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Comité Européen des Entreprises Vins

COVID-19 CRISIS AND THE EU WINE SECTOR:

CEEV Impact Analysis & Wine Package

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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 had reported COVID-19 cases. The number of cases has continued to increase ever since.

In Europe and in the world, all minds are focused on actions to tackle the COVID-19 outbreak. Governments have been forced to adopt emergency measures to restrain the spread of the new coronavirus.

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 PRODUCTION AND DISTRIBUTION

a. General activity

Governments which have decided to suspend non-essential activities, have included wine production, as all food and drink production, under the list of essential activities authorised.

Wineries have their production centres operating with minimum staff, although a few that are especially dependant on the on-trade[1] channel have had to close down or are planning to do so in April.
All active production centres operate at slower pace mainly due to:

- Slow market activity – drop of sales;
- Special staff management;
- Problems with logistics; and
- Problems with the supply of materials.

b. Staff management

— In general, a reduced staff is present in the premises because of:
  - COVID sick leave and associated quarantines;
  - The need to reduce working hours/staff costs due to the expected drop in sales volume;
  - Temporary suspension of labour contracts due to *force majeure* and economic causes, mainly in the commercial and oenotourism departments.
  - Necessary adaptations made by wine companies:
    - Separation of working teams and workers for vineyard activities (pruning…) and in cellars and bottling plants;
    - Adequate personal protective equipment;
    - Safety measures in the transportation of workers.

[1] "On-trade" refers to hotels, bars and restaurants. It is also called HoReCa (which stands for Hotel, Restaurant, Café).

— Wine companies have experienced problems due to the lack of personal protection material and some companies had to close part of their facilities when not able to ensure protection measures.

— Some activities in cellars are stopped because of the implementation of the health-protection measures and notably the distancing between operators makes impossible the implementation of certain activities.

— If the situation does not change drastically, problems are expected when more intensive works are required in the vineyard and in the cellar. At this regard, even if, for the moment, there are some cases of working force shortage for current pruning activities as well as the June activities (trellising), this will become critical later, when non-local seasonal workers are needed for the harvest period during summer and autumn.

  In parallel, the health-protection measures in place at that moment would limit the capacity of wine companies to maintain a normal level of activity. These health-protection measures would impact the capacity of wine companies to receive/host seasonal workers and to transport staff to the working place. The potential limitations for the use of seasonal workers during harvest time will be disastrous for certain areas and companies that depend of hand-harvesting.

c. Provisioning

From a business perspective, we have noted some disruptions in the supply chain:

— The delays in receiving supplies seem to be linked mainly to logistic problems and so far, no input essential to wine production has been reported as non-available.

— However, reduced availability in glass bottles has been reported because of the reduced activity of bottle producers (up to -50% production in some case) and for containers. The situation is even worse in the case of special bottles, the production of which can be stopped due to reduced staff in glass bottles' plants.

d. Logistics

— Wine companies are mainly facing the following problems with logistics:
  - Lack of truck drivers: sickness, quarantine or drivers not wishing to travel to "COVID-19 hot spots";
  - Limitations imposed by certain countries to the movement of truck-drivers, often linked with mandatory quarantine periods (3 days in Switzerland);
  - Reduced availability of containers (many containers sent to Asia have not come back). It will take time to recover them because of global reduced economic activity;
  - Overload on freight forwarders and ports;
  - Distribution platforms prioritizing other products.

— The reduced availability of trucks and truck-drivers makes it more difficult to ship reduced quantities (groupage) or to ship wines from wineries that are not close to main roads.

— As a consequence of all the difficulties, transport costs have increased by 30% to even 70% in some cases for international deliveries.

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

Wine consumption in the EU mainly consists in national wine and EU wine: in 2018[2], 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.

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

a. Direct impact: On-trade / off-trade in the EU

Under a state of alarm, almost everywhere, all public places are closed to the public, except for supermarkets, pharmacies, banks, hospitals and clinics, post offices, newsagents' and a few other basic amenities.
The on-trade distribution channel remains closed, leaving an important part of the EU wine production without outlets.
Also, a section of the off-trade, the Travel retail channel has totally stopped because of the flight transports' situation. It is important to highlight that:

- this situation started in January in Asia as the health situation in China led to a sharp decrease in travel retail due to quarantine measures prompted by local authorities;
- travel retail is significant in value but also in volume in some areas, so decreasing or stopping sales will strongly affect wine companies' profitability.

	Wine consumed (in Mio HL)[3]	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 (% in volume and value)

	Detail of off trade (% of total market in volume)				
	Total Off-trade	Supermarkets	Wine shops	On-line	Direct sales
France	70	50	10		10
Italy	67	30	11	2	24
Germany	85	62	7		16
Spain	52	36	6	1	9
Greece	60	50	4	3	3

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

Based on our estimates, the on-trade channel closing down directly impacts the selling of around 30% of the whole EU wine consumption. However, when looking at the value, the impact is even greater. Although supermarkets also offer premium wines at very sharp prices, most of their wine range consist in entry-level wines. This 30% in volume represents around 50% of the value of the wine consumed in the EU.

[3] http://www.oiv.int/public/medias/6782/oiv-2019-statistical-report-on-world-vitiviniculture.pdf

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. Countries more dependent from the on-trade channel (normally countries where the tourism plays a big role in the consumption), will be dramatically hit. The same goes for a non-negligible number of wine companies which are mainly or even exclusively focused on the on-trade. These companies, normally small ones, has seen from one day to the other their (almost) unique selling channel closed. As a consequence, some wine companies have already stopped their activity because of the impossibility to make any sell.

b. Off-trade situation in the EU

Supermarkets and grocery stores continue to operate quite normally, even though a few logistics problems have been reported. However, the duty-free channel is completely frozen.
Supermarkets have been giving priority to basic needs products and hygiene products and have:

- Reduced the space allocated to wine in large distribution;
- Reduced the space earmarked for wines in warehouses;
- Reduced, in some cases, the number of wine SKUs on offer;
- Rescheduled orders to later dates or cancelled deliveries;

The evolution of the situation in the off-trade is still confusing and we will need to wait for definitive data to assess deeply the impact. However, we can say that:

(i) Some signs of stockpiling have been detected and while wine sales on the off-traded have increased in the first weeks of March (up to 20% in volume) during the second half of March, the sales were down (up to 16.1% in value). It appears clear that, where this stockpiling has taken place, this increase is not maintained in the following weeks;

(ii) 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;

(iii) The sales in this channel does not compensate in any market the loses in the on-trade, neither in volume nor much less in value and rentability.

c. On-line sales

Figures from the last 3 weeks of March show that wine customers rely more than ever on online platforms, with an increase in volume (from +60% to +100% on most popular e-platforms), order frequency (+10%) and number of bottles per order (+5%).

Types of wines purchased have also shifted slightly, with a 10% decrease in the average price spent per bottle. As a consequence, super premium wines suffer severe decreases in sales (from -25 to -70%) while less expensive denominations, and white wines in general, have seen their sales increasing.

However, and at the light of the weight of this distribution channel, the exponential increase of sales through the on-line platform does not compensate the drop of sales in the on-trade.
To be underlined that the delivery of wines at consumer's door is facing logistic problems and limitation due to restrictions of movement within the national territories.

d. Oenotourism

All wine companies have stopped oenotourism activities, with the ensuing huge impact on the sales directly at the wine producer place. Appointments, including mid-term ones have already been cancelled and wine tourism workers are on lay-off.

4. COVID-19 IMPACT ON WINE EXPORTS

Some export operations continue but not in a regular manner. Today, almost 100% of wine operators have been unable to maintain their exports at the same level since the crisis started in China last January.
Looking at the evolution of the COVID-19 outbreak outside the EU, many markets, including the US one, are already showing symptoms of stoppage and companies face a strong decrease in sales with the implementation of harsher quarantine measures by some countries. China and other Asian countries have started activating orders but at a very low level due to the products already in stock on the market and the low attendance in the on-trade sector. It is to be underlined that orders placed in December in Asia started to be commercialized only in March. There are a lot of products stocked in Asia and it will take time before the market comes back to normal. January and February 2020 wine imports in China have decreased around a 30% in volume with respect to 2019 imports. Sales' losses in the on-trade channel are dramatic considering that they occurred during the Chinese New Year celebration.

The reduced export activity is due to the cancellation of orders made months ago, fewer orders, potential payment problems and delays, and difficulties in ensuring logistics due to the shortage of freight forwarders containers and rise of transport prices.
Concerning the decrease in orders, as a starting point, it is important to note that the on-trade/off-trade volume ratio in 3rd countries can be estimated to be equivalent to the EU market one. However, when coming to value, the on-trade in 3rd countries, has a bigger importance than in the EU market.
Considering that many countries have shut down the on-trade channel, these wines are left with no outlet to the market. Even those few countries that are progressively re-opening on-trade channel, such as China or Hong Kong, have to follow strict distance and sanitary measures and the flow of costumers is ultimately reduced.
Exports for the travel retail channel have also been completely frozen because of the travel limitations. In addition, travel retail operators are in a difficult situation, which result in delayed payments.

The expected shift to cheaper products in the off-trade in the US, has a bigger impact on the French, Spanish and German wines because of the maintenance of the extraordinary duties imposed in the framework of the aircraft dispute.

It should also be noted that some countries have banned the circulation and sale of alcoholic beverages, for example, Panama, Thailand, some estates of Mexico and some municipalities and provinces of Argentina.

Concerning the payment problems, this risk has been increased by the exchange rate effect in Canada, USA, Mexico and Brazil.

5. COVID-19 IMPACT ON WINE COMPANIES FINANCES

As a result of the situation in the EU and in the international markets, wineries expect that their turnover will decrease by 35% in average during the 4 months of 2020; and those that are smaller or less diversified in their sales channels even expect a more dramatic drop.

Cash flow is one of the biggest concerns to wine companies and is directly linked to the duration of the crisis.
In addition to the drop of sales (by an average 50%), most customers are asking for delayed payment terms and of the risk of non-payment is considerable due to several partners along the wine commercialisation chain going bankrupt.
Request for longer payments periods also comes from multinational hotel chains for wines already sold and sent.

While many member states developed a legal framework on payment periods, such rules do not apply to export sales: exporters are consequently squeezed between local suppliers they have to pay quickly and foreign clients that ask for long payment periods (often 12 months now).
In addition, credit insurers reduce their guarantees, reducing even more the capability for exporters to keep, as much as possible, flows with their traditional markets/importers/distributors.

6. MEDIUM TERM IMPACT – 2020 HARVEST and TOURISM CAMPAIGN

COVID-19 is impacting the functioning of the wine chain and wine markets but, more importantly, it will have a very negative and long-lasting impact on the EU and the global economy.

We expect a reduced economic capacity of consumers with the consequent general decrease in wine demand, and demand for more expensive wines. In addition, the announced lowered level of tourism until at least after the summer, will negatively affect wine demand in the EU and more strongly in southern countries where wine consumption is very linked to the tourism season.
Finally, the reduced airline traffic over the next months will also affect drastically the travel retail channel.

Considering this multifactor decrease in wine demand and the levels of wine stocks in the EU, we may face an oversupply of wine compared to the capacity of the market resulting in a hight risk of wine depreciation.
Many wine companies expect to buy less wines or grapes during the 2020 harvest as a consequence of the negative expected sales in the next months.

The future reopening of the on-trade sector will not mean the recovery of this channel. We foresee that the partial dismantling of the on-trade as well as importers and distributors' potential closures, due to the dramatic pressure they are suffering, will make it harder for them to recover and will require more investment from wine companies.

PART II: CEEV COVID-19 WINE PACKAGE

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

In order to mitigate the devastating, present and future, effects of COVID-19 on the wine sector, our companies need the urgent setting up of a combination of different support measures, a Wine Package against Covid-19 impact.
CEEV Covid-19 Wine Package tries to incorporate responses from a mid-term perspective so that a strategic response is set for the future of the EU wine sector. The sustainability of the EU wine sector will depend on the capacity to recovery wine markets in the next 2-3 years.
On a general basis, the Wine Package will be efficient if a specific support program for the quick recovery of the on-trade channel is also developed.

While the wine sector needs some emergency measures to be adopted to deal with the immediate impact of the crisis, the challenges for the sector will not instantly disappear after the limitations for citizens movement are lifted.
In this framework, the proposed CEEV Covid-19 Wine Package combines the use of some immediate mitigation measures and some recover measures.

- Immediate priority should be on the preservation of wine companies, so that they could survive the immediate effect of coronavirus. This preservation depends mainly on the capacity to protect the finances of wine companies.
- Immediate mitigation measures are completed with measures aimed at supporting the recovery of EU wine companies in the aftermath of the current crisis by mitigating the medium-term effects of COVID-19 through more efficient and flexible tools needed to rebuilt wine markets and regain market shares globally.

Some of these measures fall under the scope of the European Commission (modification of existing Regulation or new proposal of EU Regulations) and others, because they fall under the competence of national authorities, should be suggested in a harmonised way by the European Commission to Member States (European Commission guidelines).

2. EMERGENCY MEASURES RELATED TO THE NATIONAL SUPPORT PROGRAMS AND THE PLANTING AUTHORISATIONS SCHEME

a. Defer 2019/2020 economic resources

Considering the importance of recovering wine markets and, at the light of the reduced economic capacity of wine companies for implementing measures foreseen in the national support programs, it will be fundamental to "freeze" economic resources not used in the National Support Programmes for the financial year 2019/2020 in order to keep them available for Member States until the financial year 2022/2023. The use of the freeze funds in the next years for financing existing measures under the National Support Programs, will help enormously the support of the recovery of the sector.
This would require amendments to be implemented in EU regulation.

b. Deadlines in National Support Programs

Considering the difficulties wine companies will have for preparing projects, are having for executing accepted ones in this period and at the light of the reduced financial capacity for investing in programs, it will be necessary to extend all deadlines:

- for National Support Programs by one year;
- for the execution of approved actions.

c. Flexibility in Promotion

It will be necessary to suspend article 53 of the Regulation 1149/2016 regarding promotion on third countries and the investment, to avoid penalizing still further wine companies as it is currently very difficult to realize the planned operations. Such suspension will be needed beyond 2020 to recover, adapt to the market demand and regain market share through investment and promotion activities in the coming years.

d. Force majeure[4] declaration

For the purposes of the financing, management and monitoring of wine measures in CAP and in order to ensure consistency among Member States, the European Commission shall recognize the COVID-19 outbreak a *force majeure* worldwide and, as a consequence:

- Lift penalties and/or allow payments even if the minimum number of executed promotion or investment actions have not been implemented; and
- Lift penalties and/or allow payments regardless of the investment executed.

e. Delay in payments

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

f. Flexibility in the planting authorisation scheme

(i) Extension of deadlines: Increase flexibility to the application of the scheme for authorisations for new plantings: due to the uncertain market scenario and the reduction of growers' activity, and considering that the planting of vines must take place in early spring, we ask for a 1-year extension of the 3-year deadline (i.e. 3+1) for the use of the authorisations for new plantings granted in 2017, 2018, 2019 and 2020, as well as a 1-year extension of the deadline for replanting in 2020.

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

3. RECOVERY OF WINE MARKETS AND EU WINE SECTOR'S COMPETITIVENESS

a. Export market

It is critical that the wine sector recovers on export markets and moreover, gains market share in key markets. In that respect, the EU should put every effort in opening/facilitating market access to our products, with a special attention to the following issues:

(i) Quick resolution of the commercial dispute with the USA, to allow the end of additional customs duties on wines imported into the USA;

[4] Article 2(2) of Regulation (EU) No 1306/2013

(ii) Finalising agreed FTA and getting mandate for the initiation of trade negotiations with some key countries for our exports;
(iii) Increasing Commission resources for the enforcement of existing Free Trade Agreements and fighting barriers to trade – this include the active action of the long-awaited trade enforcement officer.

b. Wine market recovery

It will be fundamental to provide an extraordinary support for the recovery of wine markets, furthermore when considering the partially dismantlement of the on-trade channel.
We believe a specific support program for the quick recovery of the on-trade channel will be fundamental.
In parallel we request the implementation of the following measures:

(i) To facilitate recovery of marketing channels within the EU, to flexibilise the Promotion programmes under Regulation (EU) 1144/2014, to authorise simple programs within the European Union to cover exclusively wines. These programs should also cover on-line promotion campaigns of oenotourism.
(ii) at the light of the importance of national markets in the wine sector, to assess the exceptional authorization of promotion actions foreseen under Reg. 1308/2013 in the internal market including the support the oenotourism activities.
(iii) considering the importance of market diversification to develop EU markets outputs it is necessary to add prospection expenses, among eligible expenses, in addition to market studies and promotion activities, therefore simplifying the practical implementation of the measure for the beneficiaries and for the control bodies. This could be done by amending regulation 2013/1308 (article 45.2).

c. Temporary reduced VAT

Considering the importance of facilitating the recovery of the on-trade channel and the reactivation of wine market, it will be important to implement fiscal measures at the light of the reduced purchase-power of EU citizens.
The application of reduced VAT rates for wines (and other foodstuffs) consumed in on-trade is already possible in EU legislation. It is therefore a matter for national authorities to implement this opportunity for supporting jobs and businesses in on-trade, a critical partner for the sale of wines to consumers.

In this framework, we request that:

(i) The European Union temporarily allows for the possibility to apply reduced rate to the entire supply chain for wines where already applying to on-trade other food-stuff sales, at the same level of VAT.
(ii) Member States extends to alcoholic beverages the reduced rate where they already apply for food, as a temporary measure to ensure the viability of a critical channel for jobs, tourism and sales of foodstuffs, at that same VAT level.
(iii) Member States extends temporarily reduced VAT rate for foods and drinks, including wines, where those are not currently applied.

d. Distance selling

(i) Considering the partial dismantling of the on-trade channel, many wine companies will lose their traditional distribution channels. In this framework, and considering the expansion of the e-commerce channel, it will be extremely important to facilitate distance selling of wine products (amendment of Directive 2008/118/CE) through the modernisation and harmonization of the current distance selling arrangements through the development of a Mini One Stop Shop (MOSS) scheme. This facilitation will be fundamental and useful both for multinational companies and small family owned wineries.
(ii) In parallel it would be extremely useful in the short term to implement an intermediary solution to optimize the current arrangements. This solution could be the development of a single webpage on DG TAXUD website that would list all EU MS national procedures concerning distance selling at least available in English.

e. Crisis distillation

The reduced wine sales and the high level of wine stocks may provoke some problems in the normal balance of the wine market.
Wine market balance should be reached:

(i) By fostering market support on EU and export markets, as mentioned above;
(ii) By using production management tools included in the Wine Common market organization (put-aside wines or reserve wines, lower yield at 2020 harvest) and/or included in the National Support Program (green harvesting).

Only if necessary to address remaining unbalances, the EU should be able to make exceptional payments for crisis distillation only in the 2020 period. The budget used for these payments must be different from the Union funds allocated to Member States in the framework of the wine National Support programmes.

The potential activation of the extraordinary crisis distillation measure should be done only after the activation of the rest of the management tools included in the National Support Programs and when duly substantiated to the Commission.
If activated, the distillation should:

- be voluntary
- foresee payments at price levels that would not result in disturbing the normal functioning of the wine market, in the different price segments and categories.

Alcohol resulting from distillation shall be used exclusively for industrial or energy purposes, with a special priority for the production of alcohol-based disinfectants.
When assessing the potential activation of the crisis distillation, the Commission should pay special attention to not impacting interlinked sectors like the alcohol for spirits production or the vinegar ones.

f. Dynamization of the wine sector

In order to recovery the market and expand market opportunities, the wine and aromatised wine products sectors will need to improve their capacity of adapting themself to consumers' expectations and market trends. In this framework, it will be important to accelerate the adoption of the CAP reform and include during this legal process:

(i) A clear framework within the Wine Common Market Organisation for "low alcohol wines", including de-alcoholised wines. These products will be a fundamental pillar for the development of innovative wine-based products;
(ii) Amendments to Regulation (EU) No 251/2014 on aromatised wine products that will provide opportunities for revitalising the aromatised wine products sector to better adapt this category to new market demands and consumers' expectations.

The CEEV COVID-19 Wine Package may evolve shortly (1) when further data on the evolution of the wine market are compiled, (2) with the progressive adaptation/lift of the emergency measures implemented by EU and national authorities and (3) at the light of the 2020 harvest estimations.