

# VINTAGE AND MARKET REPORT

## THE 1998 VINTAGE

### THE QUANTITY

	<u>1998</u>	<u>1997</u>
Production in thousand hectolitres		
Appellation Contrôlée Red	5.695	5.749
Appellation Contrôlée White	884	934
Vin de table Red	31	33
Vin de table White	52	70
Number of growers	12.449	12.752

The total volume entitled to AOC status in 1998 amounts to 6.579 million hectolitres which is 2% down on the all time record of 1997 and very close to 1995. The last four vintages '95 to '98 were the largest crops of red AOC wines ever. Ignoring the exceptionally low production of 1991 which followed severe spring frost, the average red AOC crop from 1989 to 1994 was 4.896 million hectolitres; it grew by 14% from 1995 to 1998. The production of AOC whites continues its downward trend, representing only 13% of total AOC volumes. This is the lowest proportion ever.

The total planted area under AOC production amounts to 113.341 hectares. This has remained stable since 1994 but white AOC vines have lost a further 1.000 hectares to the benefit of red varieties. The remaining 17.221 hectares of white (of which 4.500 hectares produce sweet wines) now represent 15% of the total planted area.

The other relentless downward trend is the reduction in the number of independent growers and consequently the increase in the average property size. Thirty five years ago there were 47.000 growers owning on average 2.5 hectares each. Today the average property size has increased to 9 hectares.

Production of vin de table has dropped by a further 20.000 hectolitres (-20%) and is sufficiently insignificant not to be worth another mention.

### THE WEATHER

The main characteristics of the 1998 vintage can be summarised as follows:

    Good, even, uninterrupted flowering cycle.

    Very dry, sunny July and August, registering high temperatures reaching 38°C.

    Intense ripening up to late August leading to a high level of concentration, thick skins, high levels of anthocyanins, tannins and sugar.

    Heavy rain from early September right through to mid October.

December '97 to March '98 was quite sunny, the tail end of the winter was also very dry. The traditional "giboullées de Mars", the violent short lived but frequent rain storms, did not actually hit Bordeaux until April, when it rained over twice as much as normal (170mm against a 68mm 30 year average). May was very sunny, warm and exceptionally dry with only 14mm of rain (1997:144mm, 1996: 86mm, 1995: 66mm).

Merlot began flowering around 25<sup>th</sup> of May, Cabernet Sauvignon some 5 days later. Exact dates will vary slightly according to the precise location. “Mi-floraison”, the half way stage used as a standard reference point, was reached around 4<sup>th</sup> June. This was one week earlier than the mid June average but 10 days late on the exceptionally early 1997 vintage. The dry, warm weather provided perfect conditions for good pollination and fertilisation; the flowering was quick and even. Very few incidents of coulure or millerandage were reported.

After a meteorologically normal June, the months of July and August were very dry and sunny totalling 515 hours of sunshine (410hrs in 1997, 401hrs in 1996, 432hrs in 1995), with only 58mm of rain (153mm in 1997, 212mm in 1996, 66mm in 1995). July and August were also hot, totalling 27 hot days (max temperature between 25°C and 30°C) and 19 very hot days (max temperature greater than 30°C).

Veraison, the second most decisive stage, was over in a very satisfactory 2 weeks, having begun around 1<sup>st</sup> August. Again the process was even and quick with no significant difficulty – the mirror image of the flowering. This is in stark contrast with 1997 when the ripening process was very patchy and remained incomplete, often right up to the picking stage.

By mid August a unanimous feeling of excitement mixed with trepidation was beginning to emerge. Cautious optimism and prudent expectation left most growers hoping for a truly exceptional vintage.

In some areas, however, the vines were beginning to suffer. 1998 illustrates once again what a fine balance is required for the vine to produce the magical nectar we thrive for each year. In many areas vine growth stopped early and the little remaining vitality in the plants was directed towards the fruit. This concentrated even further the small tight berries and prevented them growing in size. Yields were going to be low.

In other areas, grapes were showing signs of burning up. On the poorer, gravelly soils, the natural protection had been largely eroded. There were two reasons for this. The first, intentional removal of foliage to maximise the photosynthesis process. The second was due to the heat of the sun associated with the lack of water. Leaves turned brown and crispy then fell off, letting the rays of the sun attack the grape. Stones on gravelly soils accentuated the phenomenon by radiating the heat back towards the grapes. In most years this contributes to sustaining the ripening process, but in 1998 it sometimes proved excessive.

Combined rainfall for September and October amounted to a hefty 298mm (1997:57mm, 1996:157mm). From mid September there were only a few dry days to be had. Luckily, night time temperatures were cool and sometimes cold which kept rot at bay.

Picking of Sauvignon Blanc began in some very precocious vineyards on 31<sup>st</sup> August but more widely around 15<sup>th</sup> September. For the reds, Merlot was picked from 25<sup>th</sup> September. The dry whites and the Merlot did not suffer from the rain and probably even benefited slightly as the first drops of rain and the cooler temperatures soothed the vines back to life. The start of Cabernet Sauvignon picking was anywhere between 1<sup>st</sup> and 12<sup>th</sup> October, depending on each grower's expectations. Each plot being carefully monitored to follow sugar and acidity levels, potential rot development and expected rain forecasts.

Many properties also faced manpower problems, as hand pickers abandoned the fields finding conditions too unbearable.

## THE WINES

The fact that Merlot was picked before adverse weather conditions could spoil the healthy crop and that Cabernet Sauvignon was picked in the rain led many to believe that 1998 was a Merlot year. Only exhaustive tasting will tell, but these early impressions need to be moderated. Merlot must not be allowed to over ripen. Waiting beyond the optimum maturity date often causes loss of fruit and structure, as well as restricting ageing capacity. In some instances this critical period can be as short as 3 to 4 days. Cabernet Sauvignon is rather less critical, the optimum picking period can easily spread over 8 to 15 days and hardly ever reaches stages of over-maturity.

The 1998 vintage has produced some very generous, deep coloured, fruity, forward Merlot. But these flattering characteristics will not have been obtained universally. Poor soils or late picking will have made the winemaker's job much more delicate. Cabernet Sauvignon on the other hand, whilst less opulent, shows fabulous balance, length and structure. Here, again, excellence is by no means systematic. Any vines bearing too much fruit will have prevented the grapes from reaching full maturity. In the best instances, however, the two varieties will be perfectly complementary and combine into a deliciously rich, plentiful wine.

If one is trying to find reference points for the 1998 vintage, it is probably wrong to base judgement solely on the grape varieties. It would probably be more accurate to categorise according to the type of soil and differentiate poor soils from rich soils. The severe drought in July and August had a very significant impact on vines feeding on the poor, gravelly soils of southern Médoc and northern Graves areas. Heavier, richer soils retained enough moisture from the April and June rains to keep the vines comfortable enough throughout the summer's scorching temperatures. Vineyard inspection showed leaves turning brown, drying out and eventually dropping off while in other areas they maintained their rich green colour.

In terms of winemaking, 1998 seems to have provided the right circumstances for justifying the use of « water extractors ». When every other element was leading towards a truly exceptional vintage, the small, dense, grapes, with thick skins risked drowning in rain whilst waiting to reach full maturity. In these conditions, when used only on ripe, healthy grapes, it has been shown possible to remove excess water without seemingly undermining in any way the character or balance of the wine in any way.

These new, ever more sophisticated « concentrators » which were first put into service some 10 to 12 years ago are now finding homes in cellars throughout the Bordeaux region. At a unit cost of around 1 million francs, chateaux think hard before deciding on their acquisition. Around 15 to 20 chateaux were using them up to 1997 but this figure is growing rapidly. A local distributor confided he had installed 11 of these machines for the 1998 vintage and had orders for another 30 start-ups in the coming year. There is a fair amount of secrecy surrounding the use of these machines; not all users are totally comfortable with admitting they have one.

Some fundamental questioning needs to be addressed to this technique. The allowed yield of say 50 hectolitres per hectare (measured after vinification), translates into approximately 6.5 metric tons of grapes. Consequently, it is now possible to push the vine to say 8 tons per hectare, shove the whole lot through the wonder evaporator, turn the dial to -20%, end up with grape juice concentrate (turn the dial to -80% for jam) and still comply with legislation. Of course, the INAO tastings would eliminate any wine which wasn't a true representation of Bordeaux terroir. Nevertheless, increased yields inevitably lead to a less complete expression of the terroir's character.

Dry white wines, especially Sauvignon, will almost certainly be very good in 1998 and should be at least on par with 1996, perhaps even better. The best made wines are full bodied, very aromatic, with good balance and complexity, giving them the capacity to be very good indeed.

Sweet white wines are showing great concentration, which may even seem excessive in early tastings, but they will no doubt benefit from a few years ageing and mellow out. The September weather conditions did not hinder the development of Botrytis, the wines are clean, aromatic, very rich and of great quality.

## THE MARKET

1998 could have been catastrophic. It was, in fact, euphoric. Nevertheless, it will be remembered for sustained price increases, a lot of criticism and ill feelings, together with accusations of greed, disrespect and even dishonesty. Several very spectacular incidents have peppered media coverage in the past year (Giscours, the en primeur campaign, the price increases, Pentachlorophenols) giving out very negative views. Bordeaux has come under severe attack, sometimes quite justifiably, other times less so. It could even be asked what shielded Bordeaux from all this adverse publicity and bad press. In truth, the damage has been done but is not yet showing. Why are heads not rolling? Firstly, because nobody is responsible and secondly, because there is still time to come good.

French exports of wine and spirits amounted to 45 billion francs (equivalent to 125 Airbuses or 600 TGV trains), this represented an 8% increase on 1997 which was itself an all time record. Of this, 10.8 billion francs come from spirits (-11%). Exports of French wines are up by 15% in value and 7% in volume. Bordeaux exports amounted to 8.3 billion francs (up 14% in value and 3.3% in volume), leaving the home market to absorb the remaining 60% of volumes sold. 15 years ago, 44% of Bordeaux wines were exported. This proportion dropped every year until 1993 when it bottomed out at 33% and the trend was reversed. Today's context suggests the rate of exports is likely to increase.

The main export destinations for Bordeaux wines are the following:

	<u>Value in</u> <u>Thousands FRF</u>	<u>% change</u> <u>over 1997</u>	<u>Volume</u> <u>in hectos</u>	<u>% change</u> <u>over 1997</u>
Japan	1.237.512	+105%	272.589	+125%
Germany	1.179.056	+ 19%	471.537	+ 7%
Benelux	1.149.340	+ 21%	394.922	+ 8%
United Kingdom	1.073.378	+ 16%	369.471	- 1%
USA	895.167	+ 29%	149.676	+ 6%
Switzerland	688.371	+ 18%	106.176	+ 2%
Netherlands	479.485	+ 13%	233.963	- 3%
Denmark	395.334	+ 1%	144.503	- 10%
Canada	248.408	+ 41%	71.394	+ 13%
Hong-Kong	112.647	- 60%	24.217	- 58%

During the early part of the year, sustained demand in all mature markets was further pressurised by the explosion of shipments to Japan which more than doubled from 1997 to 1998. In 1998, Japan was Bordeaux's N°1 export market in terms of value. The increase in volumes shipped to Japan only represents 2.5% of the total Bordeaux production. Combined with strong demand from all main markets worldwide, this is enough to push up prices considerably.

AOC Bordeaux Rouge represents 43% of the total Bordeaux production of red AOC wine, making it's bulk price a reliable barometer to measure the mood of the Bordeaux marketplace. The 1995's began at 7.300frs a tonneau creeping up to 7.800frs and ending up at an average price of 7.400frs. The 1996's began at a similar level but reached 9.000frs in December '97. The 1997 vintage was awaited with great anticipation, not so much for quality reasons but because stocks were too low to supply the ever increasing level of demand.

1997 generic Bordeaux rouge started at 8.000frs per tonneau rapidly pushing its way up to 10.000frs and reaching an unbelievable peak of 13.000frs in June 1998.(the average price over the campaign was 10.200frs). This inflationary mood contaminated the whole market with no obvious remedy. Few growers can objectively justify continuing to sell at, say, 8.500frs when their neighbours are selling at 10.000frs and a potential buyer is offering 11.000frs. Realising that the only way of containing the market was to reduce demand, an attempt was initiated by the négociants who collectively agreed to stop buying. This only lasted a couple of weeks. Purchasing had to be resumed as order books kept filling up and stocks were running low. In fact, the Bordeaux Market is so diverse, so professional, so efficient, so large and so important that it is impossible to control; it has to be left to the laws of supply and demand.

During the early part of the year, price increases were beginning to pull through to distributors but had not yet reached consumers. The négociants, importers and distributors all attempted to dampen the effect of price increases, firstly because it was hoped the market would eventually stabilise at a reasonable level and secondly because no salesman wants to destabilise his customer base. The consumer kept drinking and kept buying, thus perpetuating the vicious circle.

The home market began strongly but significant decreases in volumes sold through French supermarkets were noted from September 1998. As this is the shortest distribution chain this is where price increases were passed on to the consumer most rapidly. It is also one of the most price sensitive markets for Bordeaux wines. The reaction was immediate. From September volumes sold dropped by 12 to 15%, to finish the year at a level which set 1998 approximately 10% lower than 1997. This may not seem cataclysmic but, as noted above, the point of equilibrium is very sensitive indeed. In fact, in early 1999, performance in this sector is actually 15-20% lower than in January / February 1998.

To get an overall perspective, the following figures, all based on volumes, speak for themselves. Of Bordeaux wines destined for the home market, 45% are sold through supermarket and hypermarket chains. A drop of 20% in sales of French supermarket distribution is equivalent to the whole of the UK market being completely wiped out overnight.

Today, the Bordeaux marketplace is moving slowly. Over the October 1998 to February 1999 period, purchasing transactions by négociants recorded through "la place de Bordeaux" remained very low. Transactions in volumes at the top end of the Grands Crus market are 90% down on 1998 but prices remain firm. The pattern for Bordeaux bulk wine is similar, though not as extensive. During the period 1<sup>st</sup> October 1997 to 31<sup>st</sup> January 1998, a total volume of 1.622.962hls was sold in bulk through the Bordeaux market place. For the same period ending January 1999, it stands 48% down at 850.615hls. For the sake of completeness it is worth mentioning that for the 4 months ending 31<sup>st</sup> January 1997, bulk transactions amounted to 1.510.888hos.

All this shows that négociants are being more prudent, presumably because they feel their current stock levels are sufficient (or in some cases excessive) to meet their expected sales. This is good and will contribute to the stabilising of prices.

What is the right price for Bordeaux ? Is the current bulk price of 9.500frs a tonneau (900 litres) sustainable? Certainly Bordeaux must pull away from the basic “commodity” reference point it has often become in many mature markets, whether France, the UK or Germany. AOC Bordeaux at 10 francs a bottle on the French supermarket shelves should no longer exist. Bordeaux should not be fighting the competition on price points but should develop quality, authenticity and expression of its unique terroir. A bulk price of 7.500 a tonneau makes it difficult for the grower to invest in quality. Having lived through 1998, it appears that 9.500frs would be an acceptable price to pay for decent AOC Bordeaux red. At that price the grower can invest in quality, the distribution chain can earn a living and provide a good service and the consumer can still afford to drink a very nice bottle of wine.

Moving on to the Grands Crus market (3-5% of volumes), the 1997 en primeur campaign generated, not surprisingly, an awful lot of bad feeling. The price increases were ludicrous. Severe price hikes began with the 1996 vintage. Grand Crus positioned their selling price, 25-30% higher than for 1995. Many, however, went far beyond this and reached 80%(Angelus), 95%(Pichon Contesse), 113%(Ducru Beaucaillou) and even 123%(Léoville Las Cases). The average release price increase of the 1997 over the 1996 was a further 10-15%, but those chateaux who got left behind on the 1996 and retrospectively felt they could have asked more for their wine, attempted to make up for lost ground; 29% (Angelus, what lost ground?), 31% (Gruand Larose and Coutet), 55% (Monbousquet and L’Eglise Clinet), 66%(Cheval Blanc), 76%(Palmer)! When it is widely acknowledged that 1997 was of lower quality than 1995 and 1996, it is difficult to accept the doubling of opening prices from 1995 to 1997 for many of the best known châteaux.

The result of the 1997 primeur campaign appears to be very consistent throughout the Bordeaux wine-microcosm. The same echo keeps coming back; most châteaux sold all they wanted to the négociants but very few consumers followed at the other end. Today stocks are stuck in the distribution chain and prospects of selling them at a profit are virtually non existent. Even selling them at a loss, it is likely to take time. For distributors, it has been an expensive failure. Some find themselves in very tight financial situations and may not live through the year without major rescue plans.

So how can an entire profession adopt such a reckless attitude?

Picture the situation: the launch of the 1996 vintage. Château A faced with high demand, low stocks and a buoyant market decides to put up the price of its wine by 50% to 300frs. The whole distribution chain sends out strong worded comments about how inadmissible the situation has become but buys whatever has been offered and asks for more. Very quickly speculative purchases and resales on the Bordeaux market push up prices even further. Château A soon sees that the bottle he sold for 300frs is now offered on the market at 400frs, then 450frs and later at 500frs. He can’t tell whether anyone is actually buying at the quoted price but assumes they are as the price keeps going up. When 1997 comes along, the owner of château A decides to be reasonable (as the vintage suffers from less good press) and start at 350frs. The trade goes beserk but they did the year before when nobody could get enough. Why should he give more credence to the same arguments this year? The answer, of course, lies in the error of extrapolating marginal transactions to analyse a general situation. A few cases were sold at amazingly high prices. The 95s and 96s are excellent wines and wine fanatics were willing to pay enormous premiums to get hold of a few cases, but these remain marginal transactions.

The Bordeaux market place is truly an amazingly efficient structure and very well suited to the distribution of Bordeaux wines. The problem is that nobody controls the overall picture. There is virtually no vertical organisation of distribution, whereby a producer can follow the supply chain through to the end consumer. Even those large corporations who have the size, expertise and power to do so, choose not to, believing it is best to let market forces work to their fullest. The

consequence is a lack of sensitivity and reactivity to market feedback. Because chateaux do not react quickly enough and adjust to swings in the market, ups and downs come with greater amplitude.

If horizontal market fragmentation makes it difficult for château owners to obtain suitable feedback, it is not the case of the négociants who should be in a position to feel what the market is able to accept. So why did the négociants buy when the vintage was so obviously overpriced? Longstanding professionals knew the wine was overpriced but nobody was sure it wouldn't sell. And what would happen if they refused to buy a reputed wine and fellow négociants managed to flog the lot? Well our, by now, ex distributor would find himself cut out of future allocations. "If in doubt, better follow the flock" must have been the wise words guiding many some 10 months ago.

The 1997 en primeur could well have been a catastrophe. Lack of sales, poor press reports, general criticism of Bordeaux, pressure from shareholders, directors and partners to justify the purchase of '97 Bordeaux en primeur, the financial strain, the growing evidence that almost everyone would loose money could have led to a massive world-wide move towards the re-negotiation of en primeur orders, whether it be in volume or in price, with the threat of not paying for what had been ordered. As it is, there have been no serious reports of order cancellations.

What about 1998?

Well we are all 10 months older. Unfortunately we are not necessarily 10 months wiser. The whole question of 1998 price fixing is the main preoccupation but encouragingly it seems all distributors are sending out the same message; the price for the 1998's must be significantly lower than the 1997s (it seems a 20 to 30% drop would meet expectations).

Everyone is hoping châteaux will heed the distributor's plea and reduce the opening prices of the '98s. This is the only way to return to the dynamics of the en primeur market. Indeed, there are few who able to risk financing stocks of 1998 as well as the unsold 1997s. Of course, selling 1998 for less than 1997s, will not help the distribution of the latter, but there seems to be little alternative.

Older members of the Bordeaux trade often refer to the Bordeaux "ten year cycle", illustrating the fact that Bordeaux never learns and that the same mistakes are repeated. Every period is analysed differently, different circumstances in vintage quality and economic situations make comparisons difficult but maybe it is inherent to the fragmentation of ownership which means every proprietor measures himself against his fellow proprietors. What is interesting here is that the only possible element of objective comparison is the price of the wine and published tasting notes. All other parameters, profitability, stock levels, customer satisfaction, re-ordering levels, stability and regularity of demand remain unavailable and therefore do not come into the equation.

The move towards better quality is the only way forward. For many years now there has been a committed move towards quality improvement. Only a few years ago the INAO response was that Bordeaux AOC status cannot be considered to be a guarantee of quality, it is a guarantee of origin and authenticity. Nobody would dare present that as a defensive argument anymore. The new "contrôle aval de la qualité" measures taken by the CIVB are a step forward. It is of course a very sensitive subject, added to which, the subjectivity of any judgement can discredit any hasty conclusion. Nevertheless the intention has been clearly announced and that alone should help the trend towards quality.

There is no doubt that growers today find themselves in a reasonably comfortable financial situation and the most dynamic, forward thinking are using this welcome cash to invest in new equipment and buy more vineyards. There is a growing concentration in the ownership of vines and even further concentration in winemakers. Some very ambitious and successful growers are finding their

place, buying out smaller growers who now find their plot is now so valuable it would be a shame not to take up the opportunity of selling. As a result the price of a hectare of AOC Bordeaux Rouge which was valued at around 180.000frs 3 years ago, now sells for 350.000frs. The average property size of 9 hectares is probably still too small especially for the less “noble” appellations. Properties of 30 to 40 hectares really can justify investing in modern equipment and skilled staff which undoubtedly contributes to producing excellent wines on a more regular basis.

## **Conclusion**

New heights were reached in 1998, whether in terms of prices or volumes shipped. It has been the continuation of sustained demand felt in Bordeaux since mid 1996. Back then, stocks were sufficient to supply the international market with just about anything desired. Gradually stocks have come down and consequently prices have been pushed upwards.

The increased level of interest in wine on a world-wide basis means new points of equilibrium will have to be found. Much work has been done over recent years to improve the quality of Bordeaux wines. The success of the ‘95 and ‘96 vintages have provided the financial backing for growers to do so. Bordeaux as a commodity, whether through French supermarkets or discounters abroad, must disappear. Bordeaux should not be seeking to fight a desperate battle to safeguard its market share since the advent of more quality wines from other winemaking countries will logically lead Bordeaux to represent a lower proportion of all wines consumed. Rather, Bordeaux needs to protect its image and identity. To do that it must not accept a head on confrontation with New World wines and try to imitate their attractive, easy, fruit driven richness. Instead, Bordeaux must stick to authenticity, structure, balance, finesse and complexity of aromas. Wine critics who judge Bordeaux against New World wines and only appreciate “New World inspired” clarets are clearly on the wrong track

Anyone predicting catastrophic scenarios for the future of Bordeaux will probably be wrong. Bordeaux is sometimes criticised for doing little promotion, being outdated, losing ground, resting on its laurels. In truth, Bordeaux is not burying its head in the sand or resting on its laurels. Many motivated growers are investing in quality and producing remarkable wines. There is still plenty of scope for improvement, but that is what makes the business so exciting.

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