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BORDEAUX, March, 1978

VINTAGE AND MARKET REPORT

BORDEAUX

THE 1977 VINTAGE

Quantity

The 1977 Vintage produced:

1.29 million hectolitres of Appellation Contrôlée Red
0.15 million hectolitres of Consommation Courante Red
0.69 million hectolitres of Appellation Contrôlée White
0.36 million hectolitres of Consommation Courante White

The total production of 2.4 million hectolitres makes it the smallest crop for 20 years — when the 1956 frosts resulted in two consecutive crops each of which only just topped 2 million hectolitres. It represents 44% of what was produced in 1976 (admittedly a large crop) and perhaps more significantly only 60% of 1975 or 1971 which were both considered small. The average yield per hectare including consommation courante is 23 hectolitres to the hectare (about 1,200 bottles to the acre). The white wine crop was even smaller than 1956, and it is necessary to go back to 1945 to find a lower white production.

The small crop was primarily due to frost damage during the last days of March, followed by another cold period at Easter. Instead of welcoming the arrival of Spring with a plunge in the Bassin d'Arcachon or swimming pool the hardier members of the community were able to build snowmen in the Médoc on Easter Saturday — and this in an area where nobody can remember a white Christmas. As always the frost damage was localised but in places the budding vegetation was completely destroyed and many plots bore no grapes at all. The cold spring was followed by a three month period from May to September that was not quite able to distinguish itself as being both the coldest and wettest ever but since our records began in 1959 only 1972 and 1963 have been colder and only 1971 wetter. These conditions lead to outbreaks of mildew which took a further severe toll on those grapes which had survived the frost, thus reducing the crop even further.

Quality

Weather conditions until the end of June are only important in relation to quality in that they set the pace for maturation. Good spring weather leads to an early flowering which in turn leads to an early vintage, which is generally good for quality. Conversely a late flowering results in the grapes having to eke out from a weakening autumn sun those last calories essential to full maturity. Quality largely depends on the weather from July until the Vintage. The appalling weather in July did nothing to improve the morale of growers who had already lost a large proportion of their potential production, and who could only hope for the consolation of producing an exceptional quality. August was better in that the rainfall was only just above average but the temperature remained low and maturation was painfully slow. Then came a month of September which, though not the warmest, was the driest (1.2 millimetres) in the last 20 years, and second only to 1970 in hours of sunshine. Some rain early in October broke the spell but generally the vintage took place in good conditions. The grapes were healthy, with a miraculously reasonable sugar content and acidity on the high side but well below that of the infamous 1972s.

Not a year on which it is easy to pass an early judgment and in view of the negative climatic qualities of the summer perhaps it is not surprising that it is easier to see what they are not than what they are. They are not fat and neither are they fruity. Nor are they charming. But thanks to the healthy grapes and relatively high acidity they have a brilliant colour, are clean, lively and have a freshness which is not generally aggressive and which can only augur well for their future development. They presumably will discredit our cherished formula that the quality of a vintage is in inverse proportion to the total rainfall in August and September. If this were so the total in 1977 (67.7 millilitres) would place it directly after 1961 and 1962 in the hierarchy of the last 20 years. September no more than a swallow makes a summer, but in view of the totally negative conditions until September it could be an exception that goes a long way towards proving the rule. It is far from a "bad" vintage and could provide some remarkable surprises. Underprivileged as they appear they will provide healthy stock for those who need it – be they growers or merchants – but will have difficulty in claiming the attention of those who do not.

A good year for dry white wine. The relatively high fruit acidity gives them a clean freshness which makes up for a slight lack of ripeness and fat. As much technique is now being applied in Bordeaux to make white wine livelier and lighter than has been the practice in the past. 1977 provided conditions which were almost as positive from a quality standpoint as they were negative in relation to quantity.

Sauternes, pathetically, was one of the areas worst hit by the spring frosts. Normal permitted yield for the year was only 10 hectolitres to the hectare and the crop was only about 30% of that of a normal year. It is possible that some good wine was made and it is certain that no matter how good or bad it is it will be sold below production cost.

The Market

Red Bordeaux

A year ago we wrote of expanding sales, a tendency for prices to increase, the risks of a small crop and the impossibility for the C.I.V.B., acting within the principals of a free market economy, to prevent prices rising to regulate demand to supply. During the last twelve months demand continued to increase, a small crop has reduced supply to the lowest level since 1969 and this had led to price increases over twelve months of some 50% for red wine and 100% for white. As the pendulum swings the tendency for generic wine must now be for increased prices to slow sales until the demand/supply balance becomes more satisfactory. A few figures will illustrate the problem.

During the twelve months to 31 August 1977, 2,488,000 hectolitres of Red Bordeaux A.C. wine left growers' cellars (in 1975 the total of 1,670,000 constituted a record since the war) but in October 1977 only 1,294,000 hectolitres was produced to replace what had been sold.

After the 1974 crop with demand running at around 1.3 million hectolitres and two consecutive crops of an average of 2.3 million hectos, there were 47 months requirements available. After the 1977 crop supply has dropped to 21.6 months requirements. This sounds comfortable but it includes stocks of vintage Châteaux wine maturing in bottle. Taking alone the basic appellations of the group now known as "Bordeaux et Côtes" there is only 17 months stock (compared to 40 months after the 1974 vintage).

So the problem is a real one and not entirely in the imaginations of "greedy French growers at it yet again". There is no doubt that prices had to increase in order to adjust demand to the new restricted supply situation. Neither is there any doubt that current price levels will do this. If 1978 turns out to be an average red crop of about 2 million hectos, and demand during the current campaign is about 20% below that of the last, stocks at the beginning of 1978/79 campaign will be back to a more comfortable 27 months level. This is a minimum requirement to remove tension from the market. Now that Bordeaux Rouge is back to its traditional price level between those of Côtes du Rhône and Beaujolais – instead of being the cheapest of the three as it was last year – it is likely that at present price levels demand will, on the all important home market particularly, be cut by at least this amount. If in May/June the flowering goes well and sales have been effected by more than 20% or so it is possible that prices will ease. If the flowering is as

disastrous as that of 1977 it will need a cut of some 30% in demand to get stocks to the same level of 27 months.

After the wild price swings of recent years it does seem likely that in basic generic wines anyway a reasonably stable level is being found. Furthermore with the help of the statistics and funds now available through the C.I.V.B. the possibilities for the Bordeaux professional to avoid at least the more grotesque errors of the past have been greatly enhanced. The C.I.V.B.'s first attempt to control prices was a failure because it tried to do too much and to keep them in too tight a bracket. The new attitude is to say, for example, that the price of Bordeaux Rouge should be about FF 3,500 per tonneau, that if the price varies from this by more than 20% in either direction, the C.I.V.B. will veto the transaction and if in spite of this prices fall by a further 5%, it will finance stocks. Of course it will probably always be possible to find a way around the controls but the idea seems healthy that outside a bracket as wide as 40% it is necessary for the communal interest to be defended and inside that bracket it is up to the individual brand owners to look after themselves. As time goes on the system will no doubt be perfected but a bracket of 40% is sufficient for brand owners to back their skills and a serious attempt to create effective barriers to prevent prices going outside these limits should give them sufficient confidence to have an interest in creating and backing brands of Bordeaux.

Why attempt to control prices at all? Because it has become abundantly clear that the trade and consumers are very much more disturbed by constant changes in price than by the price level itself. Neither have confidence if prices move wildly, whereas if they do have confidence they are willing to pay a reasonable price for what they want.

With official costs of production now running at about Frs 13 000 per hectare and yield seldom higher than 5 tonneaux per hectare it is clear that if the market cannot absorb an average crop of Bordeaux Rouge at something over Frs 3 000 per tonneau everybody is wasting their time. It is also clear that even at Frs 3 500 growers who picked an average of only 2,5 tonneaux per hectare in 1977 are not going to cover their production costs.

All of this for basic "Bordeaux Rouge et Côtes", which represent some 60% of the Red Bordeaux production. At the other end of the scale the 5 – 10% which consists of the well known Châteaux reacts to separate market pressures. In Bordeaux there seems to be little stock available of vintages older than 1974, which have increased in value by a comfortable and rewarding 20% per annum since they came on the market. They are good wines at reasonable prices for those who are looking for wines to drink up to 1985 or so. Those who backed the 1974s did well financially and those who did not have missed the boat. They are now expensive but the best are worth it. At the same time 1976s have also been rewarding for those who bought early but are still readily available at prices only just higher than 1974s and well below 1975s. Some we believe will rival the 1975s and those interested in guaranteeing to themselves some happy drinking from 1984 onwards should not hesitate.

If this is the stock situation in Bordeaux it is more difficult to judge the stock position elsewhere. Most of the large blocks of stock seem to have been absorbed but it is also reported that institutional investors still have 1970s, 1971s and even some older vintages which will eventually find their way on to the market. So be it. It may well be easier to find the best value away from Bordeaux but wherever it is found there is a good supply of quality Bordeaux available at sensible prices.

Between the top Châteaux and the "Bordeaux et Côtes", petits Châteaux, generic Médoc and St. Emilion stretch to fill a large price and quality gap. Prices for generics are coming into the same price system as "Bordeaux et Côtes" but St. Emilion particularly is already straining at its upper limit. Even if the 1977s come on the market at somewhere below current levels it looks as though they will open at prices more than 70% above that of 1976s. This is almost certainly too high and if the flowering is anything like satisfactory we expect prices to ease in the early summer. Médoc is more reasonable but could also ease if the flowering goes well.

The total demand for Red Bordeaux has increased by some 85% in the last three years. This was only possible because three exceptionally large crops out of four, from 1973 to 1976, made a quantity of wine available that pushed prices down to a bargain level. Two

small crops out of the last three have now brought this situation to an end and prices have had to increase in order to reduce demand. Though bound to cause frustration to those whose marketing methods rely on power rather than flexibility, it is a fact of production in Bordeaux that quantity and quality vary considerably from one year to another. Anybody who wants to iron out these variations in order to provide a wine suitable for mass brand marketing has got to finance sufficient stock to avoid buying when there is a shortage and create an image strong enough to maintain a viable price structure when the market is flooded.

White Bordeaux

The market for Red Bordeaux wine is varied but can be defined. The extraordinary depth of statistical information available through the C.I.V.B. makes it possible to estimate with an increasing degree of accuracy the likely consumption pattern in a given availability situation and consequent price structure. The same cannot be said of the white wine production and this basically because it cannot be claimed that there is a market for White Bordeaux wine. The figures available are meaningless because the production of White Bordeaux is used more as a commodity than to fulfill a demand for the product itself. Until 1969 roughly 65% of the white production was declared as Appellation Contrôlée. From 1970 until 1976 the tendency has been for the majority of the crop to be sold without appellation, and this simply because growers were better off if they made ordinary wine. Of the crop made into A.C. wine an appreciable proportion is shipped to Germany where it is used for a number of purposes, of which satisfying a Teutonic thirst for Bordeaux Blanc is one of the least significant. If the European compensatory tax system did not make it advantageous for Germany to import their requirements with appellation, the proportion of production declared with A.C. would have been even lower than the 42% that it represented in 1976.

Nevertheless the white wine areas having been particularly badly hit by the frosts, a panic developed during the summer and it was forecast that the white crop would not be more than half of that of a normal year. Prices doubled and reached a level that made it worthwhile for growers to make A.C. wine. The result is that if indeed the total white production is only 42% of that of 1976, the appellation crop is 65% of that of the previous year, whereas the production without A.C. fell by 75%.

With prices no longer at dumping level the German market will presumably look elsewhere for their requirements of raw material so that the crop might well prove large enough to cover the remaining requirements of Appellation Contrôlée wines. Logically with prices having doubled demand could be expected to fall but it is also possible that once emerged and defined as a specific market, as opposed to part of a commodity product, that part of the production that is in fact a demand for White Bordeaux wine will support the higher price level and be unaffected. If that does happen it will at last be possible to talk of a definable market for White Bordeaux. It is worth remembering that Red Bordeaux was in a similar situation until the shortage resulting from the 1956 frosts. For 30 years Red Bordeaux has been in the doldrums. Nobody was interested in the wines, vineyards could be bought for a song and because it was not viable to make quality wine growers were declaring half of their production without A.C. Then the 1956 frosts reduced supply and this just at a time when North America was beginning to show a serious interest in red wine. Prices climbed, sometimes have got out of hand, but for the last 20 years the problems have largely been those of shortage rather than glut.

Even at today's price level White Bordeaux is the cheapest French A.C. wine available in any quantity, quality has improved considerably in recent years and in view of the white wine boom in North America particularly, it does seem possible that after years in the doldrums the timing could now be right for a breakthrough in demand for White Bordeaux. The C.I.V.B. is anyway preparing to make the most of the opportunity and will be spending a considerable sum of money over the next few years to make the consumer more aware of the availability and quality of White Bordeaux. Production reserves are considerable. As already mentioned it is difficult to estimate the real demand for White Bordeaux today but if it is somewhere around 500.000 hectolitres; it could be multiplied by four if a demand could be created at present price levels, which at last makes it viable for growers to make quality wines. The only error that we feel the C.I.V.B. might be making is to put all their immediate effort behind wines that are completely dry. Competition from other

areas of France is considerable in this category and none of those other areas are capable of making wine with 5 to 15 grams of sugar, which Bordeaux can do so well and for which there is a considerable demand in Anglo Saxon and Scandinavian markets particularly.

Bordeaux Conclusion

Demand for Red Bordeaux has peaked at a level which can only be maintained if Nature blesses the area annually with crops of 2.5 to 3 million hectolitres. As the 1977 production only reached half this level prices have had to increase to slow up demand. It is quite likely that prices have increased further than necessary to reduce demand to the level of current availability, but they have moved within the context of a proper functioning of an open market and not as a result of speculation by either growers or buyers. It is possible that prices will ease later in the year if prospects for the 1978 crop are satisfactory.

White Bordeaux finds itself in a similar position as Red Bordeaux twenty years ago, and is perhaps on the threshold of a similar breakthrough as the red wines enjoyed after the 1956 frosts. For the last 15 years White Bordeaux, having enjoyed greater prosperity than red through the 1950s, has been the Cinderella. Perhaps the 1977 frosts will be her pumpkin. It is only hoped that midnight will not sound with the first normal sized crop.

BURGUNDY

Beaujolais – Mâconnais

The total Beaujolais crop amounted to just under 1.1 million hectolitres. Not quite as large overall as the 1974 crop it was a record crop for the basic categories of Beaujolais and Beaujolais Villages and only a reduced declaration under the category of "Crus" kept this total some 100,000 hectolitres below an all time record. As is well known the "Nouveau" campaign got off to a rather shaky start but this was due partly to the late vintage and partly to the determination of Beaujolais shippers to exert a degree of discipline on this Annual Festival. As it turned out the ideal September weather worked the same miracle as in Bordeaux and once the malo-lactic fermentation was properly completed many of the wines are extremely pleasing. Inevitably in a year of high yield the quality is variable and nowhere near the consistent high level of 1976. Those growers whose yield was particularly high have produced wines which are light and acid, perhaps just acceptable for early local consumption but quite unsuitable for export. Generally it is necessary to go to the lower yielding hilly areas of Beaujolais Villages to find wine that has the substance required for export.

There is no slack in the Beaujolais supply position. Once again there was virtually no stock available at the property by the end of August and the market had easily absorbed the good sized high quality 1976 crop at record prices. The 1977 crop being 10% larger in quantity and less good in quality there was reason to hope that prices would ease, but instead they opened higher than a year ago. There is some justification for this in that although the total crop is larger there is certainly less quality wine available than last year. There seems little doubt that part of the crop which represents satisfactory quality will maintain its price level. It is possible that once the cream of the crop has been bought prices will ease for those wines which remain and whose only attraction is the fact that they can call themselves Beaujolais.

The fact that the Pouilly Fuissé crop is at 34,500 hectolitres, nearly 20% up on that of last year, has done nothing to dampen prices. No doubt the general shortage of white wines does something to explain, if not justify, this but it is extraordinary that it now costs as much, if not more, than Meursault. The quality is good, which is some consolation, but prices are well above opening levels of 1976. Those who were not at the front of the queue are having difficulty in finding enough to satisfy their anticipated requirements and until the American market shows some resistance it will continue to provide an excellent argument for those who claim that prices have little effect on demand.

It is surprising that it took so long for Mâcon Blanc to profit from the demand and shortage of Pouilly Fuissé but now, with opening prices double what they were two years ago, this seems to be happening. But all is relative and a good Mâcon Villages at a vineyard

price of one third for a Pouilly Fuissé still seems a good buy.

Côte d'Or

With a production of 286.241 hectolitres of Appellation Contrôlée wine 1977 produced nearly as much as 1976, more than the average of the last ten years (about 242.000) but considerably less than the bumper crop of 1973 (388.000). Showing a yield of just under 40 hectolitres to the hectare it is anyway a good sized crop. As in Beaujolais the quality is certainly less good and less regular than 1976 but equally certainly it is better than 1975. They have more guts than 1973 and perhaps will be closest to a judicious blend of 1972 and 1974. A useful vintage if not outstanding, in both quality and quantity.

1976 was of such rare quality that the high prices reached seemed justified. It is more difficult to understand why 1977s are opening at prices some 30% higher. True the Côte d'Or went through a period of relative 'glut' rather before Bordeaux. 1972 was a large crop, 1973 broke all records and 1970 too had been well above average. Three large crops out of four made plenty of wine available. 1974 and 1975 were both small crops producing only a little more between them than 1973 had produced alone. The quality of 1975 also having been disappointing stocks at shipper and merchant levels were low at the time of the 1976 crop. This was quickly absorbed because of its exceptional quality, so that perhaps little remains even at shipper level and the 1977s are therefore needed by both growers and shippers to reconstitute stocks. This is pure conjecture and the real difficulty is that the area constitutes a micro market where one large buyer (or a charity auction) can set the whole tone of the campaign. Although the number of growers has fallen by 25% in only ten years the averaged sized property is still under 1 hectare, (just over 2 acres). It would be interesting to know, and we will find out before our next vintage report, how many growers there are to share the total of some 120.000 cases made in, for example, Pommard last year. If the average of the Côte d'Or can be used there would be about 200, making an average of 600 cases each. In California such a "boutique" would sell its entire production "ex winery" to visitors. Increasingly this is also how Burgundy is being sold and it is anywhere clear that they are wines quite unsuitable for general or generic distribution. Wines at these high price levels need personal identification and if the quality is not there they should not have the haven of a "négociant's" label and collect a high price just because they come from a prestigious area. Without this facility there would be greater pressure to produce maximum quality and fine Burgundy would then be easier to find. It is extraordinary to what extent growers everywhere become more responsible when a wine is being sold with their name on the bottle as opposed to leaving their cellars anonymously in bulk.

There are good wines to be found on the Côte d'Or, prices are high but as they are equally high for less good wines the problem remains to find those worth the money.

Chablis

Chablis seems to have gone mad. After several years of disciplined common sense when the policy was to increase viability by planting more vines rather than repeating the errors of the early 60s when they priced themselves out of the market, things started to crack last year and this year have exploded. Prices have opened at double those of 1976, which were nearly double those of 1975. It is easy to understand such price movements if growers have a small stock and for one reason or another would rather keep it than sell it. But the 1977 crop in Chablis was not particularly small in general — though it was insignificantly for Petit Chablis of which only 1.856 hectolitres were made (8.387 in 1976). That is a total production of 20.000 cases of Petit Chablis to fulfill the world's requirements. But in those areas less vulnerable to and better protected from frosts the crop was reasonable to good. In fact the 16.958 hectos of Chablis ler Cru constitutes a record. Grand Cru at 4.147 hectos was only just behind the record of 1976 and 26.466 hectos of Chablis was a reasonable average. The total was 20% down on the 1976 crop, which had been a record. The immediate reason for the high prices was the standard one of not wanting to sell below one's neighbour. Those growers who sold early last year, at what then seemed high prices, were chastened (and no doubt chastised by their lady treasurer wives) when they found their neighbours selling at 50% higher only a few months later. They were not going to be caught again. But there seem to be more complex politico-commercial reasons as well and ultimately it will be with hindsight that we will know whether the hand justified the bid. The wines have a high acidity and cannot be used commercially until they have been

through their malo-lactic fermentation. This in many cases will not be achieved until the spring – and by then it will only be two months to the next flowering and six months from the 1978 vintage. Whoever finds themselves holding a stock at that stage could regret it. But then again it has only brought the price of Chablis to that of Pouilly Fuissé and if there are people willing to pay so much for one perhaps they will pay as much for the other.

Rhône

The crop of Côtes du Rhône amounted to 1.349.000 hectolitres. Not as much as the record breaking 1976 crop but on a par with 1973, which holds second place. It is not easy to find wines above 12.5° but with this reservation it is a year of high quality. The colour is usually excellent, fruit sometimes tends to be lacking but it is not difficult to find complete pleasing wines which will find a ready market.

In view of the high prices and the fact that Bordeaux Rouge was cheaper than Côtes du Rhône during last year the area has a remarkably successful campaign. Sales for the year ending 30 August 1977 were in fact 10% down on the previous twelve months but even then the large crop only just replaced what had been sold. As we anticipated twelve months ago the large crop lead to an easing of prices but they are now below the level of Bordeaux Rouge and we do not anticipate any further drop. There was only four months stock available at growers cellars at the end of August and it seems unlikely that there will be more than six months requirements at the end of August 1978. If the crop is anything but large it will require at least that to keep prices down to their present level during the next campaign.

Châteauneuf du Pape also had a successful campaign during 1976/77, and with total sales of over 100.000 hectolitres broke all records for either sales or production. In other words the area never produced in a single year as much as it sold last year. The only answer to this is for prices to rise, and that they have done by some 50% since a year ago. The crop produced 86.466 hectolitres, there was a stock at the grower level of 87.248 hectos at the end of August (the lowest in 4 years) and this equals just over 20 months requirements at last year's rate of sales. Again, a fine balance, one small crop could cause a minor panic and even if sales do fall slightly at the increased price level there seems no reason for growers to lower their sights.

CONCLUSION

The quality of the 1977 vintage is much better than anybody had dared hoped as late as the end of August. In size it is very small in Bordeaux, Petit Chablis and parts of the Loire but average to large elsewhere.

Consumption for Appellation Contrôlée wine is such today that a single small crop creates an imbalance between demand and supply which inevitably leads to an increase in price. Sometimes this market movement overcompensates and this might well prove to be the position today in Bordeaux, Chablis and possibly Châteauneuf du Pape – but only if there is not another small crop in 1978! Probably the trade will avoid the errors of the last supply crisis which resulted from the small crops of 1971 and 1972. Price increases will be passed on more quickly, demand reduced at the consumer level for those wines in short supply and stocks kept to a minimum. This will not be achieved without the usual resentment but reducing the demand through price increases still seems the only way of solving the situation where demand is larger than supply. As we have pointed out in the past there are two fundamental problems in the French wine business:

- 1 Demand for Appellation Contrôlée wines is increasing and supply cannot keep up.
2. The size and lack of flexibility of modern distribution units makes it difficult for them to adjust to the vagaries of the fine wine market and there is no way in which fine wine can be produced to satisfy their requirements of constant availability at stable prices.

It seems likely that these problems will be solved by the large distribution groups becoming

aware that there is an increasing quantity of quality wine available without appellation from the Midi and that producers there can, with help and guidance, supply quality wines at reasonable, stable prices. They need help in marketing and their production is the perfect partner for the mass distributors for which the large groups cater. Fine individual wines must also have a future and their natural partners are the specialists who can act quickly and have sufficiently close contact with the consumers to be able to guide them to the best value in an ever changing situation. In the first case the product must be adapted to suit the market but in the second a suitable distribution method must exist to suit the product.

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