Study on low/no alcohol beverages

EUROPEAN COMMISSION - DG AGRI E.2

Spirit Drinks CDG, 19 April 2023

OUTLINE

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Scope of the study (1)

Investigate the **market of**

beverages with a lower alcohol content than the “normal” alcoholic strength required for the alcoholic beverages they refer to
(hereinafter **low/no alcohol** or **LNA beverages**),

in order to assess the extent of:

- the **current offer** of LNA beverages and potential **future trends**
- the way they are **produced and labelled** and related **challenges**
- the **consumer’s** overall **expectations**, **acceptance and understanding**
- in view of evaluating the need for **possible EU legislation** in this respect

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Scope of the study (2)

Products

Focus: **LNA spirit drinks** and **aromatised wine products (AWP)**
For comparison purposes: LNA wine, beer and other fermented beverages

The term *LNA beverages* covers 'non-alcoholic', 'low-alcohol', 'de-alcoholised' and 'partly de-alcoholised' beverages

Actors

All the relevant EU agri-food stakeholders (focus on **beverage producers**, **retailers** and **consumers' representatives**)

Also: National Competent Authorities (NCAs), sector associations and individual companies at MS level

Geography

European Union as a whole
Focus on **specific Member States** and on selected **Third Countries (UK, US, Brazil, Australia**)

Time period

Period starting **from 2011** (10 years) where possible (limited data availability for certain products due to their recent appearance on the market)

Product scope and working definitions

Low/no alcohol beverages

Main focus of the study:

- LNA spirit drinks
- LNA AWP

Relevant for comparison purposes:

- LNA beer
- LNA wine
- LNA other fermented beverages

Alcoholic beverages

Partially relevant for comparison purposes:

- Spirit drinks
- Aromatised wine products
- Beer
- Wine

Outside of the scope:

- *Alcopops*
- *Soft drinks*
- *Mineral water*
- *Fruit juices*
- *Etc.*

LNA beverages = *any beverage whose* ***market positioning*** *recalls, mimics or evokes that of an alcoholic beverage, but whose alcoholic content is lower than that of the alcoholic beverage of reference or equal to zero*.

Market positioning *including:*

- Legal and commercial/trade designations
- Consumer information (ingredients, claims, country of origin, production techniques, etc.), whether provided on-label or off-label
- Advertising and other communication associated to the product
- Other alcohol-related claims and associated logos
- Images and shape of the packaging

Objectives of the study

The study is set to identify

the most relevant **threats and opportunities provided by new market trends** for LNA beverages, taking into account:

- **public health** concerns
- the **integrity of the EU Single market**
- the possible **impacts of legislative initiatives at EU level**
- the potential **repercussions on world trade**

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Methodology of the study: data collection strategy

Combination of multiple data collection methods and tools

Multiple data collection methods and tools for collecting critical information items ➔ improving the robustness and reliability of the evidence base for the study

PRIMARY SOURCES:

In-depth Interviews (21 at EU level and 59 at MS and TC level)

Surveys [over 5500 consumers in 15 EU MS; 54 business stakeholders (in 14 MS); 25 NCAs (in 21 MS)]
⇒ 12 case studies (10 national and 2 horizontal/thematic)

SECONDARY SOURCES:

Desk research of Legislation + Policy Docs + Literature + Market + Websites (over 400 sources identified)

Detailed Proprietary Database Analysis (Euromonitor; Passport: EU 27 + TC; VIA db: FR, DE, IT, NL, ES)

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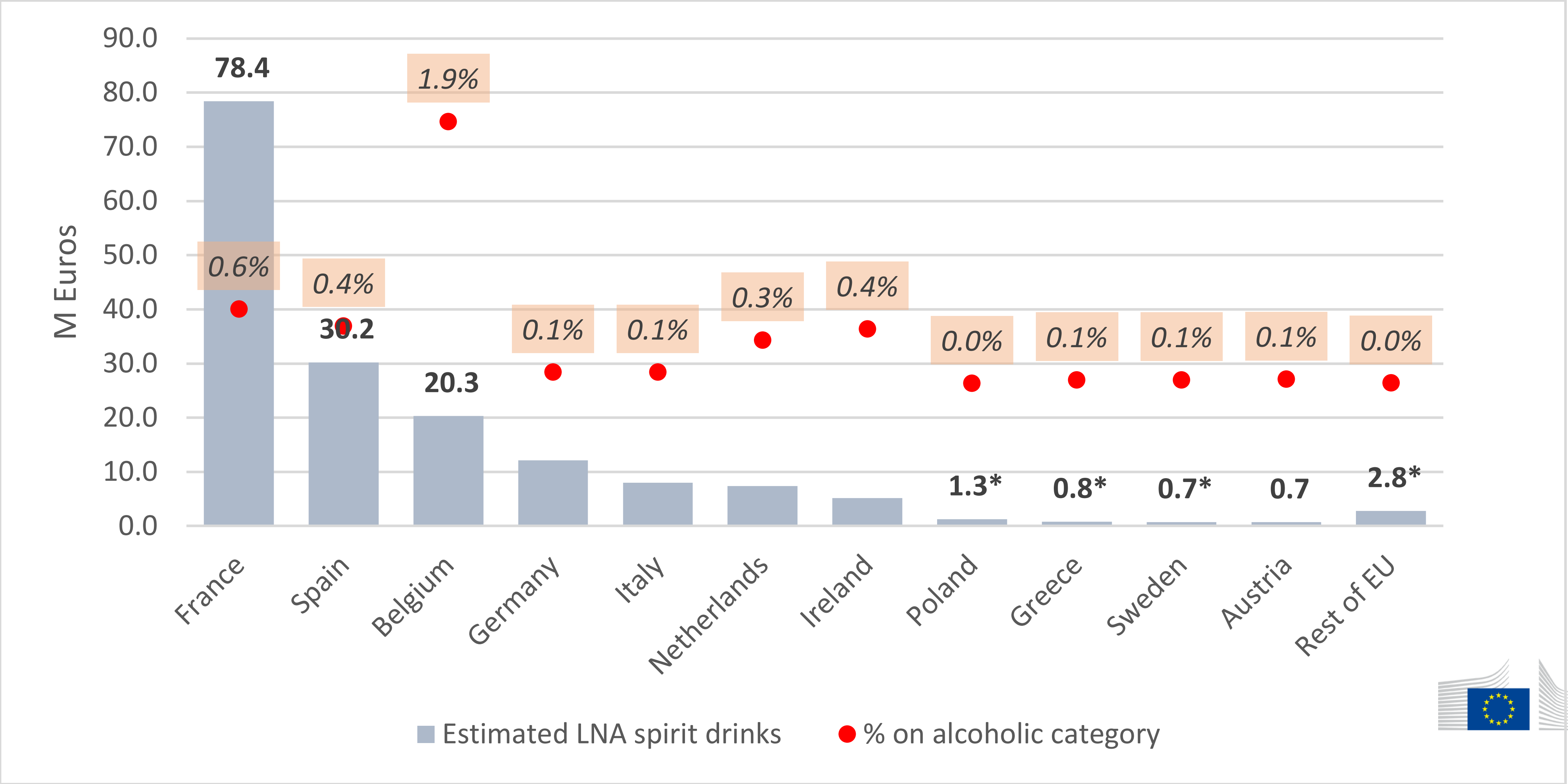
Key 2021 LNA market data

Of the estimated 2021 aggregate data, **LNA beer** (the only long established sector) accounts for 97% in volume and 93% in value

	2021 Market value (share on total market)	**2021 Market volume**	**Main national markets by value**
LNA beverages	**EUR 7.5 B (3%)**	**Litres 2.5 B**	**ES, DE, NL**
LNA spirit drinks	**EUR 168 M (0.3%)**	**Litres 20.5 M**	**FR, ES, BE, DE**
LNA AWP	EUR 16 M (0.6%)	Litres 2 M	FR, ES, DE, BE
LNA wine	EUR 322 M* (0.4%)	Litres 42 M*	FR, DE, IT, ES
LNA beer	EUR 7 B (7.2%)	Litres 2.5 B (8%)	ES, DE, NL, SE

* Nearly 70% of the LNA wine market is represented by LNA sparkling wine

Key 2021 market data (LNA spirit drinks)



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Key findings : MARKET

- **EU LNA beverages** market **extremely dynamic**: it **outperformed** in terms of volume/value growth rates the **alcoholic beverages** market in the last years
- **LNA beer**: (most mature) moved from 5.2% in 2011 to 8% in 2021 in volume, and from 5% to 7.2% in value on the total EU beer market => lower growth rates expected for the next years
- **LNA spirit drinks**: very young market - positive historical growth rates (2019-2021: +9% in volume and +18% in value) => much higher growth rates expected for the next years
- **LNA wine/AWP**: similar trends (prospected growth rate in the coming years of up to 25% in the EU)
- However, **some stakeholders are more prudent in envisaging a radical shift towards LNA beverages**

Key findings : CONSUMERS

- **LNA beer = consolidated segment (**fully established in consumption habits)
- **Similar acceptance pattern** observed in the EU for **other LNA beverages**: **initial scepticism** (especially in certain MS) turning to **generally positive attitude** (**curiosity and willingness** to try relatively new categories)
- Main drivers: **health benefits/healthier lifestyle** + **product quality**
- **Brand loyalty & trust** emerged as very important
- **Important differences** exist **among MS**, but also **age class** (**younger consumers**, less bound to tradition, are more receptive and prefer LNA spirit drinks & AWP) and **gender** (**women** particularly appealed by LNA wine/AWP)
- Great differences in **consumption patterns** among EU MS'

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Key findings : PRODUCERS

- **Dynamic balance** between **supply and demand** factors
- Key drivers: **strategic considerations**, i.e. **need to remain competitive** by following **consumer trends** & experimenting in **technological developments**
- Increased investments to improve the **organoleptic quality** but also promoting an image of **social responsibility + reliability of the products**
- **<u>LNA spirit drinks</u>**: still at an **experimental 'test the market' phase**
- **<u>LNA wine/AWP</u>**: operators are **even more cautious**, despite enthusiasm on the prospects of AWPs in terms of demand growth in some countries (e.g. FR)
- **<u>LNA beer</u>**: **strong interest** (due to demand growth / technological advances)

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Key findings : MARKETING STRATEGIES

- **Established brands**: **generally cautious** with progressive launches of LNA versions for some of their known brands or of separate brand identity
- SMEs and start-ups (with **less well-established** brands): either created a LNA version for an existing brand or a new brand altogether
- **Typically positioned as close as possible to the reference beverages** as “premium” product and as distinct alternative to e.g. juices, soft drinks
- **Prerequisite for success = achieving the organoleptic characteristics expected by consumers**, particularly taste, while limiting **production costs**

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Key findings : PRODUCTION TECHNIQUES

- Main approaches: either **removal of alcohol** from the fermented alcohol beverage, or techniques that **produce/contain reduced amounts of alcohol**
- Choice of production method based on expected **organoleptic characteristics** + **technological constraints** + **cost**
- The <u>main methods</u> currently used:
- **<u>LNA spirit drinks</u>**: **maceration of botanicals** in liquids other than alcohol with or without distillation without alcohol production or **dilution with water**
- **<u>LNA wine</u>**: **de-alcoholisation** via (vacuum) distillation or via membrane technologies (including reverse osmosis) - LNA wine used to obtain **<u>LNA AWP</u>**
- **<u>LNA beer</u>**: **de-alcoholisation** through distillation or **preventing/interrupting the fermentation process** (by using specific yeast strains = most promising)

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Key findings : PRODUCTION CHALLENGES

- **Main challenges**: ensure **organoleptic quality** & cover the relatively **high costs** of the required **R&D/technology investment**
- Depending on the product, additional challenges are associated with **regulatory and marketing aspects** (LNA wine/AWP & spirit drinks)
- **LNA Wine**: current challenges constitute a significant barrier (more than for other product categories), both for larger and for smaller producers

Key findings : outlets for extracted alcohol

- **Main sources** of alcohol extracted from de-alcoholisation = **beer and wine.**
- **Value of market outlets** depends on whether the **alcohol** is '**of agricultural origin**' (from wine – through distillation) or not (from beer)
- **Alcohol of 'agricultural origin'** = **high value product** mainly destined to the **production of spirit drinks and fortified wines** (for some stakeholders: serious regulatory restriction for brewers – for others: justified by the need to protect/preserve spirit drinks' quality and traditional production processes)
- **Alcohol of 'non-agricultural origin'** can only be destined to relatively **lower value industrial applications** (e.g. the production of detergents, cosmetics, pharmaceutical/medicinal products and biofuels/energy)

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Key findings : PRODUCERS & LABELLING

- <u>**LNA spirit drinks/AWP**</u> face a number of constraints due to the EU legal framework mostly relating to **descriptors** and **legal names**
- Well-established producers use their known **brand name** while and others use of **fantasy names**, names **evoking the taste**, **aromas or ingredients** or **reference to legal names** reserved to spirit drinks (forbidden under EU law)
- <u>**Alcohol-related claims**</u> can be found on front-of-pack and/or back-of-pack labels, but can also be merged with the product or brand names
- <u>**Actual ABV**</u> **not always indicated on the label** (not mandatory if < 1.2%). However, most consulted stakeholders deem it a key feature

Key findings : CONSUMERS & LABELLING

- The **majority of** surveyed **consumers** have **not experienced issues** with the identification of LNA beverages & with discriminating them from their alcoholic version **BUT around 30% reported issues** in this regard

- For consumers, **key information** items in the labelling of LNA beverages are:

  - the **actual alcohol content**,

  - information linking the LNA beverage to the **alcoholic beverage of reference**, and

  - indications on whether the product is **suitable for consumers having special needs** with regard to alcohol intake (e.g., pregnant women, drivers, etc.)

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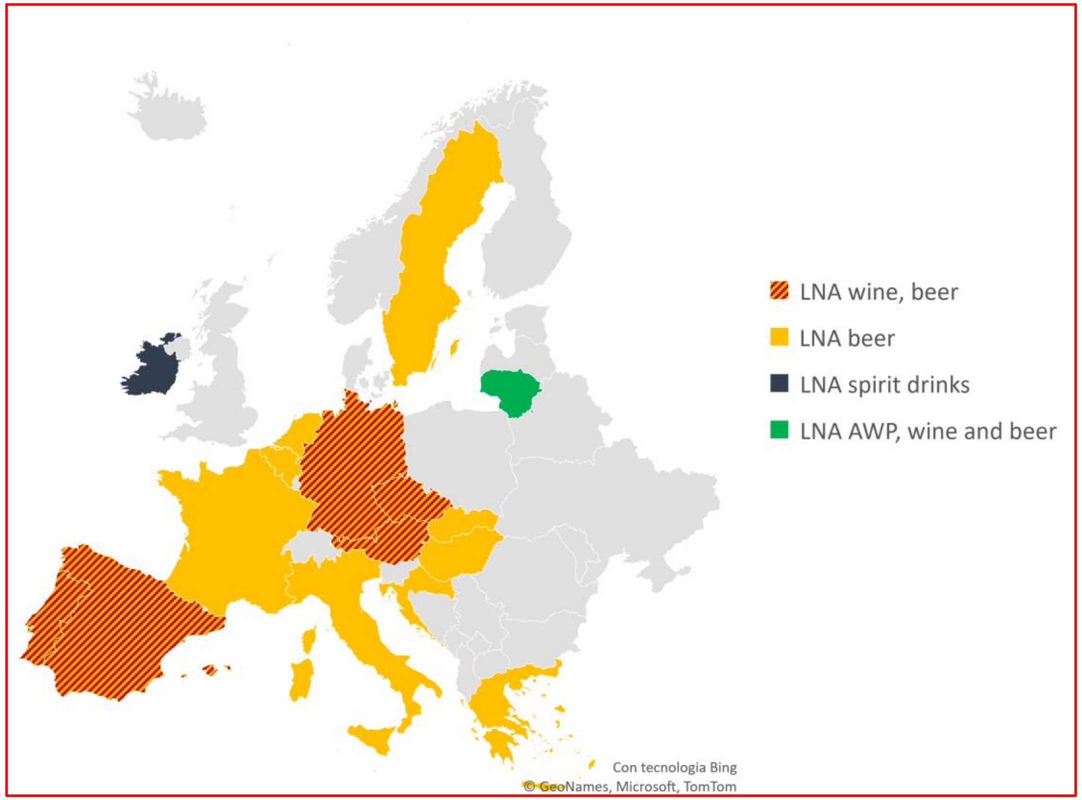
Key findings : CURRENT LEGISLATION

- **EU law: only LNA wine** (i.e. (partly) de-alcoholised wine)
- **National legislation: LNA beer** (16 MSs) followed by **LNA wine** (6 MSs)
- **LNA spirit drinks** and **AWP** = **least regulated categories** (only 1 MS each)
- National legislation in this area generally provides for **ABV-related requirements** for specific LNA beverages. Additional **requirements** governing **composition and/or labelling** are **occasionally** set out
- **Few MSs consider the adoption of national legislation** in the near future
- For several stakeholders, **national legislation supports producers of LNA beverages only to some extent** as there are some shortcomings, loopholes or problems arising from its design and application

Mapping of national legislation

Product or topic	Member States with ad hoc legislation	Member States with plans for future legislation
General legislation	**6 MSs**: Belgium, Czech Rep, Denmark, Ireland, Italy, Sweden	-
LNA wine	**6 MSs**: Austria, Czech Rep, Germany, Lithuania, Portugal, Slovenia	**5 MSs***: Croatia, Germany, Italy, Slovakia, Slovenia
LNA spirit drinks	**1 MS**: Ireland	-
LNA AWPs	**1 MS**: Lithuania	**1 MS**: Croatia
LNA beer	**16 MSs**: Austria, Belgium, Croatia, Czech Rep, France, Germany, Greece, Hungary, Italy, Lithuania, Netherlands, Portugal, Slovakia, Slovenia, Spain, Sweden	**3 MSs****: France, Greece, Slovenia
Fermented beverages (cider, perry, mead, etc.)	**4 MSs**: Germany, Lithuania, Poland, Spain	**2 MSs**: Lithuania, France
Alcohol extracted	**4 MSs**: Bulgaria, Czech Rep, Portugal, Spain	**1 MS**: Slovakia



** 3 MS are planning to review existing national legislation to ensure alignment with EU legislation.*
*** Amendments of existing national legislation.*

Key findings : POTENTIAL IMPACT OF ADDITIONAL LEGISLATION

- Some stakeholders consider that further rules on LNA beverages (at EU level) **may bring valuable benefits** for both economic operators and consumers
- However, its **impact** might be **significant** for current/future producers' activities as **it may require product reformulation & changes in labels**, including where self-regulation has recently been introduced (spirit drinks)
- **<u>LNA beer</u>: no strong calls for EU harmonisation** (in spite of differences in national legislation, stakeholders consider that **no major barriers exist to LNA beer trade within the EU market thanks to mutual recognition**, although this may change in the future in case of increased trade volumes)

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Key findings : POSSIBLE REPERCUSSIONS on WORLD TRADE (TBT)

- **Very few cases** of **draft national provisions** dealing with **LNA beverages questioned/challenged within the TBT Committee** (still limited importance of trade flows in LNA beverages between the EU and third countries)
- Hypothetical adoption of **specific EU rules on LNA beverages** should have rather **limited repercussions on world trade**, including under the perspective of possible technical barriers to trade
- But the **number of TBT-related issues might increase in the future** (possible introduction of specific provisions on LNA beverages in more countries + potential expansion of these products in international trade)

Conclusions : STAKEHOLDERS' VIEWS

- **LNA spirit drinks**: **diverging positions** by sectoral stakeholders:
  - **operators** involved in their **production and marketing** are rather **dissatisfied with the current EU regulatory framework**, which they feel poses serious constraints to the development, launch and marketing of LNA spirit drinks;
  - **operators dealing exclusively or mainly with "regular" spirit drinks** generally deem that the EU legislation currently in force adequately responds their key priority, i.e., ensuring protection for the "value creation mechanisms" for spirit drinks

- **Problematic areas** mainly relate to:
  - **For consumers**: the **indication of the ABV** (different rules in different EU MS) & **confusing marketing practices** about the nature/attributes of LNA beverages;
  - **For producers**: the **difficulty of communicating** product characteristics, mostly due to gaps/constraints in legislation & potential **limits to competition and/or product innovation** especially for **SMEs & new entrants**

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Conclusions: CALLS FOR NEW RULES

- **LNA spirit drinks**: sectoral stakeholders are **divided** on both the need for harmonised legislation and the approach to follow for its elaboration. Several **NCAs** seem **favour specific legislation** (at EU rather than at national level)
- **LNA AWP**: business stakeholders **more favourable** to possible introduction of **harmonised EU legislation**, possibly along the same lines followed for LNA wines ("de-alcoholised" and "partially de-alcoholised" products)
- **EU harmonised legislation for the use of ABV-related descriptors** (e.g. "low alcohol"/"no alcohol") in the labelling of all beverages (although with mixed views among stakeholders as this may present **significant challenges** e.g. for LNA spirit drinks with double-digit ABVs but lower than the minimum)

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Conclusions: SUGGESTIONS

- **Set up a discussion table** with all the concerned stakeholders *and*
- **Further reflect** on the technical and political feasibility to develop EU legislation, providing clear indications on the permitted legal names and descriptors, as well as with regard to labelling practices

Publication link

The study was published on 2 March 2023 on:

Study on low/no alcohol beverages (europa.eu)

Thank you

All the slides are sourced from the study on low/no alcohol beverages carried out

by *Areté s.r.l.*
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