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“Wine package: a first step in the long route towards recovery”

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**“Fruits, vegetables and wine market situation – the impact of the EU measures
to face the COVID-19 pandemic”**

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1. INTRODUCTION

We cannot talk about a single and unique impact of Covid-19 crisis on the wine markets.

Firstly, we need to differentiate 3 main moments during this crisis: 1) the lockdown phase, 2) the new normal reality, end-spring/beginning of summer and, 3) the arrival of the second wave of the crisis and the consequent adoption of new restrictive measures from end of the summer.

Secondly, Covid-19 crisis has affected in a different way each category of wine (still VS sparkling wine; bottled VS bag-in-box...) and each producer in function of their exposition to certain distribution channel (on-trade VS off-trade).

2. COVID-19 IMPACT ON GLOBAL TRADE

Down in Value and Volume

Covid-19 crisis has provoked an unprecedented decrease in global wine trade. Falls of -10% in March, -22% in April and -27% in May reduced international exports by 1.8 billion € in 4 months (March-June), equivalent to a decrease of -17% in value compared to 2019.

When looking at the “Covid-19 hard semester” (March-August 2020), the contraction of global wine trade is estimated to be equal to -15% in value and around -5% in volume.

However, the impact of covid-19 on global trade differed from one category to the other during the March-June period:

- Sparkling wine decreased by -30% in value and more than -10% in volume;
- Still wine decreased by -17% in value and -8% in volume;
- Bag-in-box increased by +4% in value and +14% in volume.

Decrease of average value

The average value of wine has decreased in 2020, breaking the positive general trend of the last decade. During the March-June period, the average price of wine decreased by -12% (from 3.05 €/l to 2.69 €/l).

2020 full-year estimations to be revised

Before the 2nd wave of the crisis, the total decrease, in volume, of wine trade for the whole 2020 was estimated at -15% for sparkling wine and -13% for still wine.

However, this estimation will need to be revised now and total decrease would be up due to the combined effect of the new lockdown measures that would impact the end of the year period which is the central moment of wine consumption worldwide, and the economic crisis.

3. COVID-19 IMPACT ON EU WINE MARKET

Impact on EU market = impact on EU wine

Wine consumption in the EU mainly consists in national wine and EU wine: in 2018¹, 50% of the wine consumed in the EU was local wine (i.e. produced in the same Member State it is consumed in), while only 13% of the wine consumed was from a non-EU origin. This percentage of non-EU wines in the EU-27 market will be even smaller considering that the UK is, by large, the biggest importer of extra-EU wines.

Lockdown phase – off-trade did not compensate on-trade losses

The on-trade channel closure directly impacted around 30% of the whole wine sales in the EU, which represents around 50% of the value of the wine consumed in the EU.

	Wine consumed (in Mio HL) ²	VOLUMES		VALUE	
		Off Trade (%)	On Trade (%)	Off Trade (%)	On Trade (%)
France	26.8	66	34	33	67
Italy	22.4	67	33	46	54
Germany	20.0	85	15	59	41
UK	12.4	83	17	62	39
Spain	10.5	52	48	36	64
Portugal	5.5	60	40	50	50
Romania	4.5	84	16	74	26
Netherlands	3.5	83	17	53	47
Belgium	3.0	72	28	63	37
Hungary	2.4	70	30	55	45
Austria	2.4	63	37	28	72
Sweden	2.3	70	30	31	69
Greece	2.1	60	40	50	50

Table 1: CEEV estimation of the importance of wine distribution channels by country pre-crisis (% in volume and value)

On the off-trade, after some signs of stockpiling detected in the first weeks of March (up to 20% in volume) from the second half of March, the sales were down (up to 16.1% in value).

When looking at the value, a shift to entry-level wines has also been observed in this channel. As an example, bag-in-box sales increased by even 40% compared to the same period last year, stabilising their increase during the rest of the lockdown phase to a +20%.

¹ https://ec.europa.eu/info/sites/info/files/food-farming-fisheries/farming/documents/wine-dashboard_en.pdf

² <http://www.oiv.int/public/medias/6782/oiv-2019-statistical-report-on-world-vitiviniculture.pdf>

The average increase in sales in the off-trade at EU level (+did not compensate the losses in the on-trade, neither in volume nor much less in value and rentability.

It is estimated that, during the lockdown, average value of still wine decreased between [5-8]% in the main EU markets.

Detail of off trade (% of total market in volume)

	Total Off-trade	Supermarkets	Wine shops	On-line	Direct sales
<i>France</i>	70	50	10		10
<i>Italy</i>	67	30	11	2	24
<i>Germany</i>	85	62	7		16
<i>Spain</i>	52	36	6	1	9
<i>Greece</i>	60	50	4	3	3

Table 2: CEEV estimation of off-trade details in some EU markets pre-crisis

Reopening phase – insufficient change

Despite the initial euphoria linked to the perception that it was possible to return to normal, wine sales increased after the lockdown reaching even 8% in certain markets, but could not, in any case, compensate the losses in volume and value experimented during the lockdown phase.

Two months after the lift of the lockdown in the main EU countries, bars and restaurants have seeing its turnover halved due to the restrictions applied, the lack of confidence of consumers and, in the south of Europe, the lack of tourism.

On-line – still small but a reality

Covid-19 crisis has boosted wine e-commerce by +180% on average in volume.

In this sense, more than 85% of the wineries that sell online have intensified their strategy in the online sales market due to the COVID-19 situation.

However, e-commerce only represents 1% of the companies' turnover approximately and could not compensate the losses in the on-trade channel.

After the lockdown phase, in some EU markets e-commerce trade reduced its importance but maintained its growth (+30% in major markets). This growth tendency is particularly strong in some non-EU markets like US, UK or China.

4. COVID-19 IMPACT ON WINE CONSUMPTION

Less wine and cheaper

Surveys and studies that have been carried out so far on the impact of COVID-19 on alcohol consumption show that alcohol consumption under confinement is stable or decreasing.

The consumption of sparkling wines, often synonym of celebration, events and gathering, is almost universally down. While lower-end wine products better resist, due to (partial) adaptation of consumers behavior during the confinement period in retail stores, higher value and premium wines, traditionally consumer in on-premised and travel retail, have slowed down.

Wine consumption frequency (number of times wine is consumed per month off- and on-premises) decreased during the lockdown (March-August) in major EU markets like Germany and Sweden, and remained pretty stable

until April or slightly increased until August in major non-EU markets like US, Canada, UK or China.

Change of approach on the origin

The other trend observed is the change of country of origin change in purchase in comparison with pre-pandemic behaviour. Locally produced wine has been the big winner in markets with major domestic wine production. This change of behaviour to favour local wines has been observed in 14% of German consumers, 13% of US consumers, 24% of Canadian consumers or 54% of Chinese consumers.

5. COVID-19 IMPACT OTHER NON-EU WINE MARKETS

US MARKET – Combination of Covid-19 and tariffs crisis

US wine market has decreased in the last months due to the combined effect of Covid-19 crisis and the new tariffs imposed on French, Spanish and German wines as a consequence of the aircraft dispute.

Latest registered imports are slightly inferior to the imports observed 10 months earlier, breaking the positive trend of the last years. More problematically, the value of wine imports has decreased by a 10,6% mainly due to the hard-hit French wines received because of the new tariffs and the increase of the imports of bulk wine.

From the USD 477 million lost the last 10 months, French wines supported almost USD 400 million, which represents 33,5% of its sales in the US last year. Germany with -33,8% of its sales and Spain with -10,4% are the most affected producers by the US market evolution.

UK MARKET – Combination of Covid-19 and Brexit

The United Kingdom market is also in crisis, where the Brexit clouds are also thickening.

During the first semester UK reduced its wine imports by -4,2% in volume and -10,6% in value. The +28% imports in June seems to be linked to a stockpiling move ahead of the potential arrival of a hard Brexit. Indeed, latest figures indicate that total alcohol sales slumped 20% by volume during the lockdown.

The semester also had a significant impact in terms of market share in the extra-EU among the 2 market leaders, with France losing 5 points and dropping to 29.3% while Italy rose to 23.5%.

CHINESE MARKET – decreasing trend

The first country in the world to deal with Covid-19 was China, which, at the same time, was also the first country to come out of the emergency.

However, the negative trend in wine imports from 2018 was accelerated by the Covid-19 crisis affecting all categories of wines.

April and May were the worst months with a reduction of imports reaching -50%. In total, during the first 6 months of 2020, Chinese wine imports decreased by -30%.

6. COVID-19 IMPACT ON WINE COMPANIES

COVID-19 is affecting all companies severely during the lockdown, regardless of their size. However, the impact of the crisis on micro-companies (according to EU's definition) is bigger and more than a half are "very seriously" affected.

On average, during the first semester of 2020, EU wineries' turnover decreased by -35%. This reduction is due to a combination of factors: increased cost of production, increased cost of logistics and marketing, decreased sales in volume and decreased average value of the wine sales (tension with the prices).

EU wine companies estimate that, in 2020, their turnover will suffer a reduction of -25% on average excluding micro-enterprises which turnover loss is estimated at -35%.

However, considering that at least 20% of the turnover of companies is done during the end- of the year period, if further restrictive measures are maintained during the Christmas time, the estimate for 2020 could be even worse.

Concerning the recovery time, most of the EU wineries consider that they will not recover 2019 turnover before the end of 2022.

7. CONSEQUENCES AND NEEDS

Covid-19 crisis has impacted drastically wine markets reducing wine trade in the short term, but more importantly, it has de-structured the on-trade channel which is key for the higher-value wine trade. It has also provoked the loss of market shares of EU wines in international markets.

The sustainability of the EU wine sector will depend on the capacity to recovery wine markets in the next 2-3 years.

At EU level, an efficient support package for the quick recovery of the on-trade channel is needed. In addition, the recovery of the oenotourism activities could be financed through the Rural development policy pillar and the Next Generation EU recovery plan.

Finally, it is fundamental that works to develop a simplified system for wine distance selling (e-commerce) are accelerated.

At international level, further support is needed to reactivate EU wine exports and to regain market shares abroad. For doing so, it is important to further facilitate and simplify the implementation by companies of the promotion measure.

In parallel, it is important that the EU solve the problems faced by wine companies in the US with the additional tariffs, and, the one we are going to face in the UK, because of Brexit.

Comité Européen des Entreprises Vins (CEEV – www.ceev.eu) was founded in 1960 and represents the European Union wine companies in the industry and trade (still wines, aromatised wines, sparkling wines, liqueur wines and other vine products). It brings together 23 national organisations from 12 EU Member States, plus Switzerland and Ukraine, as well as a consortium of 4 leading European wine companies.

The companies represented by CEEV, mainly SMEs, produce and market most quality European wines, both with and without a geographical indication, and account for over 90% of European wine exports. With almost €12.8 billion exports in 2019, the European wine sector is the first EU agri-food exporter, contributing positively to the EU trade balance with €8.9 billion.