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MINUTES

Meeting of the Expert Group Wine Market Observatory

10 April 2024

Chair: AGRI.E2

Following organisations were represented: CEEV, CEVI, EuroCommerce, COGECA, COPA, EFOW, OEMV.

1. Approval of the agenda and of the minutes of previous meeting

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

International wine trade Factors affecting consumption & trade trends (OEMV)

World wine consumption has been steadily declining, reaching 232 million hectolitres in 2022. This decrease is particularly notable since 2011 in the EU (by far the main consumer), while outside the EU previous growth has followed by a certain stability or slight decrease. Trade has remained relatively stable since 2011. More recently, declines in volume have been offset by increases in value due to rising average prices until 2022, followed by a decline in values as well.

France, Italy, and Spain stand out as the top exporters, with France experiencing significant growth over the past 14 years. Conversely, the USA, UK, and Germany are the leading importers, although the trends in these markets vary.

Sparkling wine has shown resilience compared to other categories, with a slight increase in value despite a decrease in volume. The wine market seems to be increasingly polarized, with more resilience of premium and lower-priced wines. While medium-

priced red wines, regardless of their designation of origin, are clearly suffering. Premium wines, although occupying a small market share, are increasing in terms of volume in trade. However, this and the increase in the lower-priced segment is unlikely to offset the losses experienced by medium-priced wines.

Africa and Latin America have emerged as dynamic regions for wine imports, although they still represent a small fraction of the overall market.

Despite stable global trade, EU exports have been declining since 2021, and challenges are evident in non-sparkling, red, and rosé wines. Recent declines in key markets like China, the US, and the UK have further impacted the industry.

Addressing these challenges requires strategic policies such as promoting exports further, adapting regulations to fostering product innovation in response to evolving consumer preferences in traditional but especially in new export markets.

Wine sales data of German wine producers and cooperatives (COPA-Cogeca)

The German Hochschule Geisenheim University initiated a program funded by European funds to create the Geisenheim Portal, which collects direct sales data from major wine producers. This digital analysis tool compares sales data while prioritizing data privacy by displaying only aggregated information. It provides insights into sales channels, price trends, grape varieties, and customer analyses.

In the German market, wine sales have drastically decreased in food retail and wholesales' markets but remained more stable in specialised wine distributors and gastronomy channels. German wine is losing ground to cheaper-to-produce European wines. Decreasing household purchases are attributed to reduced disposable income, health concerns, and changing preferences towards other alcoholic beverages.

Producers perceive a global imbalance in the wine market, with excess supply compared to demand. Three-quarters of producers see this imbalance and suggest reducing oversupply, with many advocating for public aid to grub-up vineyards. Both producers and retailers acknowledge the success of other alcoholic beverages in reaching young consumers and seek ways to improve wine's profitability and appeal to new consumers. Suggestions include making wine easier to drink and possibly marketing it as more accessible rather than exclusively premium.

Italian wine sector (EFOW)

In the Italian market, retailers note a stagnation in wine sales in 2024, while seeing a slight increase in other beverage categories. The majority of wine consumers are aged over 60, comprising 57% of consumption, with 27% in the 45 to 59 age group. Italian producers observe international trends favouring organic, eco-sustainable packaging, and sustainable practices, with a growing interest in biodynamic and low-alcohol wines.

A paradigm shift appears to be underway, with wine demand structurally declining, at-home consumption becoming more polarized, and less space available for premium wines in large retailers. The year 2023 is seen as the start of a "new normal," large retailers are expected to become new media channels, traditional media outlets may face challenges in promoting wine consumption, while the value of wine sales by large-scale retail sellers is losing path compared with the trend of the whole food products and beverages categories.

Consumption projections (CEEV)

The global trend indicates a decrease in alcohol consumption per capita, particularly for wine. While the volume of the alcoholic drinks market worldwide is expected to slightly increase from 2018 to 2028.

In the USA, one reason for the decline in drinking among young adults is attributed to the diversification of racial/ethnic makeup, with non-White Americans consistently less likely to consume alcohol. This demographic shift influences overall drinking rates among 18- to 34-year-olds.

In the US, beer remains the preferred drink, with liquor surpassing wine in preferences for the first time. Wine sales have shown value weakness in lower-priced segments, while wines above \$12 have performed better but at a declining growth rate. The premium wine segment is positioned more favourably in the market, with greater flexibility in pricing.

In China, wine consumption and production have both decreased drastically in recent years, along with imports. With declines in birth rates and per capita consumption in major consuming nations, future opportunities for wine sales may lie in different regions and countries.

The global market for low and non-alcoholic beverages is increasing, with beer and mixed drinks remaining the most popular choices. Price increases have become more difficult since the COVID-19 pandemic, necessitating a focus on reducing production costs. Promotional programs for wine should be tailored to demographic segmentation to effectively target consumers.

Changes in generations, ethnics, lifestyle... New challenges for wine in US (CEEV)

In US among the adult population of drinking age, 28% abstain from alcohol altogether, while 29% prefer beer and only 18% are regular wine drinkers. This contrasts with Italy, where half the drinking age-population consumes wine regularly. Wine consumption tends to be favoured by older demographics in US. When analysed by ethnicity, a lower percentage of Hispanics and Black individuals (15%) prefer wine compared to their White counterparts (20%).

In the US, consumers are shifting away from wine towards spirits, cocktails, and wine-based drinks. Ready-to-drink (RTD) beverages have seen a dramatic rise, surpassing \$1.5 billion in sales in 2023. While non-alcoholic wines currently make up just 0.4% of total wine sales, their popularity is rapidly growing.

Another emerging trend is the demand for low or zero-sugar wines, reflecting consumer concerns about calorie intake. Main reasons for reducing wine consumption include a general decrease in alcohol consumption, cost-saving measures, preference for other alcoholic beverages, and a desire to cut back on sugar intake.

Evolution of wine consumption in several European countries (Eurocommerce)

In the economic landscape, household confidence is on a path to recovery, though it remains below long-term levels. Retail channels are experiencing shifts, with non-specialized food retailers seeing value growth but volume declines, while foodservice sales rebounded in 2021 but showed volume declines in 2023 after reaching 2019 levels. Consumers across Western Europe are increasingly turning to private label products.

In supermarkets, sales of still wines experienced volume declines in 2023, particularly in the lower-priced segments, but showed stability in value. Sparkling wine sales also saw volume declines, notably in Champagne, yet PDO wines performed well. Organic wine

sales declined in volume but maintained a significant share in supermarkets. Wine merchant activity saw a slowdown in volume sales in 2023.

In France, wine remains a preferred alcoholic beverage for the majority, but non-alcoholic and low-alcohol options are gaining traction, especially among beer drinkers. Beer sales are seeing growth, particularly in supermarkets, while wine sales show slight increases in value but volume declines.

Italian wine sales face challenges from inflation, leading to shifts towards cheaper alternatives, notably in the sparkling wine category. Germany's wine market continues its downward trend, with sales remaining stable in 2023 due to higher prices, but volume and household purchases declining.

Overall, the beverage segment shows varied dynamics, with spending increasing but consumption patterns shifting, particularly towards out-of-home consumption. Soft drinks and beer sales see increases in value but declines in volume, while wine consumption faces challenges amidst economic uncertainties.

French red wine sector (EFOW)

The French wine market has been in decline, experiencing an annual average evolution of -1% since 1961 to 2022. This trend has been accelerated in more recent years with -1,5% decrease per year. Wine consumption is becoming more occasional with fewer regular consumers. It's anticipated to further shrink until 2034, with red wine being the most affected, seeing a decrease of 38% over the past 12 years. While low-priced wine volumes are decreasing, premium wines are showing slight increases.

Factors affecting consumption trends include inflation and health concerns, leading to changes in consumer behaviour and a gradual increase in the market share of alcohol-free wines, especially sparkling varieties.

To address production uncertainties, national strategies are being developed, focusing on adapting to climate change, improving viticultural areas, promoting suitable plant material, and enhancing oenological practices.

As regards French exports, in 2023 there was a notable decoupling between volume and value performance, attributed to factors such as inflation, normalization of volumes post-Covid, and deteriorated economic conditions in certain markets like China and the United Kingdom.

Discussion

Discussions highlighted various concerns and observations within the wine market, including the need for clearer categorization between red and rosé wines, questions about the duration of data presented, and comments about certain wines dominating the market.

Shifts towards emerging markets and changes in consumer preferences were noted, alongside challenges such as export taxes inflating prices for lower-end wines.

Concerns about a potential bubble in white wine demand and the risks of restructuring were raised, emphasizing the importance of strategic investment and supportive subsidies.

Additionally, insights into generational consumption patterns, the true cost of German wine, and the slow growth of non-alcoholic wine consumption due to taste were shared, underlining the evolving dynamics of the industry.

Overall, the discussions underscored the necessity for adaptation to meet changing demands and the complexities involved in navigating market transitions.

4. Conclusions/recommendations/opinions

The global wine sector is experiencing a significant downturn in consumption, attributed to a combination of structural and conjunctural factors. Among the first we can include health concerns, shifting demographics, and changing consumer preferences, especially among the younger generation while conjunctural factors are linked to the current general economy and the decrease on consumers purchasing power due to inflation.

Market polarization is apparent, with a clear distinction emerging between premium and lower-priced wines, leading to challenges for medium-range quality/price red wines.

International trade faces obstacles due to surplus supply and weakening demand, though growth opportunities exist in emerging markets like Africa, Latin America, and East Asia.

Adaptation strategies are proposed, including legislative adjustments to accommodate new consumer preferences, targeted promotion strategies, addressing production uncertainties like climate change, and reducing supply to align with shrinking global demand.

5. Next steps

Based on the two meetings, a report of the MO on the wine market perspectives will be prepared for its endorsement in the next MO meeting in June. This report will be useful for an overall reflection of the sector policy.

6. Next meeting

The next meeting is scheduled for 4 June 2024.

7. List of participants

| ORGANISATIONS / EXPERTS |
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| 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) |
| OBSERVATORIO ESPAÑOL DEL MERCADO DEL VINO (OEMV) |