



VINTAGE AND MARKET REPORT

THE 2002 VINTAGE

Introduction

In this first half of 2003, the general economic climate has been particularly unsettled. The general slowdown in economic growth, the threat of recession, the collapse of stock exchange prices across the world, the strength of the Euro, the recent war against Iraq and political tensions across the Atlantic, have all contributed to a general feeling of gloom for the coming months.

Looking beyond the clouds on the immediate horizon, however, the medium term prospects for the Bordeaux wine industry are excellent. 2002 was a good vintage and thanks to the competition posed by the tremendous success of New World wines, Bordeaux is preparing for the future by providing wines of unparalleled quality, diversity and elegance with the firm intention of winning back its reputation as the world's most reliable producer of premium quality wines.

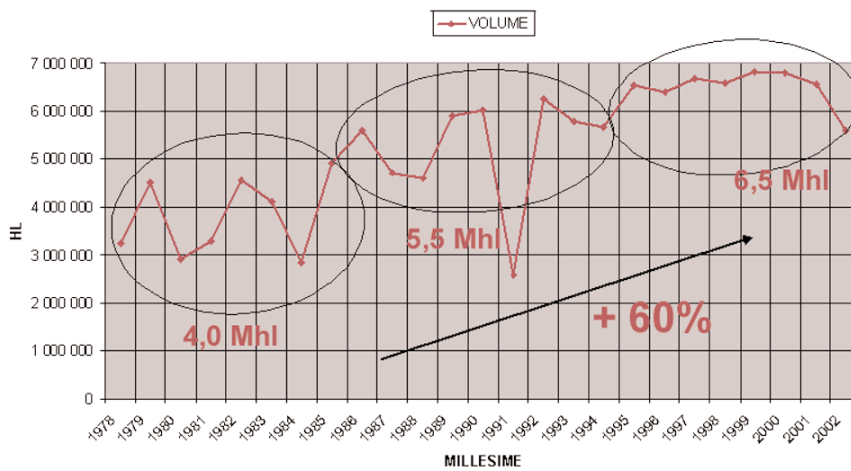
VOLUMES

	2002	2001	2000	1999	1998
<i>Production in thousands of hectolitres</i>					
Appellation Contrôlée red	4,945	5,859	5,989	5,928	5,695
Appellation Contrôlée white	632	701	816	879	884
Vin de table red	10	20	20	21	31
Vin de table white	10	18	21	28	52
Wines sent for distillation	123	182	259	593	246
Total	5,720	6,780	7,105	7,449	6,908
Number of growers	TBA	11,433	11,760	12,052	12,455
Planted area (in hectares)	119,149	118,424	116,902	115,109	113,384
Average AOC yield (hectolitres per hectare)	47,83	56,9	60,4	64,3	60,2

Note: Average AOC yield calculated as: (AOC volumes produced + volumes sent for distillation) / planted AOC area.

Due to updating as final figures are published, the figures given above may differ slightly from those given in previous Vintage and Market Reports. Discrepancies are minor.

Despite the slight increase in planted area, the 2002 vintage saw an overall drop of 15% in volume of wine produced. Total production is the lowest for 7 years, as illustrated by the chart below, showing volumes of AOC red wines from the Gironde over the last 25 years.



Over the last 15 years, average annual production has increased by 60%. It is noticeable that volumes are much more stable and vary much less from year to year than previously.

THE WEATHER

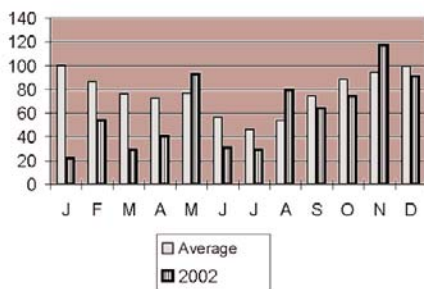
The main characteristics can be summarised as follows:

- a very dry year with much less rain than usual, except for May and August.
- very poor flowering conditions in early June, due to rain and low temperatures.
- a cloudy and overcast summer although average temperatures were above the norm throughout the year.
- extraordinary weather during the harvest. A very sunny and very dry September and October, which literally saved the vintage.

The schedules below show weather readings taken at Mérignac Weather Centre for 2002 compared with the 30-year average. Credit CIVB documentation department.

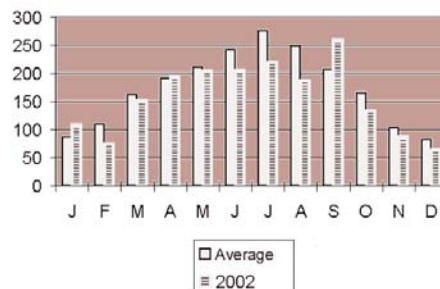
Rainfall in mm

Figures for 2002 compared with the average for the past 30 years



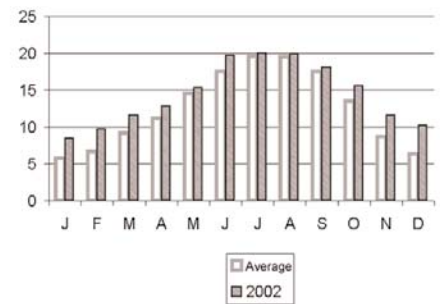
Hours of Sunshine

Figures for 2002 compared with the average for the past 30 years



Average Temperature

Figures for 2002 compared with the average for the past 30 years



Very little rain fell after October 2001 and the winter was exceedingly dry, reminiscent of '88/'89. Generally spring was warm but there were wild temperature fluctuations from one day to the next. By April generous bunch setting was setting the scene for another large to very large harvest. May was very wet and so was the flowering season in the early part of June, when the vine needs a clement, dry, sunny two-week spell to ensure good pollination to transform flower into fruit. As the tiny flower caps fall off, the stamen is exposed, hence allowing cross-pollination. Instead, the cold temperatures prolonged the development process and water on the nascent fruit kept the flower caps in place, preventing completion of the pollination process.

The situation varies enormously from vineyard to vineyard according to their flowering periods. Earlier ripening terroirs such as Margaux are usually considered to be privileged as they benefit from an increased chance of harvesting before autumn rains. This year however, it proved to be a hindrance as flowering coincided precisely with the rain and cold temperatures of the first few days of June. Later maturing vineyards which benefited from drier and warmer weather from 12th June were less affected.

Merlot grapes are much more susceptible to coulure (no pollination) than Cabernet Sauvignon and old vines usually suffer more than younger ones.

Whereas coulure leads to the complete loss of fruit, its only potential negative impact is to reduce quantities produced. Millérandage (incomplete pollination) on the other hand, allows the grape to form but not to develop and ripen. The grape remains green and can therefore affect the quality of the wine if these acidic, green, herbaceous grapes are not removed before crushing. The effects of coulure and millérandage in 2002 led to a 20% drop in yields. Normally speaking, this would have been highly regrettable. 2002, however, was an extraordinary year and later in the autumn the drop in yield proved to be a blessing in disguise.

Most holidaymakers will remember 2002 as being wet and dreary. In fact, rainfall was not much higher than normal (July and August saw 108mm of rain against a normal 100mm, which is much less than the 148 mm in '99 and 206mm in '96). The lack of sunshine, however was a headache for the tourist trade. For winegrowers the deficiency was so serious that the vintage was virtually written off. In the three months from June to August, Bordeaux normally has a total of 767 hours of sunshine; in 2002 there were only 611 hours - a 20% shortfall.

Growers were worried. They hadn't seen such an overcast month of August since 1979 and in some places, because of heavy rain storms around 20th August, the grapes swelled and split, allowing rot to set in. Although no one openly gave up hope, it seemed improbable that the remaining 5 to 6 weeks to picking would see good enough weather to overturn the situation.

Then came the unexpected...

From 9th September there was a radical weather change. Grey skies gave way to bright sunshine, with 259 hours of sun compared to a monthly average of 207 hours. In recent years only September 1985 was as sunny, with 268 hours of sun.

A dry north-easterly wind dried off the rot which had begun to appear, allowing hail-damaged grapes to heal and dry out. Temperatures were warm during the day, which accelerated maturation, and cold at night, preventing the appearance of unwanted grey rot and contributing to the development of much sought-after complexity.

The gentle but persistent wind reduced volumes by evaporation. As regional journalist, Didier Ters pointed out in an article for Sud-Ouest on 8th October, between 15th September and 1st October, the grapes lost 15% of their weight, representing a daily loss of 2g per 100 grapes. Over the area of a hectare this represents up to half a hectolitre and taken over the entire Bordeaux vineyard, this could represent a daily loss of 60,000 hectolitres. To put this in perspective, the daily consumption of Bordeaux wines across the world amounts to 16,000 hectolitres!

In the middle of this drying out period, on 20th September very violent storms broke out. Some vineyards were badly hit by hail, shredding foliage and damaging fruit. In some instances harvesting had to begin immediately in order to crush the grapes before oxidation and rot attacked the damaged skins. For those who could wait, the fantastic dry, sunny weather returned late in the season.

THE WINES

Red wines

The vegetative cycle had been too slow over the year to be able to make up lost ground during the last 5 weeks of the season. Only vines carrying very low yields were capable of showing good depth and complexity.

The extraordinary luck of the vintage lies in the fact that the terrible flowering conditions lead to a significant loss of fruit. The reduced fruit load meant the plant was able to sustain the miserable summer and remain perfectly healthy. Had the vines been carrying normal yields there is little doubt that the quality of the grapes would have deteriorated beyond recovery.

Bordeaux's temperate weather often means that September and October rain dilutes the quality potential that has been painstakingly nurtured over the previous months. This year, however, dry, windy weather acted as a natural concentrator, a very unusual situation for Bordeaux.

It was very difficult for the 2002 harvest to reach perfect phenolic maturity as staggered flowering and lack of sun in July and August delayed the maturing process.

Sugar levels rose rapidly through the combined effect of normal ripening and concentration through loss of water. Though acidity levels dropped throughout the ripening period, this was compensated for by the relative increase due to concentration. Consequently, total acidity readings in finished wines are relatively high but the high pH levels mean they go unnoticed in tastings.

Wines show good colour - some are very deep. They are ripe and soft and good acidity gives them freshness; in the more structured wines, this will add ageing potential. Generally speaking 2002 will be a pleasant vintage, showing generous, ripe fruit but generally lacking the deep concentration which makes classic wines. The wines are soft and pleasant and will be drinkable relatively soon, and will hold in time. They often lack the complexity of a great vintage, although particularly committed growers in areas that escaped damage from heavy rain and hail were able to combine all the characteristics of a fabulous vintage: deep colour, rich fruit, soft tannins, good length and complexity.

2002 is certainly a Cabernet Sauvignon rather than a Merlot* year and this shines through in tastings. The Merlot only had 3 to 4 weeks of good weather before the maturing process flagged, requiring the grapes to be picked. The later ripening Cabernet Sauvignon benefited from an extra two to three weeks, allowing the fruit to mature to a greater degree. Some unfortunate growers had no choice: hail damage on 21st September will have forced them to pick immediately with the risk of producing somewhat green and herbaceous wines.

**A recent study shows that 70% of new plantings of red varieties over the last twelve years in the Gironde have been planted with the Merlot variety. Merlot now takes up 58% of the area planted in red varieties. Source: Agreste Gironde - Ministère de l'agriculture.*

Dry white wines

The first whites were picked on 10th September but harvesting got into full swing a week later i.e. about a week later than normal. The bad weather in early September required careful grape selection to ensure only perfectly healthy grapes were kept and any botrytis-damaged bunches were separated and discarded. From then on the dry, sunny weather was ideal to accelerate ripening, whilst the cool temperatures, especially at night time, contributed to preserving fresh fruit flavours and aromas. Again the natural evaporation process had the effect of enhancing aroma and fruit concentration further.

Sauvignon Blanc was particularly successful showing excellent aromatic expression, good intensity, good potential alcohol content and clean, crisp freshness. As volume of production of white Bordeaux falls with each vintage, there is a corresponding improvement in quality. After years of oversupply, Bordeaux currently has a shortage of Sauvignon Blanc.

Sweet white wines

The first trie, where pickers go from vine to vine selecting each individual grape and only picking those that are ready, began on 10th September. Up to six successive tries, going on right up to 15th November, were necessary to bring in the crop.

As the season progressed, botrytis spread rather unevenly mainly because of lack of moisture. What was a blessing for red and dry white wines turned out to be a curse for sweet wines. The all-important noble rot requires long sunny days and moist nights. The dry wind which blew relentlessly prevented the dew from covering the vineyards on those beautiful autumn mornings.

The wines show good, rich, deep concentration but this was the result of passerillage when the grape dries out and shrivels up through loss of water due to evaporation as opposed to the desired pourriture noble. The wines are fruity and expressive. They are aromatic, clean and fresh but, except for the very best, they lack the complexity that botrytis adds.

THE MARKET

Sales of Bordeaux wine statistics for the year 2002 look relatively satisfactory; the home market is up by 6% and exports are up by 7%. These encouraging figures are in stark contrast, however, to the general prevailing mood and lack of consumer confidence. This has taken a recent turn for the worse thanks to the SARS scare and (as far as France is concerned) the political disagreement between the French and the Americans, resulting in the boycott of certain French products in the USA. Bordeaux wine, like many other sectors of the economy, has no short term visibility as it launches the 2002 en primeur campaign and gets ready for Vinexpo. The uncertainty is causing a lot of worry.

The home market

As in every other wine producing country, wine consumption in France is falling steadily at the rate of 1.5 litres per capita per year and now stands at approximately 56 litres. If sales of Bordeaux wines in France saw an upturn during 2002, it is mainly thanks to the return of volume sales through hard-discount distribution chains.

The on-trade has suffered from the general economic downturn, though the government's determination to curb road deaths in France has also had an effect. Nicholas Sarkozy, France's new and very dynamic Home Secretary, is severely penalising drink-driving. His policy can only be applauded as it has resulted in a 35% reduction in fatal road accidents over the first few months of the year.

Bordeaux Exports

Exports only represent 38% of Bordeaux sales. This is insufficient when the home market is shrinking and volumes produced are generally on an upward trend.

Over the 12 months ending 31st December 2002, the breakdown of volumes shipped to the main destinations for Bordeaux wines was as follows:

	<u>Value in '000 euros</u>	<u>% change over 2001</u>	<u>Volume in hectos</u>	<u>% change over 2001</u>
Belgium + Lux	187.881	+ 16%	399.740	+ 11%
Germany	182.758	+ 7%	420.276	- 1%
USA	182.590	+ 13%	169.500	+ 28%
United Kingdom	166.418	+ 5%	320.829	- 4%
Japan	121.377	- 5%	152.181	+ 15%
Switzerland	104.535	+ 1%	92.902	- 10%
Denmark	58.669	+ 6%	139.841	- 2%
Netherlands	58.407	+ 3%	181.035	+ 2%
Canada	48.202	+ 6%	80.575	+ 1%
Hong-Kong	17.887	+ 3%	14.762	+ 4%
Other markets	135.812	+ 7%	215.050	+ 3%
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Total exports	1.264.536	+ 7%	2.186.691	+ 4%

The good results above are partly due to the shipping of the excellent and very successful 2000 vintage.

En primeur

The 2001 campaign was reasonably successful for most producers, although some chateaux are left with rather more stock than they would like to admit. After the extraordinary success of the 2000 vintage prices had to become more sensible. They dropped by 11% on average, although at the top end, the more expensive wines (50 euros and above) reduced their prices by 20% to 30%. In view of the difficult economic circumstances, it is expected that 2002 will see a similar pattern and, hence, a return to pre '97 prices.

The overall impression of the many buyers who came to Bordeaux to taste the 2002 en primeur wines in the first week of April was good and the wines were generally showing well. But, the 2002 vintage is inconsistent. It is important to be very selective and past performance is not a guarantee of quality. If there are few very exceptional wines, most are round, soft and fruity - very pleasant but generally lacking the depth and complexity of a great vintage.

Quality of the vintage, of course, is only one consideration in setting en primeur prices. The main concern is to measure the level of demand as accurately as possible and anticipate customer reaction, in order to release the wine at a price that will balance out supply and demand.

The general economic mood plays a much greater role than any other and over the past year, financial news has gone from bad to worse. Indices and currencies have evolved as follows:

	10th April 2002	10th April 2003	Change
Dow Jones	10.382	8.181	- 21%
Nasdaq	1.767	1.356	- 23%
Cac40	4.522	2.809	- 38%
Nikei	11.147	7.980	- 28%
FT100	5.180	3.803	-27%
USD/euros	0,8802	1,0798	- 23%
GBP/euros	0,6127	0,6868	-12%
Yen/euros	115,71	129,08	-12%

Are the wines worth buying *en primeur*? Attractive pricing could lead to some real bargains this year but it will be important to pick and choose.

Long Term Strategy for French wines - A New Designation?

The amount of good wine available for sale that has built up over the last two years, together with increased competition from the New World and adverse economic circumstances have put enormous pressure on prices. Many growers now find themselves in the untenable situation where the market price for wine in bulk is now too low for them to cover ever-increasing costs. From this point of view the drop in yields this year is welcome as it will help realign stocks with volumes sold.

Today Bordeaux produces better wines than ever before. Ironically, current circumstances demonstrate very clearly that producing quality wines is not sufficient to guarantee sales - but nor is offering them at bargain basement prices. What is needed is consistency of quality AND consumer awareness AND pricing stability. These issues concern French wines in general, not just Bordeaux.

The Berthomeau report is now two years old and has led to the setting up of a group of professionals from each main wine producing area in France. They are referred to as the "Cap 2010" group, who have undertaken to put together a coherent strategy for French wines. A brave enterprise which should prove to be exactly what is needed.

The consensus among the Cap 2010 group is that France needs to be able to compete with other wine producing countries on an even keel, which is not the case today since France's legislation is often criticised for being too restrictive, preventing dynamic producers from making the wines the market wants.

For example, for French wine to be labelled anything indicating its provenance or grape variety, it must comply 100% with the denomination indicated. All other countries, however, have adopted the 85% rule meaning that up to 15% of the bottle can be another variety/other varieties than specified on the label - California allows up to 25% exogenous wine to be included in the final blend.

Who cares as long as the consumer is happy with the content? This is a perfectly valid point for industrial

wines destined for mass distribution. The AOCs on the other hand must preserve their authenticity. So how do we reconcile the two?

The vast majority of professionals believe France needs to establish a wine category which would benefit from looser legislation, allowing fairer competition with other wine producing countries. The question is, should this new category be created within AOC or become something totally separate? (As the professionals couldn't agree the decision was passed on to the Minister of Agriculture for him to arbitrate. Very wisely he said he wouldn't! The topic is back on the Cap 2010 negotiation table.... As is too often the case in France, good ideas take far too long to be implemented, but at least we are moving in the right direction.)

The Case for Bordeaux

There is a fair amount of pressure from people who would like AOC regulation to be less severe but their only objective is to make their lives easier in the short run. None of the rules hinder research or quality development. They do, however, set down constraints which are designed to prevent growers from taking short cuts - short cuts that help make cheaper wine but will not serve Bordeaux in the long run as the inevitable consequence would be loss of credibility, authenticity and identity.

The objectives for Bordeaux are clear:

- guarantee quality and consistency
- make the Bordeaux offer easier to understand
- promote the image of Bordeaux wines to give confidence to distributors and consumers.

Guarantee quality and consistency

Quality control starts in the vineyard by checking plant density and general upkeep and in the cellar by monitoring adequate winemaking facilities. After this comes improving the reliability of the AOC *label* tastings, tracing bulk wine movement and supervising bottling operations to guarantee product authenticity and quality. Finally, random tasting of wines in stock before they are shipped. There will always be dubious traders who attempt to sell off poor wines at a cheap price riding on the back of the Bordeaux name. More controls need to be put in place to identify these wines before they are put on the market.

Make the Bordeaux offer easier to understand

Some order needs to be brought to the 8.000 properties sold under 12.000 names covering 57 appellations. There is a happy medium of diversity between mind-boggling confusion and boring simplicity.

Since 1993, the law had established that any property could only use a single château name. A second château name was authorised if it had been regularly sold for at least 10 years prior to 1993. Having been totally ignored for 9 years, the law is now being strictly enforced leading to the disappearance of hundreds of "virtual" châteaux.

Several Syndicats Viticoles are making efforts to regroup and work together under the same banner. The Syndicats in Moulis and Lustrac, for example, attempted to unify (for the second time) but unfortunately the members voted against it (by one vote). Montagne St Emilion, Lussac St Emilion and Puisseguin St Emilion are also going through negotiations, which will gradually lead these three organisations to merge into one.

Creation of brands is a big issue in Bordeaux today. Many négociants are creating new brands which give them greater supply flexibility, distribution exclusivity and justification for long term investment. Brands are useful in stabilising prices and providing consistent quality level hence establishing points of reference. Establishing a brand requires enormous financial backing, unfortunately few Bordeaux négociants have the means of backing their brands with the required advertising and promotional support but inroads are being made.

The above are illustrations of the fundamental changes taking place in Bordeaux today, where most are calling for more discipline and coherence with a view to reduce the fragmentation which used to be the basis of the Bordeaux market place.

Promote the image of Bordeaux wines to give confidence to distributors and consumers.

Communication budgets will be doubled over the next 4 years and Bordeaux has adopted a fresh new message. With its new "Be Bordeaux" campaign the message is friendly, easy going, classy yet accessible. The objective is to increase the visibility of the Bordeaux name, to combat the "out of sight, out of mind" syndrome which is so characteristic of today's way of life and reinstate Bordeaux wines at the forefront of consumers' top of mind awareness.

Conclusion

Bordeaux has been extraordinarily lucky with the 2002 vintage; the dry sunny weather saved the crop when many other wine growing areas in France, Europe and throughout the world have suffered dramatically.

Despite encouraging statistics, the general mood in Bordeaux is a mixture of anxiety and optimism - and tant mieux! A crisis was necessary for all of us to realise that a major shake up was needed. Wine quality is improving, growers and négociants are working more closely together, communication, advertising and promotion are becoming more coherent and more effective and this is only the beginning...

The diversity and complexity of the Bordeaux wine industry make it an extraordinarily fascinating environment. Old habits and attitudes die hard but profound changes are taking place. An exciting time lies ahead for those who want to take part.

Allan G Sichel

April 2003

Our thanks to the CIVB archive department for providing enormous quantities of statistical data.

Copies of previous vintage reports are available and we will be happy to send them to you.

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