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MINUTES

Meeting of the Expert Group Wine Market Observatory

21 November 2023

Chair: AGRI.E2

Following organisations were represented: CEEV, CEVI, EuroCommerce, COGECA, COPA, EFOW, and an expert member in his personal capacity, Rafael del Rey (R.R.).

1. Approval of the agenda

The Members of the Observatory approved the agenda.

2. Nature of the meeting

The meeting was non-public. Commission representatives and experts attended in video-conference modality (Interactio).

3. List of points discussed

3.1. Rules of Procedure of the expert group Wine Market Observatory – Adoption

The Rules of Procedure of the new expert group Wine Market Observatory were adopted unanimously.

3.2. Conjunctural and Structural Factors in the current wine market situation and Trends – presentations by experts and discussion

The meeting was introduced as a first step in an in-depth assessment of the market situation and trends, where the experts were asked to present facts on the main markets in the EU, and data and analysis that would help explain the current market situation and the medium-term prospects, including the consideration of possible conjunctural signals of crisis, or of the sector facing structural problems that would require specific attention. The experts made presentations (available in CIRCABC, except where the author asked not to share it, on:

Current market situation and mid-term trends in Italy (ISMEA - CEEV)

The 2023 data for Italy's wine industry reveals a production value of EUR 13.8 billion, representing 10% of the agri-food sector. Despite a 12% decrease from 2022, Italy maintains a prominent global position in wine production. The country has 675

135 hectares of vineyards, with a 5% increase since 2016. PDO wines account for 65%, while 46% of vineyards benefit from the CMO Restructuring and Conversion measure. Organic vineyards cover 19.7% of the national total, showing a remarkable 138% growth since 2012. Wine stocks are the highest in the past 10 years, exceeding 50 Mio Hl. Market dynamics reveal a shift toward PDO wines, with exports growing by 56% in value over the last decade. Notably, exports to non-EU countries increased from 49% to 60%, reflecting the impact of the CMO Promotion measure.

The presentation underscores the complexity of wine markets, emphasizing the distinct behaviour of DOP wines compared to common wines. The Ismea price indices highlight variations in wine prices, with significant differences based on colour and type.

Structural developments in production and consumption in France (France Agrimer - Cogeca)

The data show a 40-year decline in overall wine production, with red wine decreasing in favour of white and rosé. Despite a structural decrease in consumption, wine stocks remain constant. In 2022, white wine constituted 37%, red wine 42%, and rosé wine 21% of production. Supermarket sales in 2022 show increases for whites but declines for reds and rosés compared to 2016.

The expert attributed the decline to a global shift in wine consumption patterns, including a general decrease in alcohol consumption, increased competition from other alcoholic products like beer, and changing consumer food preferences also affecting wine pairings.

A Projection of the French Wine Market to 2034 (CNIV - EFOW)

The 2034 wine sector outlook highlights two key conclusions: a continuous decline in the French market and a shift in consumer behaviour. Aging population dynamics are crucial, with those over 65 consuming four times more than the 18-35 age group. Anticipating a decline in the adult population from 53 million in 2023 to 45.9 million in 2034, especially among those over 65, the expert estimates a 22.5% decrease in wine consumption by 2034. Three scenarios suggest varying levels of decline in volume (2 Miohl, 1.5 Miohl, and 1 Miohl) with red wines being the most impacted. The expert emphasized the need for the industry to adapt to these market shifts. This projection builds on a method that builds on observed trends and the consideration of expected population changes in each age classes and their consumption patterns..

Several experts asked to carry out a similar projection analysis in all EU countries or at EU level, using the same methodology. The COM also asked whether the change in behavioural patterns of people with age were considered in the model. CNIV confirmed that they can share the methodology, and stated that they aim at reinforcing it, including by considering behavioural changes across age groups.

Market situation and trends in Spain (R.R.)

The Spanish wine market reveals a challenging landscape, with 2023 production hitting a 30-year low at 32.7 Mio hl. Despite a recovery in prices post-COVID, the domestic market has declined, standing at 10 Mio Hl, with on-premises sales struggling to fully recover: non-PDO wine saw a drastic decrease, while PDO wines increased in volume but didn't compensate for the loss. In terms of exports, Spain remains stable in value but experiences a decline in volume. Different markets show varied trends, with the USA surpassing the UK as the top client for Spanish bottled wines. Sparkling and non-PDO wines show recovery, while Bag-in-Box remains a fast-growing category.

In view of the expert, the overall strategy involves adapting to premiumization, navigating market complexities, and addressing challenges in different product categories and global markets. Looking ahead, future trends suggest erratic production patterns, positive domestic consumption once inflation is considered, and a focus on higher-value export markets. The industry should seek growth through product innovation, understanding consumer needs, and diversifying their portfolio.

Consumption of wine in key EU markets (Eurocommerce)

The European economic situation reveals lower household confidence and expected price increases.

Over the last two decades, beer consumption rose from 15% to 25%, while wine's market share fell from 48.7% to 40.7%. In the first 9 months of 2023, supermarket still wine sales decreased in volume (-5%) but slightly rose in value (+1%). Sparkling wine sales dropped in volume (-2%), with Champagne declining sharply, but PDO wines in the sparkling category performed well. Overall, still wine sales slightly increased (+0.9%), and beers and ciders showed robust growth (+6.8%). Various alcoholic beverages experienced sales contractions.

In the organic market, with a 2.7% contraction in value in 2023, sales declined in supermarkets (-8%) and specialized stores (-4.5%). Wine merchant turnover increased in value (+5.7%) but decreased in volume (-3.5%) during the first 8 months of 2023, according to INSEE data.

In the Spanish market, a -1.7% quarter-on-quarter decline in total wine sales volume but a +5.5% increase in value. Sales of still wines in Portugal remained stable in volume in H1 2023, with a nearly 7% increase in value. The average price in restaurants was €7.11 per litre, compared to €2.72 in supermarkets. Sales declined in supermarkets (-4.3%) but increased in the catering sector (+9.4%). Italian wine consumption showed a cumulative sales decline of -3.4% since January, with sparkling wine up by +0.6% and still wines down by -4%. Hypermarkets performed well with a +4% increase in value, outpacing discounters, and supermarkets.

International market situation and a focus on wines with GI (R.R.)

Global wine consumption has declined after peaking in 2008, reaching an estimated 232 Mio Hl in recent years. The wine trade reflects a premiumization trend, emphasizing higher-priced wines despite stable volumes since 2011. New world regions, particularly Africa and Latin America, show significant growth in wine imports. White wines outperform reds, with Italian Prosecco and Champagne exhibiting strong market recovery. Premium and super-premium wines, like Burgundy, are thriving, but wines in the middle range face challenges. PDO wines from the top EU exporters have outperformed non-PDO in both value and volume terms.

The hypothesis suggests that premium wines are minimally affected by crises, catering to price-inelastic demand, while price-sensitive consumers prefer popular and easy-to-drink wines. Proposed strategies include focusing on quality, branding, and exclusivity for premium wines and emphasizing drinkability and cost efficiency for popular wines.

A temporary crisis or a paradigm shift in Wine Markets? (EFOW)

To assess the current market situation and determine if it represents a crisis or a paradigm shift, the expert consulted literature and conducted interviews. Key factors influencing consumption include a broader array of alcoholic categories, temporary

over-consumption due to the COVID pandemic, health concerns associated with alcohol, a preference for premium quality, drinks that are better adapted to the social media society, and demographic shifts introducing new tastes and potential markets like Africa.

The analysis suggests that these consumer-driven factors are reshaping wine demand, indicating a paradigm shift. Proposed solutions encompass improving production quality and introducing new products, supporting companies to explore new markets, educating consumers about health aspects, and fostering innovation by promoting sustainability, and reinventing types of wines, especially reds.

Diagnosis of the problem of the wine market. Do we have a structural or conjunctural problem? (COPA)

Global wine production remains stable around 250 Mio Hl in 2000-2023, but consumption is declining, reaching 230 Mio Hl in 2022. This shift is attributed to changing preferences, particularly among the new generation, seeking sparkling, sweet, and alcohol-free options. Climate change also influences beverage choices.

A SWOT analysis indicates strengths in historical traditions and high-value sales, weaknesses in innovation, and opportunities in online sales and emerging markets. The sector is advised to innovate, enhance quality, explore new markets, and leverage EU wine history. Despite structural declines, the current situation is seen as an opportunity, especially with a positive trend in high-value wine consumption.

Discussion

Elements and key findings on the **market situation** highlighted at the discussion were:

- The situation is diverse depending on countries, regions and types of wine.
- Some countries show a decline in wine production over the last decades, with red wine decreasing in favour of white and rosé (IT) while others face more uncertainty as regards harvests and production, affecting also the accumulation of stocks, the prices etc. (FR, IT)
- Production uncertainties accumulated and reduction of consumption risk to turn accumulation of stocks into a structural problem.
- Organic vineyards have grown outstandingly; for example in IT the cover 19.7% of the national total, demonstrating a remarkable 138% growth since 2012. However sales are stagnating.
- Some national markets show a continued, seemingly structural declining trend for decades, with new conjunctural causes (Covid, Ukraine...) hitting in particular certain areas and wines that not always recover after hits.
- The role of younger generations as consumers is key for the fate of the sector.
- Wine consumption is reducing in volume but increasing in quality (PDO/PGI) and value. Decline in consumption concentrated on red wine.
- A shift in consumer behaviour seems evident, e.g. beer's share in French alcoholic beverage consumption (from 15% to 25%), while wine's market share has declined (48.7% to 40.7%);
- Ageing population dynamics play a crucial role, and this should be considered in any future projections and reflections, as it could drive a 22.5% decrease in wine consumption by 2034 (or more if consumer behaviours remain when ageing).
- Internationally, so far different markets show different trends, in a very fragmented situation that also depends on specific types of wines, colours and

destination markets. Generally, white wines outperform reds, with Italian Prosecco and Champagne exhibiting strong market recovery.

- Wine trade reflects preference for higher-priced wines despite stable volumes sold since 2011, increasing the overall value of exports. Trade has so far been able to absorb the loss in the internal market, with higher value per volume unit exported in spite of volume loss.
- Global wine consumption has declined after peaking in 2008, reaching an estimated 232 Mio Hl in recent years.
- New world regions, particularly Africa and Latin America, show significant growth in wine imports and need further exploration and investment.

On the **factors driving the situation** of the wine market, and their conjunctural or structural nature:

- The analysis suggests that there are significant structural factors needing attention in the short and medium term.
- Conjunctural factors have been accumulating in a chain in the last few years, including US sanctions, the Covid pandemics, the war in Ukraine, the situation with logistics and raw materials... and may turn the problems they cause into structural, or catalyse further underlying structural factors. The higher value of the volumes sold do not solve the problem of the produced volumes that do not find outlet in a decreasing market.
- The broader European **economic situation**, lower household confidence and expected price increases cast shadows over the wine industry.
- A crucial factor affecting wine, from production to consumption, is **climate change** and its effects. It requires adequate vulnerability assessment and adaptation action based on anticipated projections of events, such as changes in climatic vine areas and lower predictability of harvests.
- **Consumer-driven factors** are reshaping wine demand, indicating a paradigm shift, with the following factors, among others, driving this change: a) New, broader array of alcoholic categories, with huge innovation addressing all tastes; b) Health concerns associated with alcohol consumption, and seek for lower alcohol drinks; c) A premiumization trend, with a preference for premium quality and more expensive wines, consumed less frequently.
- **Demographic shifts** are introducing **new tastes**. There is competition with drinks that are better shaped for a connected generation. There is need to focus on segments which show strong potential, such as easy-to-drink wines (sparklings, rosés, whites) and develop their competitiveness, or the young generations with different ways of life;
- Societal and environmental **sustainability concerns**, which can be a challenge but also an opportunity.

The proposed **solutions** that arose in the discussion encompass:

- Improving production quality and introducing new products,
- Supporting companies to explore new markets,
- Educating consumers about health aspects,
- Fostering innovation by promoting sustainability and diversification, including addressing climate change mitigation and adaptation.
- Reinventing types of wines, especially reds, addressing carefully the tastes of the XXI society
- Leveraging EU wine history and its attachment to rural areas welfare.
- Adapting to premiumization, and further promoting premium wines abroad.
- Navigating market complexities and addressing challenges in different product categories and global markets.

Some experts proposed already some requests on possible policy actions at EU level. The COM replied that the aim of this meeting and others forthcoming was to ensure an adequate diagnosis of the situation before addressing the policy needs and the fitness of existing tools.

4. Next steps

The Commission will produce a working document to advance in the diagnosis, based on the outcomes of the meeting.

An extraordinary meeting of the Market Observatory might be organised in the first quarter of 2024.

5. Next meeting

The next meeting is scheduled for 4 June 2024.

6. List of participants

See Annex

[e-signed]

Pierre BASCOU

List of participants– Minutes
Meeting of the Expert Group Wine Market Observatory
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ORGANISATIONS / EXPERTS
COMITE EUROPEEN DES ENTREPRISES VINS (CEEV)
CONFEDERATION EUROPEENNE DES VIGNERONS INDEPENDANTS (CEVI)
EUROCOMMERCE
EUROPEAN AGRI-COOPERATIVES (COGECA)
EUROPEAN FARMERS (COPA)
EUROPEAN FEDERATION OF ORIGIN WINES (EFOW)
RAFAEL DEL REY