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Comité Européen
des Entreprises Vins

COVID-19 CRISIS AND THE EU WINE SECTOR:

CEEV Impact Analysis & 2nd Wine Package

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Part I: COVID-19 impact on the EU Wine sector

Part II: CEEV COVID-19 2nd Wine Package

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.

PART I: COVID-19 IMPACT ON THE EU WINE SECTOR

1. INTRODUCTION

In December 2019, COVID-19 broke out in the Chinese municipality of Wuhan, quickly spreading to other regions of China and the world. By January 2020, isolated cases had appeared in some EU member states. By the end of February, Italy had reported a significant increase of COVID-19 cases concentrated in the Northern regions of the country. By March, all EU member states reported COVID-19 cases and governments were forced to adopt emergency measures to restrain the spread of the new coronavirus.

Although the approval of multiple safe and effective vaccines against COVID-19, the increased spread of COVID-19 variants has forced governments to maintain, in 2021, restrictive extraordinary measures in place.

The COVID-19 outbreak and the exceptional measures governments have taken to deal with the pandemic are having and will have a huge impact on the EU economy and obviously on the EU wine sector.

2. COVID-19 IMPACT ON WINE SALES IN THE EU

Wine consumption in the EU mainly consists in national wine and EU wine and the extraordinary measures in place in EU countries have mainly impacted EU producers.
When assessing the evolution of wine sales in the EU, several elements need to be considered:

- On-trade
  From March 2021, the on-trade (hospitality sector) has been forced to shut down or to work (still now) under strong restrictions.
  In normal times, the on-trade accounts for up to 30% in volume and 50% in value of wine consumption in the EU[1], leaving an important part of the EU wine production without outlets. This impact of the closure of the on-trade channel is not homogenous and varies from country to country and from one wine company to another –smaller companies being more dependent of the on-trade channel.
- Off-trade
  The off-trade channel (supermarkets and groceries) has continued to operate normally despite the minor logistical problems at the beginning of the pandemic.
  Following the closure of the on-trade channel, an average increase in sales in the off-trade at EU level has been observed. When looking at the value, the shift to entry-level wines detected during the lockdown phase was maintained along the year.
- e-commerce
  Not surprisingly, Covid-19 crisis has boosted wine e-commerce. During the lockdown phase, the growth of this channel reached +180% on average in volume, and it is estimated that 2020 will end up with a +30% increase in the EU. While wine companies are investing in e-commerce and those already present are investing more, this channel remains small and e-commerce only represents approximately 1.5% of wine companies' turnover.

[1] https://www.ceev.eu/wp-content/uploads/CEEV-COVID-19-brief-and-Wine-Package-20200417.pdf

- Tourism and oenotourism
  Europe remains the number one tourist destination and the European Union alone counted 478,4 million international tourist arrivals in 2015, translated into a total share of 40,3%[2]. Tourism plays an important role in southern wine producing countries as their population may sometimes increase two-fold (the case of Spain or Greece) or even three-fold (the case of Portugal).
  The COVID-19 pandemic hit the tourism sector hard, with international tourism expected to decrease by around 80% in 2020, hitting hardly the on-trade sales. The Covid-19 related security measures and the lack of tourists has also impacted oenotourism, leading most companies to stop all their oenotourism activities. This disruption has had a huge impact on sales directly at the wine producer place.

The global impact of Covid-19 on sales of wine in the EU varies from one member state to the other. Countries depending more on the on-trade channel and tourism were impacted more than others. It is especially the case of Spain where wine sales shrank by -17% in volume in 2020.
All in one, we estimate the EU wine market loss in 2020 to be -8% in volume and -12% in value.

3. EU WINE EXPORTS IN 2020: BEYOND THE IMPACT OF COVID-19

The Covid-19 crisis caused an unprecedented decrease in global wine trade during the lockdown phase and reduced international exports in 4 months (March-June) by -17% in value compared to 2019.
The year of the pandemic has seen a decrease in imports from the main international wine markets of almost USD 1,4 billion and 2,7 million hectoliters[3].

The impact of the Covid-19 outbreak needs to be assessed separately for each market, as the consequences are significantly different.

- **In the US**, the overall market has not decreased: US wine consumption in 2020 remained stable (+0,6%). But the distribution channels switched significantly from the on-trade to the off-trade (including on-line sales). As a result, volume remained stable (even a small increase) but value decreased, in particular because of the shutdown of on-trade and hospitality activities in many parts of the country. In the same way, US wine imports remained stable in volume (+0,1%) but decreased in value (-9,4%).
  Lower EU wine exports can therefore be mainly - if not exclusively – attributed to the impact of additional customs duties applied in the framework of the Airbus Section 301 trade sanctions. The collapse of sales for Germany (-32%), France (-30%) and Spain (-10%) directly results from this additional taxation and not from Covid-19.

- **Brexit:** While the UK, in the year of BREXIT, has actually increased imports of wine in volume (+4.1%) but not in value (-3.9%), it is still difficult to assess what is attributable specifically to Covid-19 impact and what is linked to Brexit anticipations. It is known that the uncertainty of Brexit pushed EU wine companies to frontloading, resulting in record-high increases of wine imports in the UK since June 2020. In any case, like in many other markets, UK consumers swapped pub-going for at-home drinking during the national lockdown, boosting retail and particularly e-commerce. Sparkling wine was impacted more due to the lack of celebrations.

[2] https://www.hotrec.eu/facts-figures-2/
[3] https://corrierevinicolo.unioneitalianavini.it/corriere-vinicolo/?id=JyMjRKM993ZJi8Z%2FL9BdIA%3D%3D

- **In China** wine imports have been decreasing from 2018, but in 2020, we observed a drastic decrease in value (-26,7%). China was first to experience the Covid-19 pandemic and, as a consequence, shutdown in several areas of the country. The lockdown started to be lifted in April and China seems to be the first country to progressively head toward a "normal" situation. Products like sparkling wines mainly consumed at restaurants, bars or at weddings and special events were more affected. But it is considered that Covid-19 will have a limited impact on long-term category trends. There are nevertheless more cautious perspectives on travel retail: a resumption of normal travel is some way off, though restrictions are gradually being eased.

In general, 3rd countries wine markets have faced the same on-trade limitations observed in the EU. The limitation on the circulation of persons led, in certain countries such as Norway, to an increase of wine imports to compensate the huge decrease of wine acquisitions made by private individual in other countries.

The evolution of EU-27 exports in 2020 varies from one country to the other. When looking at the biggest EU exporters:

- France, mainly due to the imposition of US extraordinary tariffs, saw its worldwide wine turnover decrease by -11.3 % in value and -5.1 % in volume;
- Spain closed 2020 with a drop of -3,6% in value and -6% in volume of its exports;
- Italy closed 2020 with a drop of -2.3% in value and -2.4% in volume of its exports;
- Portugal closed 2020 with an increase of +3.5% in value and +5,5 % in volume of its exports;
- Germany closed 2020 with a drop of -14,5% in value and -8,2% in volume for all wines and -9.2 % in value and -8.5 % in volume of German still wine exports.

In total, in 2020, EU-27 wine exports shrank by -8,8% in value and-5,4% in volume.

4. COVID-19 IMPACT ON WINE COMPANIES FINANCES

The impact of the Covid-19 outbreak has been, in general, greater for companies depending highly on the on-trade channel and with high exposure to their national markets or eventually not exporting outside the EU. Off-trade has not increased its wine offer to consumers, in many cases it has even decreased it, and companies not present in the retail sector before the pandemic were unable to efficiently access this channel.

The reduction of the average price of wines in all markets, coupled with the US additional tariffs in the framework of the aircraft dispute with the EU, has forced wine companies to reduce importantly their margins to try and maintain their presence in certain markets.

With the reduction of sales, the reduction of average value and the delay of payments and non-payments because of the crisis in the on-trade, cash flow is one of the biggest concerns to wine companies.
In general, small and micro wine companies have suffered most the effect of the pandemic.

As a result of the situation in the EU and in the international markets, EU wineries have seen their turnover decrease by 15 to 20% on average, but with significant differences depending on the product (sparkling vs still), the size of the companies and the main distribution channels (off-trade vs on-trade).

5. IMPACT OF EU EXTRAORDINARY MEASURES FOR WINE

The measures adopted

Due to the unprecedented challenges caused by the Covid-19 pandemic, the European Commission adopted exceptional measures to support the EU wine sector between May 2020 and January 2021 (when the exceptional measures were extended until 15 October 2021).

Commission package to support the wine sector included the following measures within the National Support Programme (NSP):

a) Crisis distillation;
b) Crisis storage aid;
c) Further flexibility for green harvesting tool;
d) Advanced payments by Member States;
e) Higher European Union's contribution up to 70%;
f) Increased flexibility under market support programmes.

Some of the measures aimed at trying to control the wine market ahead of the 2020 harvest – mainly crisis distillation, green harvesting and crisis storage – while others aimed at improving operators' cash flow and increase the ability of wine companies to implement the measures included in the National Support Programme.

The actual implementation of the measures

The extraordinary measures adopted by the European Commission were implemented at national level and facilitated member states expenditure of the yearly NSP budget [4].

- The increased flexibility for promotion programmes were welcomed by wine companies and worked relatively well, allowing companies to better adapt to a volatile environment and demonstrating that this flexibility was needed beyond the Covid-19 crisis. Promotion is the cornerstone of the measures to support the export success reached by EU wines in 3rd countries and too often, it is underused because of the rigidity of certain rules adopted in 2016[5]. From this point of view, a stronger harmonisation of EU rules would support companies in fully benefitting from the measure.

- Despite some limitations linked mainly to the low-price set by some member states, like in Italy, crisis distillation was one of the most used measures and absorbed a great part of the NSP budget (€ 247 802 605). In general, crisis distillation was used in regions which suffer from structural problems and was not appropriately accompanied by a reduction of the 2020 yield.

- Green harvest could have been a more efficient measure if further flexibility had been accepted for partial green harvest within a parcel. A controlled partial green harvest could have increased the quality of the yield while controlling it at a cheaper cost than distillation. As designed, it could not serve appropriately to control the 2020 yield and was underuse (€ 28 315 902) by the sector.

- Crisis storage aid was very welcomed by wine companies as it ended up having a double positive effect, controlling the quantity of wine put on the market and supporting companies in terms of cash flow. Not all member states implemented it and where implemented, some unharmonized interpretation and transposition of the EU regulation, excluding in some cases bottled wine, limited the efficiency of the measure. With € 21 129 000, crisis storage aid only absorbed a tiny part of the EU budget.

[4] https://ec.europa.eu/info/sites/info/files/food-farming-fisheries/farming/documents/wine-national-support-programs-exp-15-10-2020.pdf
[5] Regulation (EU) 1149/2016 and 1150/2016

Some members states decided to co-finance certain of the extraordinary measures but, due to the huge economic crisis and the need to support several sectors, not all member states were able to do so.
However, even with co-financing, it appeared clear that not sufficient funds remained available for promotion or investment actions after the implementation of the crisis distillation.

The impact of the measures – lack of focus on the recovery of markets
Most of the support was dedicated to the destruction of products (wine or grapes) and could not deal efficiently with the main problems wine companies are facing: the de-structuration of the on-trade channel all around the world, and the lack of cashflow of wine companies needing to invest in market presence.

The conjunctural focus of the EU Commission package unfortunately does not allow to adequately prepare our sector to bounce back in 2021 as it does not focus on preparing the future that will only come from the market. Wine destruction has shown in the past it is unfit to ensure market balance.

It should be reminded that, despite demands coming from the wine sector, Member States and the European Parliament, no additional budgetary resources were allowed by the European Commission to face such situation, especially with regard to exporters that were heavily hit by US trade sanctions. It means that most of the resources were used in market rebalancing measures but without supporting commercial presence on foreign markets.

PART II: CEEV COVID-19 -2ND WINE PACKAGE-

1. CEEV VISION ON MEASURES TO BE IMPLEMENTED – THE "COVID-19 2nd WINE PACKAGE"

The need for a 2nd Wine Package

The EU wine sector needs the setting up of a combination of different measures to support the economic resilience of wine companies and to rebuild the journey to wine markets of EU wine companies, a "2nd Wine Package" against Covid-19 impact.
The objective of this 2nd Wine Package should be mainly to support the capacity to recover wine markets in the next 2-3 years; without it, the sustainability of our sector is at risk.

The approach – Market orientation better than product destruction

The strategic approach of the support cannot be based on the destruction of wine production to try and control the market. Wine destruction has shown it is unfit to ensure market balance.
Crisis distillation should not be used to deal with regional structural imbalances not linked to Covid-19 outbreak because we risk that, as in the last financial year, this measure absorbs most of the EU funds and consequently limits the capacity of wine companies to re-structure wine markets.

Bringing European wines to the market is the only way to ensure a sustainable future to the EU wine sector, in contrast with distillation or grubbing-up. Every effort should be put on promotion and investment that shape our future competitiveness and, incidentally, additional tools such as green harvesting or private storage could be implemented only for a conjunctural approach. Emergency measures should be limited to emergencies.

In this framework, the proposed CEEV Covid-19 2nd Wine Package combines:

- Recover wine markets and EU wine competitiveness through market-oriented measures to rebuild wine markets and regain market shares globally.
- Finance support to preserve wine companies confronted to a lack of cashflow. This preservation mainly depends on the capacity to protect the finances of wine companies.
- Conditionality on the implementation of market control measures.

Some of these measures were already included in Commission's extraordinary measures but will need further fine-tuning to boost their efficiency or to be extended beyond 2021.

2. MEASURES PROPOSED IN CEEV 2nd WINE PACKAGE

2.1. PRIORITY MEASURES: Restore our markets

a. EU special Covid-19 budget

EU financial support should focus on the strategic recovery of wine markets.
As European Commission has extended until October 2021 the extraordinary measures adopted in 2020, if additional funding is not unblocked, measures aimed at exclusively destroying wine production will again absorb most available EU funds.

In consequence, additional extraordinary funds are needed, as a group of Member States is going to request to the Commission during the 22 March 2021 Agri-Council meeting, so that the implementation of any measure focused on the destruction (distillation or green harvesting) does not put at risk the capacity of market recovery.

b. Higher EU contribution – beyond 2021

The increase of the EU contribution to 70% for measures that were included in the European Commission support measures should remain until the end of 2023, considering that the detrimental effects of Covid-19 will be long-term and structural.

c. Flexibility in Promotion & Investment – beyond 2021 and extended

The increased flexibility accepted by the European Commission has demonstrated its value for wine companies as it allowed to adapt programmed actions to the difficult circumstances lived.
This increased flexibility should be:

1) Maintained beyond 2021 to improve the implementation of the promotion & investment measures;
2) Extended to allow adjusting the programs during the execution period to improve their effectiveness with measurable results;
3) Extended in its scope to add prospection expenses, among eligible expenses for promotion, in addition to market studies and promotion activities. Prospection can be performed under strict control.

In addition, due to the current unpredictable scenario in third country markets caused by the pandemic, it is paramount to ensure that wine companies benefiting from support are not penalised for actions not fully completed.

d. Delay in payments - beyond 2021

Considering the necessity to protect the finance of wine companies to secure their sustainability, it will be necessary to maintain the elimination of the delay in payments from national administrations to wine companies and, in general, accelerate and make more flexible all the administrative process done before validating the payments.

e. Horeca recovery

The Wine Package will be efficient if a specific support program for the quick recovery of the on-trade channel is also developed. Therefore, an ambitious specific stimulus plan for the EU Horeca sector is needed.

2.2. SECONDARY MEASURES: further adjustments

a. Green harvest – further flexibility but under strict control

It will be necessary to fine-tune the green harvest flexibility to, on the one hand, extend its real applicability and on the other hand, finance more efficiently market control measures. It is obviously more efficient to finance the destruction of grapes in the vineyard than the destruction, through distillation, of finished wine.
In this framework, exceptionally for the 2021 harvest, we request to include under the "Green harvesting" measure the partial destruction, removal or non-harvesting of grape bunches, on the whole holding or on part of the holding in PDO/PGI areas.
A controlled application of this measure is possible in PDO/PGI areas where the maximum authorized yield per hectare in 2021 is at least 10% smaller than the maximum authorized yield in 2020 and when no declassification of the wine is possible.

b. Flexibility in the planting authorisation scheme – beyond 2021

Considering the difficulties faced by grape growers and companies to use the granted authorisation for vine planting or replanting, and as the uncertainty of the pandemic scenario still persists during the current wine year, it will be necessary to:

(i) Further extend the deadlines which expire in 2021 until 31 December 2022.

(ii) Lift of penalties: exceptionally no penalties of any kind (administrative, financial...) should be imposed on producers who, despite the extensions mentioned before, would not succeed in using their authorisations (granted in 2017, 2018, 2019 and 2020) on time.

3. THE ROLE OF NextGenerationEU FOR THE WINE SECTOR

The Rural Development Programmes (RDPs) have been extended in 2021 and 2022, with a budget of € 26.9 billion from the European Agricultural Fund for Rural Development (EAFRD) and have been reinforced with additional € 8.1 billion from the European Union Recovery Instrument (EURI). Taken together, available funding for rural development policy from both instruments is significantly higher than in previous years and can be mobilised to give a boost to the recovery of rural areas and the agro-food sector.

The financial resources available in the RDPs may be used under various measures to address the challenges faced by the European wine sector. For instance, both instruments may support investments in infrastructure, processing, marketing and packaging of goods. Most importantly, they may be used for a green and digital recovery of the agro-food sector by supporting investments in sustainable energy, bio-economy or organic farming.

Wine companies can apply for EAFRD and EURI support and it will be necessary that Member States include the relevant measures in their Rural Development Programmes.

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