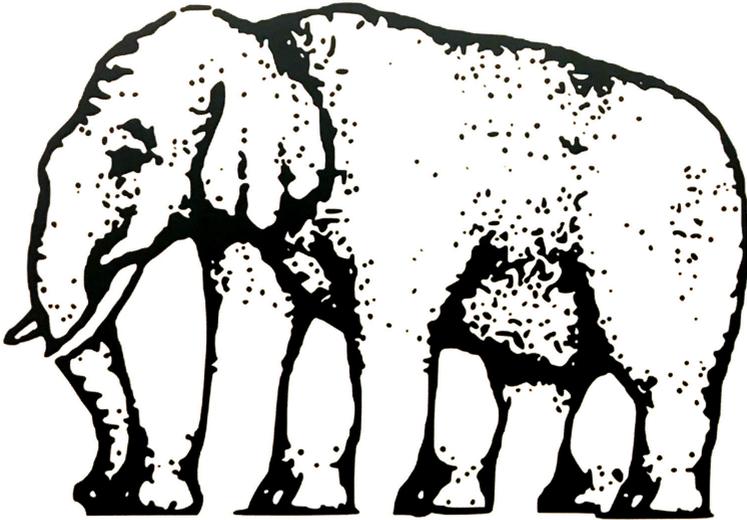


# VININTELL

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VENTURING INTO THE PREDICTABLE UNKNOWN:  
TRENDS IN THE GLOBAL WINE INDUSTRY





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## INTRODUCTION

Writing about global trends in the wine industry is challenging in the sense that there is so much happening at such a rapid pace and that so many variables exert influence all at once. Trends range from consumer behaviour to the impact of climate change, sustainable wines, generations and gender to the trends in cultivars and brands. The realities of climate change, changing consumer demands, preferences and habits, technology and economic and political turmoil are certainly the main drivers behind the most prominent trends currently discernible in the global wine industry. This edition of VinIntell seeks to provide a high-level overview of the main trends and sub-trends that have emerged in 2018 and that are likely to remain valid in the immediate future.

## GROWTH AND TRADE PATTERNS ARE EVOLVING DRIVEN BY GLOBAL CONSUMPTION PATTERNS

Wine is a widely traded commodity mainly due to the substantial distances between the main wine producing countries and those countries which are currently experiencing significantly increased wine consumption, but which are not traditionally recognised as wine producers. The share of exports in total global output is recorded at about 34% (2017 World Trade Organisation figures). The high trade intensity is determined by Spain (21%), Italy (18%), and France (14%) and Australia (10%) who together remain the main global suppliers of wine, with a combined share of 63% of global exports. The volume of global imports totalled 10.6 billion litres in 2016. The imports dynamic

was generally in line with exports: these trade flows globally complement each other.<sup>1</sup>

Globalisation continues its impact on the spread of wine and this impacts as mentioned on trade patterns. Wine is becoming increasingly popular in various countries which were not previously prominently on the consumption radar. Factors that drive these patterns changes in especially new, emerging markets (including South-east Asia) include the emergence of a middle class, increasing population sizes and more expendable income. Along with ongoing urbanisation and an increasingly 'Western' lifestyle, wine consumption culture in Asian countries are changing and they are set to become the growth engine for increased global wine consumption. The Asia-Pacific region and Hong Kong are continuing are projected to grow from US\$29 billion in 2016 to US\$40.8 billion by 2021. Contrary to this growth pattern, consumption in both the US and Europe is set to remain consistently high in the medium term, and both regions will retain their leading position on the global market.

Globally, wine consumption is set to reach US\$224.5 billion in value by 2021, driven by the US and China<sup>2</sup>. In terms of volume this translates in 2.66 billion 9-litre cases by 2021. Growth in these two markets offset the decline in other parts of the world. Over the next five years, China will become the world's second largest market for wine behind the US. Already in Australia alcohol consumption has significantly reduced to a level that has not been seen since the 1960s.<sup>3</sup> Although wine consumption has declined, it is the decrease in beer consumption that has been the main driver for falling alcohol consumption with an



average decline of 2.4% per year over the last ten years. Beer, wine, spirits, ready-to-drink (RTD) beverages and cider are the major contributors to alcohol sales in many markets primarily in Australia.

## AUTHENTICITY AND TRANSPARENCY WILL INCREASINGLY SHINE THE FOCUS ON LABELLING

There is already a keen focus on wine label integrity driven in part by the introduction of QR codes on labels and reality promotional videos via apps. We have started to see brands producing label-less bottles that smartphones can scan to get detailed information on how, when and where it was made. Wine label integrity has to be read in conjunction with trends such as organic wines, sustainable viticulture and consumer demands. Any claim made on a wine label regarding geographical provenance must be backed up by records kept at the winery. The more up-market the wine, the more specific label descriptions are likely to become and by extension, the more important audits are becoming.<sup>4</sup> In South Africa, the integrity of wine is guaranteed by the Wine of Origin

(WO) system, which is administered by the Wine and Spirit Board (WSB).<sup>5</sup> In Australia, a national system to audit claims made on wine labels called the Label Integrity Program, or LIP, was instituted in 1990. It vouches through a thorough system of mandatory record-taking and strategic auditing that whatever a winery states on a wine label is the truth. The previous lack of wine label policing opened the door for certain operators to take advantage of the system, resulting in several cases, some reported and others not, of grossly misleading wine labelling. Especially organic and bio-dynamic claims will be closely scrutinised to ensure label integrity.

## PACKAGING TRENDS INFLUENCED BY PREMIUMISATION

In a move towards more environmentally friendly options, new options of packaging will be explored. Alternatives to glass bottles are gaining ground. Green at Roberson agrees bag-in-box, cans and plastic PET bottles are all due a resurgence, and as the quality of what's put inside them rises, some of these will catch on. Options include 'compostable, non-plastic glasses made from corn starch', said the report. A variety of new shapes, sizes and colours of bottles and other forms of packaging will be seen on the shelf, moving away from the traditional styles. With changing drinking habits, climatic mindfulness amongst others, the wine bottle as preferred packaging is under siege: It is heavy, it is not sexy and it is not necessarily environment friendly. As more and more consumers bring their wine home or to private social settings, they are increasingly embracing new forms of pack-



- The label integrity program is a recording system to provide an audit trail from grape purchase to finished product, to substantiate label claims in respect of vintage, variety and geographical indication.
- The program was created by the Australian Wine and Brandy Corporation (AWBC) following a request by the Australian wine industry to establish a system which would ensure the integrity of Australian wine for both domestic and export markets.



Premium Pouch



Canned Wine



Single-Serving Wine

aging that offer convenience and portability. Furthermore and tongue in cheek, the robotic assistant might find opening a corked bottle of wine quite challenging.<sup>6</sup> The premiumisation of bag-in-box therefore is gaining growing. France's Le Grappin has eased the way for appellation wines bagged and boxed, and also launched the "bagnum": a 1.5 litre bag of wine (see picture). Smaller than the standard 3-litre Bag-in-Box, the bagnum reflects the wider consumer trend of spending more, but drinking less.

Similarly, convenience stores across Europe now carry single servings of wine in pouches, cans and jars, still and sparkling. Enomatics (see picture) and Coravin systems allow small samples of super premium wines. US retail canned wine sales rose by 43% from June 2017 to June 2018.<sup>7</sup> Tetra Paks have seen significant uptake, a result of both convenience (including the ability to reseal) and environmental friendliness compared with traditional packaging. While canned wine is still a small portion of the wider industry, with about 0.2% of total wine sales, it is growing rapidly thanks to millennial drinkers (Nielsen, 2018). By comparison, bottled wines took nearly 90% of the industry's sales, but are growing much more slowly. The remaining

9.8% of sales are boxed and bagged wines. UK supermarket Waitrose recently entered the canned wine market with the introduction of an organic rosé and Shiraz recyclable 250ml cans. The cans hold the equivalent to one large glass of wine and are both priced at £3.49.<sup>8</sup> We might even see edible bottles and even edible wine glasses, made from a sugar substitute, such as isomalt. One of the less traditional wine trends emerging is wine on tap. The benefits include fresher wine due to no oxidation, corkage or spoilage. Despite the trendiness however, wide scale adoption of alternative packaging formats is likely to remain limited by consumer perceptions, shorter product shelf life and the difficulty of finding packaging suppliers that focus primarily on beer.

## INCREASED CHALLENGE TO MAINTAIN STYLE AND QUALITY

Greater variability from one vintage to another and extreme weather could make it difficult for producers to maintain style and quality, and unexpected wet and dry periods, as well as disasters such as the wildfires in California are bound to play havoc with carefully laid vintage plans. Such factors highlight the fact



that wine remains an agriculture product and that brands remain vulnerable to deliver consistent style and quality. European production is estimated to decrease by 20% in 2018, the wildfires in California have had an impact on production and in South Africa the drought has had an effect on the harvest. The most obvious short term impact will be rising prices. The threat of longer term climate change is largely unpredictable.<sup>9</sup>

## STYLES AND VARIETIES PLAY MUSICAL CHAIRS

Bordeaux wines are making a comeback reversing the downward trend due to an image that it is overpriced and unfashionable and the fact that consumers had to wait 20 or 30 years to drink this traditional wine did not quite fit in any longer with the fast pace of change. The new Bordeaux wines are more approachable and more drinkable for the customer e.g. by introducing Cabernet Franc. Rosé is also very trendy and the growth of the Premium Rosé category continues around the world while champagne is showing considerable growth in various markets especially China. Volumes of imported sparkling wine have almost doubled in the same period from 655,000 9 litre cases to 1.4 million and Champagne has climbed from the 5th most popular alcoholic beverage to the 4th (behind red wine, beer and then white wine – rosé lags behind in 6th place).<sup>10</sup> Sparkling wine remains the popular drink of continuous. It is a phenomenon experienced globally. Sparkling wines have enjoyed long-term growth in terms of volume, value and price per bottle in many markets and we might see continuous innovation also in packaging (canned bubbly?) and lower calories.<sup>11</sup> Experts moot that



Prosecco will outstrip other major categories such as Champagne and Cava by 2021, when world Prosecco consumption is set to reach 40 million cases with its biggest market being the UK, followed by the US. Champagne consumption on the other hand is projected to decrease by 4% by 2021. This development broadly reflects the premiumisation trend with premium-and-above segments growing the fastest, fuelled mainly by demands from the US and China. There has also been growth of white wine in red-dominating markets such as mainland China and Hong Kong. While red wine is still dominant, white wine has increased its consumer reach, thanks to increased visibility particularly online and in the on-trade. Australian white wine exports to China are up 33% to US\$30 million in 2018.<sup>12</sup>

With respect to grape varieties, US\$11 to US\$14.99 Cabernet Sauvignon and US\$15 to US\$19.99 Chardonnay dominate in premium wine growth in the US. Red blends continue to sell well but depend on the ability of producers to maintain consistency; the current cooling off of sales may also mark the beginning of a future decline.<sup>13</sup> Wines to watch are Shiraz, Merlot, Sauvignon Blanc, Pinot Noir, Chardonnay, Semillon, Viognier, Grenache, Tempranillo, and Cabernet Sauvignon and then Albariño from Spain and Carménère from Chile.



## EMERGING PLAYERS ARE BEING HEARD

Various factors impact on the rise and fall of key wine players. Climatic change is one factor that influences the regions that flourish and those that decline and this trend is likely to increase in effect (think frost in France and fires in Spain and California). If temperatures continue to rise, the hottest wine regions could become inhospitable to vines while the cool-climate areas will thrive (the Netherlands, Luxembourg, Belgium, Poland, the Czech Republic, and northern US states like Vermont.) England will be one of the more successful wine producing countries of the 2020s, and not just for sparkling – still wines, too. Quality will improve and prices will come down as the public's appetite for home-grown wine increases." Greece is more consistently producing high-quality wines across different price points while Chinese influence on wine has grown significantly over the past few years and has contributed to evolving wine trends around the world. China could be one of the world's biggest wine producers within ten years and will become the source of juice for a new set of global commercial wine brands.

China accounted for over 40% of Bordeaux's annual wine exports by volume in 2016.<sup>14</sup> The EU made up 35% of exports. China is the top export location for Bordeaux by volume and has been so since 2011. Chinese winegrowing regions are rapidly picking up international praise. Earlier in 2018, the Yantai region in China gained trademark protection to guard locally produced wines from this area. Chinese wine is making a name for itself in 2018.<sup>15</sup> A recent landmark case for intellectual property wine rights in China will provide a boom in the

near future for winemakers and exporters to the country. Counterfeit luxury goods are big business in the country, with China and Hong Kong estimated to be the source of 86% of the world's counterfeit goods. Recently Chinese authorities found in favour of the CIVB against counterfeiters in Shandong peninsula, the country's main wine-producing region following years of wider international intellectual property disputes that showed little promise of reform. This decision sets a precedent for the Chinese state working with winemakers to better police its wine market and crack down upon the criminals and their illicit fortunes from fake products. This move by Beijing will increase the appeal of the Chinese markets for exporters.

## TRENDS IN BRANDS

Beer and spirits brand remain more powerful than wine brands, but among the leading wine brands are brands from Australia (boasting the top brand across 15 markets i.e. Yellow tail) and Chile's Casillero del Diablo. Australian and Chilean brands over-performing in terms of wine brand power in relation to the size of wine production in these countries mainly due to their wide global reach. Constellation Brands, Gallo, Concha y Toro and Treasury Wine Estate lead in terms of having multiple brands within the top 15 most powerful global wine brands. 15 countries were chosen to represent the most important and influential markets for wine in the Global Wine Power Brand Index. These markets are (in alphabetical order) Australia, Brazil, Canada, Chile, China, France, Germany, Ireland, Japan, Portugal, South Korea, Spain, Sweden, the UK and the USA.



US brands account for 40% of the most powerful wine brands in the world (it only produces around 9% of the world's wine volumes) while Spanish and Italian wine brands underperform in the Global Wine Power Brand Index despite being the largest wine-producing countries. Distinguishing characteristics of these winning labels are the fact that they align with consumer taste expectations, they are consistent and they have great distribution focus. Consumer expectations demand from labels that talking about sustainability and social responsibility is no longer enough; they seek proven transparency, uniqueness and authenticity and integrity from brands. Key players operating in the global wine market remain Constellation Brands, E. & J. Gallo Winery, Torres Wine Trading Co, Treasury Wine Estates, Vina Concha y Toro, Grupo Penaflor, The Wine Group, Caviro Distillerie, Pernod Ricard and Bacardi Limited.

## CONSUMER TRENDS IN WINE

Various factors impact on consumer trends, attitudes and behaviours. A stronger global economy will probably see growth in consumer expenditure while mobile technology and internet accessibility will play a key role in shaping these changes.<sup>16</sup> Augmented reality merging digital and reality increasingly gain traction. The internet has increased awareness of global, climatic, social and health issues, inspiring consumers to pursue greater social

responsibility. Consumers chasing minimalism and authenticity will continue and impact on how people consume sharing everything from clothing, household items and pets through to cars and living spaces.<sup>17</sup> They are more inclined to buy local wines, organic wines and visit local wineries. Purchasing wine on-line is growing faster as retailers are concerned with Amazon/Whole Foods getting into the liquor/wine distribution game. Euromonitor reports that "overall, 2018 will see consumers continuing to question their values, priorities and purchasing decisions; deepening their engagement in the brands and issues that matter to them" (Euromonitor, 2018) For example, there exists a 'break point' today of around US\$9 per wine bottle that demarcates growth and decline regarding sales, in terms of both dollars and case volume. The report defines wine with a retail cost of US\$10 or more per bottle as 'premium,' and constituting a segment that 'dominates sales and is responsible for all the growth in the trade today.'<sup>18</sup>

### Premiumisation will continue

Premium is indeed the place to be, according to various studies. This is because the premiumisation trend of wine will continue to grow. Premiumisation depends on how the product stands out from the competition, how effectively the consumer is educated as to the reason why the product is different. In this regard many producers introduced changes in viticultural practices to win the right to differentiate their product as organic or biodynamic or sustainable.<sup>19</sup> Indeed, premium wine specifies wine of different and high quality. The growth of premium wine sales has been predicted since 2017, with expected growth



of between 10% to 14% growth in California, USA. As a result, sales of Californian wines rose to US\$35.2billion, continuing the 6 year growth trend on the back of positive wine sales. The fine and premium category (over US\$10 a bottle) has been on the front burner. The segment ended 2017 at around US\$17 billion, growing approximately 8% a year since 2012. This trajectory is expected to continue, with the segment reaching around US\$25 billion by 2022.<sup>20</sup>

### **Sustainable, organic & lower alcohol wine continue to gain traction**

With new generations of consumers living more consciously, lean and sharing, the trend to bring different wines such as biodynamic, vegan and environmentally friendly wines to the market will gain traction and probably will become more affordable. These wines represent a small but growing proportion of global wine production and consumer awareness and demand is set to change the scene for organic wines and it is set to become ubiquitous before long.<sup>21</sup> Recent research into these alternative wines indicate that organic wine ranks top first in terms of global opportunity on a foundation of broad levels of consumer understanding and acceptance, and has particularly strong opportunity in Finland, Sweden and Germany.<sup>22</sup> It is followed by sustainable and Fairtrade Wines while lesser known styles such a vegan, lower-alcohol wines and biodynamic wines have not yet become a factor. For a brief definition of each style wine please see the table in endnote.<sup>23</sup>

### **Low and no alcohol wine hampered by quality issues**

Lower-alcohol / non-alcohol wine opportunity still hampered by negative quality and taste

perceptions, with consumers currently preferring other low and no alcoholic drinks choices over wine. Consumers are saying had they wanted a low or no alcohol wine they would have bought fruit juice.<sup>24</sup> In the EU, products below 8.5% ABV cannot be called wine unless they are from a specified region with exemptions e.g. Moscato D'Asti. 'Lower-alcohol' as a term cannot, under EU labelling regulations, appears on products over 1.2% ABV. Lower-alcohol wine opportunity currently niche, with trade view of some future potential for the category driven by consumer moderation trend. Important to distinguish is naturally lower in alcohol wines, as opposed to reduced alcohol via mechanical methods. The natural version has far stronger potential. Non-alcoholic wines are wines which have undergone the alcoholic fermentation process and have then had the alcohol removed. According to the EU, non-alcoholic wine or alcohol-free wine can contain up to 0.5% ABV.

### **Brexit continues to impact on key trade and consumption patterns**

From a UK market perspective, Brexit is probably going to hurt the UK consumer. The Wine and Spirit Trade Association (WSTA) estimates that Brexit has led to a price increase of 3% in three months, compared with a 1% increase over the previous two years. The devaluation of British pound has increased overheads for importers and distributors, many of whom have been forced to introduce two rounds of price increases in 2018. Of course the increases will impact on the consumer's wallet. Interestingly although the UK government predicted an influx of EU workers keen to enter the UK before borders are closed, the opposite has happened. Net migration fell by



81,000 and the concessions the UK government has made on citizens' rights are unlikely to give any confidence to would-be migrants. Unable to hire reasonably priced, high skilled labour from European migrants, the on-trade will come under pressure.<sup>25</sup> Labour is also a concern in other part of the world. In the US there is not enough labour and seasonal workers from Mexico are finding it hard to enter the US. These factors all impacts on production costs.

### Generational impact on wine styles and demand

The future wine drinkers will have different demands from the products they consume and they are informed and technologically connected. Factors such as health, transparency and sustainability and interesting, different and eco-friendly packaging are a talking point when sharing.<sup>26</sup> Trends in gender and generations are highly dynamic and are impacted upon by income, and food/drink culture.

- Millennials (age 22-38) and Gen Xers (age 39-50), now consume liquor and beer more frequently than wine. Millennials and Gen Xers however do buy more wine each year. Millennials will surpass Gen Xers to become 'the largest fine wine consuming generation' by 2026. One estimate predicts that millennials will hold the largest share of US wine consumption by 2026.<sup>1</sup> Although they are clearly value-focused consumers: They are looking for high quality at an acceptable price and they prefer off-trade (drinking in). Millennials are also having an impact on another trend: Unwilling to pay restaurant wine mark-ups, consumers in general, led by millennials, are increasingly drinking their wine at home. Off-premises

consumption now represents more than 80% of overall wine consumption, higher than off-trade consumption of beer or distilled spirits.<sup>27</sup>

- Boomers (age 51-68) and Matures (age 69+) are more likely to have consumed wine in any given week. They consume by less wine as they mature but they are more discerning in terms of quality and can afford premium products. They are therefore the higher value lower volumes market.

## TECHNOLOGY, ARTIFICIAL INTELLIGENCE AND ROBOTICS ARE CHANGING THE INDUSTRY

Besides the mention of drones and robotics in terms of viticulture and wine delivery, in a previous VinIntell edition, technology is set to continue transforming many aspects of the wine industry. Following this trend wine



producers are using technology to scan all of the vineyards using high-resolution satellite images and advanced machine learning to map wine-growing regions and record the geo-location of vineyards. In a world where biosecurity and wine label integrity will come



under increased scrutiny, this is an important factor.<sup>28</sup> There are numerous apps and technologies that are gaining traction also in the distribution, sales and marketing aspects of the industry. Following the introduction of apps promising to deliver wine in two hours, delivery will get even faster with the introduction of drones. Drones will become the norm, with retailers capable of depositing products at specific, local drone sites for click and col-

lect. Also, drones are already being put to use in the vineyards for monitoring purposes and Amazon has already started work on its 'Prime Air' project, which aims to create a drone service able to deliver certain goods weighing up to 2.26kg to customers within 30 minutes, depending on their location. Furthermore, alcohol will be purchasable from vending machines, using iris recognition technology to verify that buyers are of legal age.

## CONCLUSION

It is true that as with everything in life, the world of wine is in a continuous state of flux and change. Trends like fashion come and go and perhaps just follow quicker on one another than ever before. Some sectors rise, others decline and styles fall into and out of flavour. Technologies are rapidly impacting on viticulture, logistics, marketing, sales and compliance and then there is the climate and nature; factors that cannot be influenced (although they can be managed to a degree). The effects that weather patterns, drought and fires have had on production and sales have been pronounced in 2018 and are likely to continue being unpredictable. The speed of global warming is making us rethink which grapes are planted in which locations. But these characteristics of the world of wine make it so unique, challenging and interesting.





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1: Organic wine	Organic wine is wine produced from grapes that have been grown organically, often without the use of pesticides or other synthetic materials, and where the winemaking methods employed adhere to the rules and regulations of an organic certifying body'
2: Sustainably-produced wine	Despite no single legal or globally uniform definition for sustainably-produced wines, strong consumer opportunity for wines that are labelled as sustainable or can claim legitimate sustainable credentials; wine which has been produced in an environmentally-friendly way, from a carbon-neutral winery or one which uses grapes which have been grown in vineyards that strive to maintain the quality of the land and minimise chemical input. Various countries have certification bodies for sustainable wine growing
3: Fairtrade wine	Primarily associated with wine from South Africa and Argentina; lack of breadth of producers eligible for Fairtrade wine certification restricts category opportunity.
4: Environmentally-friendly wine	Environmentally-friendly wines which may not carry accredited endorsement, but must be credible.
5: Preservative-free wine	Wines that are perceived to be 'free-from' additives.
6: Sulphite-free wine	Wines to which no sulphites are added. These wines are increasingly highlighted to consumers. The legal definition for sulphite-free wine under both EU and USA law is a wine containing no more than 10 parts per million total sulphites and 5 parts per million free sulphites



7: Wine from a carbon-neutral winery	Strength of carbon-neutral wine positive, but not as strong as alternative sustainability accreditation, environmentally friendly of reduced additives.
8: Lower-alcohol wine	Reduced alcohol and calorie content wines.
9: Biodynamic wine	Wine developed from vines that have been stimulated through homeopathic means to avoid disease. Biodynamics occurs primarily in the vineyard before winemaking even happens. All the various tasks, from planting, pruning, to harvesting, are regulated by a special biodynamic calendar.
10: Orange / skin contact wine	Skins are not removed that left to ferment often resulting in an orange tint.
11: Vegan wine	Wine made without the interaction from animal products.
12: Non-alcoholic wine	As the name says, wine that contains no alcohol.

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