5	41.7	40.5	41.3
Ireland			43.8	48.0	48.0	52.4	57.7
Denmark			25.6	27.2	31.8	32.6	45.5
Community of Six	35.2	31.1	76.1	84.1	72.8	67.2	81.4
Community of Nine			70.0	78.3	68.3	62.1	75.6

Besides the drastic variation in France, it is to be noted that changes have been conspicuous in the nonproducing countries, especially in the Netherlands and Denmark. In both of these countries consumption has increased very rapidly, the reduction of customs duties and certain taxes[10] being one of the reasons for this.

Despite the aggressive export policy, the total exports of wine by the community have remained quite small. In 1956-1957 this was 1.8 million hectoliters (for the Six) whereas in 1974-1975 it was 2.3 million hectoliters (for the Nine). These amounts corresponded to 1.6% and 1.4% of total production, respectively. The major customers were the U.S. and Switzerland.[11]

Thus integration has had two main kinds of trade effects; it has diverted imports from third countries to intracommunity trade (Italy has benefited very much from this trend), and within the community it has opened up markets with a low level of wine consumption. It is not possible, however, to determine the magnitude of the latter effect of the EEC in comparison to other factors, such as increase in demand, changes in distribution outlets, internal tax reductions, price policies, etc.

Integration has also had effects on production within the Common Market. It has been observed many times of the agricultural policy that measures aimed at guaranteeing a price level and income to farmers have taken precedence over structural policies. This has resulted in incentives to increase production due to the price guarantee supplied by the CAP.[12] As is clear from the review of the measures regarding structural reform within viticulture, the policy has hardly been directed at a reduction of wine production at all. As a consequence, production is increasing more rapidly than consumption. That this is at least in part a consequence of the policy adopted by the community is indicated by the fact that the area under vine cultivation is not growing: increased production is, rather, a result of growing yields from improved plants and cultivation techniques.[33]

As a consequence of growing production and shrinking imports from third countries, the degree of self-sufficiency has grown, as shown by table 2. In reading the table one should keep in mind that the entry by three nonproducing countries shifted the degree of self-sufficiency downwards, because in these countries the use of non-community wine was proportionally greater than in the Community of Six.

TABLE 2 **The degree of self-sufficiency in wine of the EEC, 1956-1960 to 1974-1975**

	Community of Six %	Community of Nine %
1956-1960 (average)	89	
1966-1967	92	
1970-1971	104	
1971-1972	95	93
1972-1973		89
1973-1974		105
1974-1975		107

As regards beer, it is much simpler to identify the mechanisms of EEC influence. Beer is classified as an industrial product, and no special regulations have been necessary. The most important of these mechanisms has been the elimination of quotas and tariffs in intracommunity trade in the late 60s. From table 3 it can be seen that this trade in beer has grown more rapidly since then. The greatest increase was in imports to France, mainly from Belgium. The total French imports were practically nil in 1950. They went up to 0.6 million hectoliters in 1965 and to 1.5 million hectoliters in 1972.[14]

TABLE 3

Development of intracommunity trade in beer in comparison to production (Community of Nine)

Year	Production millions of hectoliters	Development (1958 = 100)	Intra-community trade thousands of hectoliters	Development (1958 = 100)	Intracommunity trade in comparison to production %
1958	128	100	2.725	100	2.13
1963	158	124	3.533	130	2.24
1968	185	145	4.959	182	2.68
1973	225	176	7.817	287	3.47
1974	226	177	7.407	272	3.27
1975	229	177	7.974	293	3.48
1976	237	185	8.056	296	3.41
1977	232	182	7.068	259	3.04

In the case of beer, however, it is important to keep in mind that trade is supplemented by large international production. According to some estimates, the production abroad by the major European brewing companies was almost as much as the total exports of beer by the community countries.[15] It is not easy to determine how integration has contributed to this tendency, but the commission did, in 1960 and 1962, give directives aimed at complying with article 67 of the Rome Treaty, which establishes free movement of capital as one of the goals of integration. In these directives the commission laid special emphasis on the so-called freedom of establishment and on elimination of barriers to capital movement of this kind.[16]

Although no Common Alcohol Policy has yet been established to regulate trade in and production of spirits, integration has already promoted trade in spirits by reducing quotas and tariffs to insignificant levels. The major spirit-producing powers are France and the U.K., and both have expanded their exports rapidly in the course of the integration process.

The exports from the U.K. had gone up even before joining the community, from 1.3 to 2 million hectoliters (100% alcohol) in 1967-1972. The exports from France seem to reflect the integration process more clearly. Sales of vermouth to the U.K. increased from 9 thousand hectoliters to 100 thousand hectoliters at Britain's entry in 1973, and the trend has continued upwards since then. The liberalization of the German markets is reflected in a sudden rise from 82 thousand to 184 thousand hectoliters of spirits exported to Germany in 1970. Also, spirits exports to the U.K. increased noticeably in 1973.[17] This development can also be seen in the imports and consumption figures for the U.K.[18]

A direct effect of integration has been experienced in the Netherlands, where the industry has long been very concentrated and able to control the retail sales organization for spirits. This was partly due to a rule that imposed a higher duty on bottled imports than on beverages imported in bulk and bottled in the Netherlands. Since only the "official importers" with business contracts with the brand owners could import in bulk, they had a monopoly in each brand. As this regulation was abolished at the request of the commission, the retail market was opened and intense price competition followed.[19]

Summary and discussion

The implications of economic integration in western Europe may be summarized as follows.

1. The integration process is largely incomplete and the direct influences of this process on the availability of alcoholic beverages cannot be fully seen yet. The main areas where this influence is and will increasingly be felt are (1) the elimination of tariffs and quotas; (2) common wine policy; (3) common alcohol policy; (4) tax harmonization; and (5) elimination of other impediments to free trade and

undistorted competition, such as technical norms and standards and all market interventions that can be interpreted as discriminatory. To some extent, the increased freedom of capital movement has also contributed to the tendency towards internationalization of production.

2. The general elimination of tariffs and quotas has stimulated exports from community countries to other community countries where the level of consumption of each beverage type has been low. Free trade increases international competition and in some cases leads to price reductions.

3. The Common Wine Policy has, in particular, promoted such internal trade. It has also diverted trade from third countries to other non-community countries. The price and income policy of the wine regime has taken precedence over structural policy; furthermore, structural policy has been directed towards improving the quality of the wine and rationalization of production methods rather than curbing rising production.

4. The market in ethyl alcohol has not yet been organized, but the discussions on this issue continue to be lively. When established, the regime is unlikely to aim at reducing the production of agricultural alcohol. Instead, it may contribute to rationalization. It will eliminate the remaining impediments to trade in distilled alcoholic beverages. The most obvious restrictions of trade violating the Rome Treaty have been eliminated even in the absence of a common alcohol regime.

5. Excise harmonization has proceeded slowly, but this program is also being continuously discussed in the community bodies. When these discussions lead to legal agreements, it is likely that excise duties will have to be lowered in countries where they are exceptionally high (Denmark, Ireland and the U.K.). The commission aims at reductions in duties levied on wine in those countries where these duties are high, although it wants to exclude wine from the program of excise harmonization at this stage. Meanwhile, spontaneous harmonization and elimination of tax discrimination which has been interpreted by the commission to infringe the stipulations of free trade and to distort competition have in at least some cases resulted in reductions in tax rates. To ascertain the significance of spontaneous harmonization and the infringement procedures opened by the commission, a detailed and systematic study should be undertaken.

6. The work of the EEC on other impediments to trade in alcoholic beverages, such as technical barriers, market regulations, etc., has not been very intense. The Rome Treaty does not preclude government regulation of the alcoholic beverage market unless such regulation discriminates against products originating in other community countries.

The increase in alcohol consumption and improvements in the availability of alcoholic beverages cannot by any means be attributed to the existence of the community, even in the member countries. These developments have wider structural causes in the role and functions of the modern state and in the consumption patterns of the people. The impact of economic integration in western Europe must, instead, be understood in two indirect ways. First, national autonomy in the use of various control measures aiming at the protection of public health has been removed to the community level. Evidently this concerns the trade policies, which must be in conformity with the general objectives of free international trade within the community. Furthermore, the agriculture problems of the community inspire the interest of the community bodies in directing the persistent surpluses in alcohol production into increased consumption. Also, the general policy of harmonizing tax levels has implied that the community bodies aim at lowering special taxation on alcoholic beverages in countries where it is at a high level.

Secondly, and maybe more importantly, the fact that traditional alcohol control policies are concerned with issues so central to the general aims of the policies of the community makes it very difficult for public health arguments to be heard at the community level and often impossible for them to be applied at the national level. There is no reason, in principle, why the community as a whole could not be directed at fiscal and social aims in its policies related to alcoholic beverages. In fact, the Rome Treaty includes a clause which excludes dangerous or morally dubious products from the general stipulations of free trade. However, this clause has never been applied to alcoholic beverages and this possibility has not been seriously discussed in the community bodies. The pressure in this direction will have to be very heavy and consistent on the part of the member countries to influence the community's policies. The commission's programs include a very limited number of issues in the field of social policy, and almost all of these are directly related to the availability and mobility of the labor force within the community. The financial revenues of the community, on the other hand, are totally independent of alcohol taxes. Therefore no initiative will come directly from the community administration to consider seriously the classical justifications of alcohol control and their implications concerning state intervention in the alcohol economy. On the contrary, there is no indication that the problems of oversupply of alcohol, not acutely felt at the community level as a fiscal burden, will be alleviated in the near future. The entry of Greece, Spain and Portugal into the community will only make these difficulties worse.

Notes

1. This article is based on pp. 56-87 from the report by Pekka Sulkunen, "Developments in the Availability of Alcoholic Beverages in the EEC Countries," *Reports from the Social Research Institute of Alcohol Studies*, no. 121 (Helsinki, 1978).

2. *Id.* at 1-55.

3. Originally the EEC consisted of Belgium, the Federal Republic of Germany, France, Italy, the Netherlands and Luxembourg. In 1972, Denmark, Ireland and the U.K. joined in. The EEC was earlier widely called the "Common Market." Administratively the EEC is now associated with a number of other organizations, such as the European Coal and Steel Organization, consisting of the same countries. The official name of the whole is now The European Communities. In this article I will use the term European Economic Community or the Common Market, since all of the policies discussed here belong to the domain of the Rome Treaty that established the EEC.

4. Commission des Communautés Européennes, "Les dossiers de la politique agricole commune" (Brussels, 1976), p. 8.

5. J. Paxton, *The Developing Common Market* (London and New York: Macmillan, 1976), pp. 84-85; see also I.R. Bowler, "The CAP and the Space Economy of Agriculture in the EEC," in R. Lee and P.E. Ogden, eds., *Economy and Society in the EEC* (England: Saxon House, 1976), pp. 235-37.

6. Commission of the European Communities, *Commission Report to the Council on the Foreseeable Developments in the Planting and Replanting of Vineyards in the Community and on the Ratio Between Production and Utilization in the Wine Sector*, COM(77) 22 (Brussels, 1977), graph 6.

7. Bowler, *supra* note 5, at 240; Paxton, *supra* note 5, at 105; Commission, *supra* note 4.

8. Bowler, *supra* note 5, at 240; Paxton, *supra* note 5, at 106.

9. Commission, *supra* note 4, at 13-14.

10. Commission, *supra* note 6, at 5 and table 10.

11. Bowler, *supra* note 5, at 238.

12. H.P. Muth, *French Agriculture and the Political Integration of Western Europe* (A.W. Sijthoff-Leyden, 1970), p. 286.

13. H.R. Kramer, *Die Europaische Gemeinschaft* (Stuttgart: Kohlhammer, 1974), p. 76.

14. H. Maurel, *Alcohol in the E.E.C.: Production and Marketing Structures in the E.E.C. Countries* (Brussels: European News Agency, 1974), p. 31.

15. *Id.* at 74.

16. *Id.* at 27-36.

17. European News Agency, *Problems Posed by the Adoption of a Common System of Market Regulations for Alcohol in the E.E.C.* (Brussels, 1974).

18. Commission of the European Communities, *Amended Proposal for Council Regulation (EEC) on the Common Organization of the Market in Ethyl Alcohol . . .*, COM(76) 274 (Brussels, 1976).

19. European Economic Community Commission, *Tenth General Report* (June 1967), pp. 111-13.

20. K. Schneider, "Tax Harmonization Policy from the Point of View of the Commission," in D. Dosser, ed., *British Taxation and the Common Market* (London: Knight, 1973), p. 140.

21. Commission of the European Communities, *Problems Posed by Excise Harmonization*, COM (77) 338 (Brussels, 1977).

22. Intertax 1/1978; Schneider, *supra* note 20, at 144.

23. *Official Journal of the European Communities* L.2, 7.1.1976, p. 13.

24. European Parliament, Working Document No. 205/78, p. 13.

25. *Id.* at 14.

26. *Id.*

27. J. Dodsworth, "Excise Duties," in D. Dosser, ed., *supra* note 20, at 87.

28. Schneider, *supra* note 20, at 151.

29. Commission, *supra* note 6, at table 13.

30. E. Boullez, *Le Marché Commun du Vin* (Brussels: Agence Européenne d'Informations, 1974), p. 105.

31. Commission, *supra* note 4.

32. Bowler, *supra* note 5, at 240; Muth, *supra* note 12, at 285.

33. Commission, *supra* note 6, at 13 and graph 1.

34. Communauté de Travail des Brasseurs du Marché Commun, "Combined Statistics," CBMC/EBIC 1967-1976 (Brussels), tables 9 and 12.

35. Guildstream Research Services, *The Brewing Industry* (London, 1973), p. 3.

36. Kramer, *supra* note 13, at 89.

37. Commission des Communautés Européennes, *Étude sur l'evolution de la concentration dans les industries des boissons et des boissons non alcoolisees en France* (Brussels, 1976), pp. 40-41.

38. Commission of the European Communities, *A Study of the Evolution of Concentration in the Beverages Industry for the United Kingdom*, part 1 (Brussels and Luxembourg, 1977), p. 18.

39. Commission of the European Communities, *A Study of the Evolution of Concentration in the Dutch Beverages Industry* (Brussels and Luxembourg, 1976), pp. 100-01.