



EFOW

Impact of the COVID-19 crisis on wine appellations

The word of the President

Dear reader,

Like many sectors, wine appellations are nowadays being tested.

Intrinsically, GI viticulture has all it takes to continue to thrive even during a crisis: GI wines are synonym of quality and guarantees for consumers, more value for producers and sustainable territorial development. However, with our main distribution channels - Horeca, tourism, exports - particularly affected by the pandemic, we find ourselves in a very difficult situation, despite having tried to find new markets.

During the lockdown months, appellation viticulture was strongly challenged. Our sector has maintained employment in rural areas (vines do not stop) but a very large number of wineries saw a significant drop in their turnover due to the lack of commercial outlets. This period was particularly harsh for winegrowers also subject to US retaliatory measures (i.e. plus 25% ad valorem tariffs).

At the EU level, a first set of emergency measures were put in place but they were not sufficient to meet the needs of the wine sector faced with such an unprecedented health crisis.

Wine appellations did not give up and with the unfailing support of the European Parliament - more particularly the Agriculture and Rural Development Committee and the Wine Intergroup - we were able to obtain more ambitious tools to help the sector. The Agriculture Commissioner showed political courage and listened to the concerns of winegrowers. A new Delegated Act with more positive measures (crisis distillation, private storage, improvement of the European co-financing rate for numerous measures, flexibility in the application of promotion, restructuring, investment and innovation operations, extension of planting and replanting authorisations) was adopted; Article 222 of the CMO - which allows derogations from certain competition rules - was also triggered.

While the range of instruments made available has been well received by wine producers, the lack of an additional budget has hampered the implementation of these measures. Member States, in consultation with the sector, have adopted strategies at national level to relieve markets and try to reduce stocks, but the crisis has not helped the rapid application of these tools.

Today, unfortunately, we are still in a very difficult situation. After a summer that allowed some appellations to breathe a little, pessimism is back. The sanitary measures are still in place and seem to be getting harsher by the minute.

Faced with a very uncertain context and negative prospects, EFOW considers that it is essential to extend all the Delegated Acts until the end of 2021 to provide Member States with instruments to intervene as soon as necessary to avoid mass bankruptcy and significant job losses. The survival of wine appellations and of many territories in the rural world is at stake. We congratulate Commissioner Wojciechowski for announcing DG AGRI's preparatory work on this front and invite him and his services to act swiftly to continue helping the sector in these difficult times.

The COVID-19 crisis teaches us that we need a toolbox which can be rapidly deployed with different instruments to respond to the different needs of each wine appellations. However, we also need long-term strategies. In a world undergoing profound changes, it is crucial to reflect on the major challenges and opportunities facing the sector, such as wine tourism, the development of the digital market, and regulation tools, in particular vine plantations.

In this EFOW newsletter, you will find the testimonies of the Presidents of different associations who make a first assessment of this crisis and try to draw some lessons.

I wish you a very good read,

Bernard Farges, President of EFOW



Interview FRANCE

Mr. Bernard Farges, President of CNAOC

What were the immediate consequences of the COVID-19 pandemic on French GI wines?

The most striking phenomenon was of course the closure of cafés, hotels and restaurants and a very slow recovery during the summer period. We have estimated the losses at about 1.5 billion euros for the closure alone of the HORECA sector, a loss of 5 to 7% of the annual turnover of the sector. On the one hand, the French have not “brought home” their usual consumption of PDO wines, and on the other hand we have observed an increase in the purchase of bag-in-box wines in the PGI segment. The strongest negative effects were felt by the PDO sparkling wine segment. Not many are in a mood to celebrate! The effects of the pandemic, with the slowdown of international trade in general, will bring about an increase of stocks that we estimate at 20%. But this will vary greatly depending on wine regions and operators. The crisis is far from over.

What measures were implemented by your Government to mitigate the COVID-19 crisis?

To date, only voluntary crisis distillation has been implemented. Most of the support has come from the remaining funds of our Wine National Support Programme. We have distilled 2.6 million hectolitres. We fear in certain regions that structural issues will now arise given all the negative factors that are accumulating. The US 25% ad valorem retaliatory tariffs associated with this crisis put us in a difficult situation and it will take a long time to regain our positions.

What further measures should be taken at the EU level to help the sector?

The availability of a crisis fund would have been appropriate to avoid taking money from our programmes. Nevertheless, this crisis should be an opportunity to continue working towards the simplification of EU measures in general. Above all, in the coming months we will have to collectively re-examine the competition rules that apply to our sector. How can we ask producers to respect demanding product specifications and to further green production method, if there are no measures to prevent prices from collapsing?



Interview ITALY

Mr. Riccardo Ricci Curbastro, President of Federdoc

What were the immediate consequences of the COVID-19 pandemic on Italian GI wines?

The Italian wine sector has undoubtedly suffered significant losses due to the travel restrictions and the halt of the HORECA channel. This particularly affected wine appellations as their major distribution outlets became suddenly inaccessible. The situation was further aggravated as direct selling was also suspended and all oenotouristic activities had to close. There was a significant boom in wine sales in supermarkets and also via e-commerce but this did not affect positively small and medium sized wine makers as the European framework on excise duties is still not harmonised and distance selling remains a major challenge for such operators. One of the most pressing issue was the need of liquidity as there were important stocks in the cellar which could not be place in the market.

What measures were implemented by your Government to mitigate the COVID-19 crisis?

The Italian wine sector has tried to develop, in synergy with our Ministry, innovative solutions which could effectively help wine producers. First, we decided to finance the reduction of our PDO wine yields, thus maintaining and enhancing our quality standards. Another important and concrete step was the definition of an instrument aimed at providing operators with liquidity by using the stocks in our cellars as guarantee to banks.

What further measures should be taken at the EU level to help the sector?

The sector has suffered a severe backlash and we believe it is necessary to relaunch the economy. We therefore expect the maintenance of all the flexibilities and market measures granted by the European Institutions. More specifically, the maintenance of the higher co-financing rates and all the flexibilities linked to promotional activities which are the backbone of any strategy to restart our economies and bring new dynamism to our appellations



Interview SPAIN

Mr. David Palacios, President of CECRV

What were the immediate consequences of the COVID-19 pandemic on Spanish GI wines?

In Spain, wine appellations were the wine category most affected by the drop of activity and closure of the HORECA and tourism sectors. The closure on these channels, which generate a significant part of our revenue and help us position ourselves on value and quality, has led to a contraction in the demand of our products at the national level. Fortunately, exports, food retail sales and e-commerce have performed better than expected in the current scenario and have partly cushioned the fall in revenue. Nevertheless, they have not compensated for the losses mentioned above.

What measures were implemented by your Government to mitigate the COVID-19 crisis?

In Spain, the Government activated extraordinary supply reduction measures, namely three: crisis distillation, private storage and green harvesting. They were financed by funds earmarked for measures in our wine national support programme. The sector did not receive any further support via State Aid. Spain also implemented several flexibilities provided by EU rules with regard to measures such as promotion in third countries, investments and restructuring/conversion of vineyards.

Following the implementation of these support measures, we can draw some initial conclusions. First, the extraordinary measures were clearly necessary as the applications were much higher than the volumes, areas and amounts available. Second, there was a clear mismatch between the situation needing intervention and the scope of the measures. In fact, although wine appellations were the most affected by the crisis, table wines consumed most of the available funds. We believe there has been a clear misjudgment of the reality on the ground. Third, the flexibility in the implementation of measures in our wine support programme has been positive and too limited in time since the effects of the pandemic are still very much present and all the actions planned by our members have to be constantly re-arranged. This is particularly true with regards to promotional activities in third countries.

What further measures should be taken at the EU level to help the sector?

Firstly, it is fundamental that the extraordinary measures taken by the EU to mitigate the effects of the pandemic are renewed and continue in the 20/21 campaign. It is essential to maintain the measures for crisis distillation, private storage and green harvesting, as well as the incrementation of the EU co-financing rates and the flexibilities given to the implementation of the measures in the support programme. It has become evident that there are still many uncertainties and that the economic recovery will not be as rapid as initially expected.

Secondly, we believe it is important develop measures which could boost the demand of our wines, especially given the dynamism of online sales. In this respect, the EU should review the rules on online trade and wine distance selling. Similarly, wine tourism should be included in the framework of the EU's promotion policy and more generally promotion should be strengthened.

Finally, in the framework of the Farm to Fork and Biodiversity strategies, the sector should continue to strengthen its sustainability in the economic, social and environmental sphere.



Interview PORTUGAL

Mr. Gilberto Igrejas, President of IVDP

What were the immediate consequences of the COVID-19 pandemic on Portuguese GI wines?

The strongest and most immediate consequence of the COVID-19 pandemic was the drop in sales. There was a decrease in exports, especially up to May, and most significantly a reduction in shipments to other EU countries. Until 2019, Portuguese wine exports had been registering year-on-year increases, more in terms of value than quantity, with a consequent increase in the average price. There has been some recovery since June but this positive development in the amount exported was achieved at the expense of price, with a drop in the average price observed. There was a decrease also of sales on the domestic market. The uptick in online sales, and the increase in wine consumption at home did little to compensate for downward trends caused by the closure of the HORECA sector and the almost total absence of tourism. Wines from the Douro Region are an example of the developments mentioned above for both sales to foreign markets and sales in Portugal. Port wine was mainly impacted by the pandemic in its two main markets France and Portugal, while exports of Douro wine have recovered better since June, as they are much less concentrated in EU countries. For both wines, and unlike what had been confirmed in recent years, the average price has fallen.

What measures were implemented by your Government to mitigate the COVID-19 crisis?

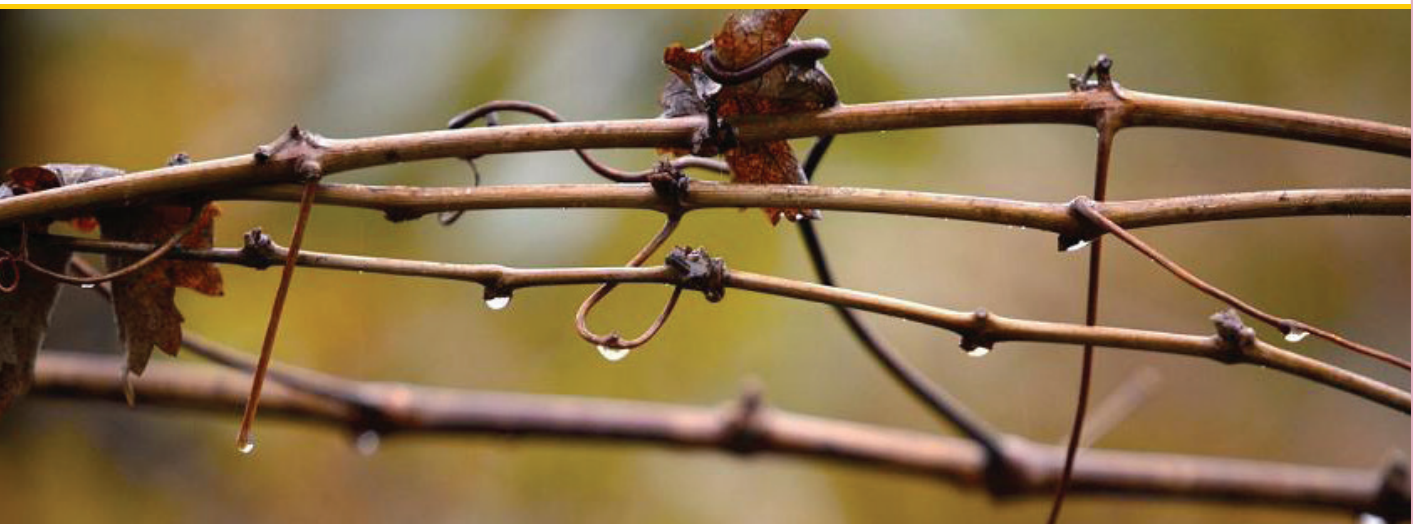
To mitigate the impact of the COVID-19 crisis, the Government implemented exceptional measures to support the wine sector with the aims of minimising losses and ensuring the income of wine producers: support for the distillation and private storage of GI wines and the creation a Port Wine Qualitative Reserve. There was also a reinforcement of the VITIS programme. As a way of supporting the promotion of wines in third countries, we highlight the advances that have been allocated for the settlement of payment requests. In addition, making payment deadlines more flexible was an effective measure supporting the promotion and information campaigns wines in the Internal Market.

What further measures should be taken at the EU level to help the sector?

Taking into account the drop in sales and with the increased costs of the approaching harvest season, it was essential to take measures that would allow the economic agents in this sector to plan the harvest and to properly manage their stocks, creating conditions so that the price of grapes would not be devalued.

Now, for the wine sector to have a sustainable future, it is essential that sales recover in quantity, but also in terms of average price, requiring the implementation of measures that contribute directly or indirectly to this recovery, whether by boosting exports, traditional sales, or online sales, including through HORECA sales, for which tourism is essential. In the national market, measures that help the tourism sector will have a knock-on benefit for the wine sector.

Support is therefore needed for the promotion and sales of EU wines and for non-traditional forms of promotion and sales, for which many economic agents also need support to adapt. The maintenance of the market measures beyond October 2020 could also mitigate the losses and be helpful in re-establishing trade after COVID-19.





Interview GERMANY

Mr. Klaus Schneider, President of DWV (Deutscher Weinbauverband)

What were the immediate consequences of the COVID-19 pandemic on German GI wines?

The lockdown led to the temporary closure of restaurants, hotels and wine shops in Germany and the prohibition on holding major events such as wine festivals. For winegrowers, who prefer to sell their wine through specialist shops, restaurants or at wine events, important sales opportunities were lost. These businesses have therefore suffered major financial losses. The crisis also worsened for export-oriented businesses, which were already in a difficult situation, partly because of the US retaliatory tariffs. In contrast, wineries that market their wines through the food trade or have their own online shops resisted better through the crisis. Wine producers with a high share of self-marketing - with direct sales on the wineries - were also less affected. Many Germans spent their summer holidays in German regions. This had a correspondingly positive effect on German wine sales. However, in view of the current increase in the number of infections, I fear that greater restrictions in social life could once again have a major impact on our wine sales.

What measures were implemented by your Government to mitigate the COVID-19 crisis?

At the beginning of the crisis, due to the decline in sales, the priority was to secure winegrowers' liquidity and to secure production. The German government reacted positively to the crisis with the so-called Corona package, which included a package of measures to make the German labour market more flexible and, in a second step, to create a possibility for seasonal workers to enter the country under strict conditions. To cushion the economic consequences of the Corona crisis, measures were introduced to secure liquidity - such as immediate aid, including for small businesses, or extended possibilities for short-time working or deferral of tax payments.

At EU level, Member States could implement three specific measures in the wine sector: Crisis distillation, green harvesting and wine storage. These measures had to be financed via the Wine National Support Programmes (WNSP). Germany has not yet made use of this possibility, firstly because the WNSP money was already programmed elsewhere and our Government did not yet consider market-regulating measures necessary.

What further measures should be taken at the EU level to help the sector?

Like other EU Member States, we are calling for the crisis measures now in force to be maintained for a further two years to be able to respond to such crisis situations. The Member States also continue to call for an independent EU budget to be made available to finance crisis measures. We would also like to see an adjustment of market regulation instruments. Partial green harvesting could lead not only to reduced yields but also to improved quality. However, the EU Commission was not open to changes and our Ministry also rejected this measure at national level because it was difficult to monitor.

“Because origin matters”

EFOW is a Brussels-based organisation representing wines with an Appellation of Origin or Geographical Indication from the European Union. As the voice of the European origin wines towards European and international institutions, it is actively lobbying for a better protection and promotion of these wines within the EU and throughout the world.

Its current members are the national associations in charge of origin wines from France (CNAOC), Italy (FEDERDOC) and Spain (CECRV), as well as the Port and Douro Wines Institute (IVDP) from Portugal.

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