

VINTAGE AND MARKET REPORT

THE 1999 VINTAGE

THE QUANTITY

	<u>1999</u>	<u>1998</u>	<u>1997</u>
Production in thousand hectolitres			
Appellation Contrôlée Red	5.927	5.695	5.749
Appellation Contrôlée White	879	884	934
Vin de table Red	21	31	33
Vin de table White	28	52	70
Number of growers	12.052	12.449	12.752

Another record year; equivalent to more than 860 million bottles of AOC wine conveying the Bordeaux name, representing 3% of world wide production.

The total vine planted area in the Gironde stands at 116.679 hectares which is very close to where it was forty years ago. From the early sixties it decreased until the mid eighties to reach a record low at 95.605 hectares in 1984 and then increased to a record high of 117.495 hectares in 1994. What has changed of course is the proportion allocated for the production of Appellation d'Origine Contrôlée wine which amounted to only 66% in 1960 and now represents almost 99%.

The 1999 Bordeaux crop was plentiful. Under AOC legislation, which determines maximum authorised yield for each appellation, any surplus production must be sold off for distilling. Statistics are difficult to obtain but in 1999 some 593.000 hectolitres are to be tanked away and disappear. This can be compared to the more normal volume of 200.000 hectolitres.

Official surplus volume figures must be considered to be the most optimistic view of the true picture. The consequential economic loss will push any grower to declare as little as possible in the DPLC (Dépassement du Plafond Limite de Classement) category. The maximum yield per hectare is designed to contribute towards preserving terroir expression and should, in theory, apply to each identified parcel, or even, ideally, to each square metre. In reality, legislation considers the property as a whole by comparing total volume to total planted area. Properties are able to compensate lost volume on low yielding old vines by allowing more vigorous plants to bear far more fruit than they should, hence amputating the effectiveness of the rules.

The PLC (Plafond Limite de Classement) system is merely an incentive to limit yields by preventing the grower from gaining any revenue from grapes produced above this limit. But of course in the case of a parcel that has been allowed to overproduce it is not only the quantity over the PLC which will be diluted but the total crop. To ensure maximum allowable yield regulation actually translates into more quality would require that the whole crop be sent to the distillery, or at least be denied the Bordeaux origin. A measure which would bear such dramatic consequences that it is not even worth contemplating its adoption.

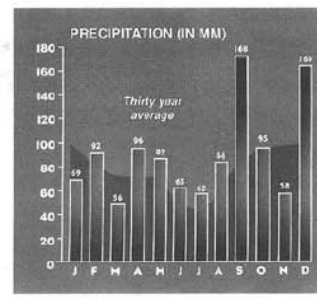
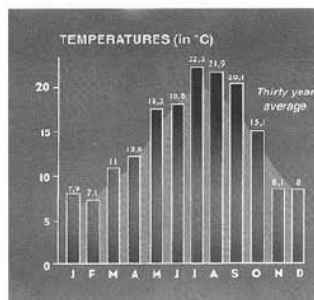
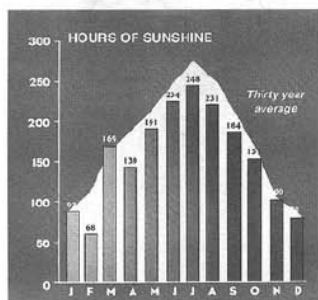
THE WEATHER

The weather pattern was very irregular, overall characteristics would be;

- rather less sunshine than normal,
- higher temperatures
- more rain, especially in the critical month of September.

The diagrams below indicate weather statistics taken from Mérignac during 1999 against the 30 year average. Credit CIVB Infos N°254 January 2000.

Credit CIVB Infos N°254 January 2000.



The winter months were full of contrast with alternate periods of very mild temperatures and hard frost. Cold spells are welcome for two main reasons. Firstly, they kill off bugs and parasites which could otherwise linger and burst back into activity in early spring. Secondly, they prevent the growing cycle from beginning too soon which would lead to early bud break, running the risk of subjecting fragile buds to late frost.

April and May were warm and wet. This contributed to boost the vine's energy which in turn favoured generous vigour and sustained growth, but also favoured the spread of mildew. At this stage, mildew is easily kept under control. Rain stopped in the last week in May, allowing the flowering to take place in the best possible conditions. Full flower was reached on 31st May which is 4 days earlier than in 1998 and can be considered to be relatively early. Flowering was quick, even and complete with no coulure or millerandage. Temperatures dropped significantly during the first two weeks of June. The average daily temperatures for the last week in May fluctuated between 20.9°C and 23.5°C. They then dropped to reach 13°C on 5th June, average daily temperatures did not return to their normal 20°C until 15th June. This cold spell affected the tail end of the flowering of Cabernet Sauvignon and led to a lack of consistency in their development which would follow right through the whole ripening cycle.

The warm damp weather allowed the grapes to develop healthily even if this did require careful monitoring and disease control, as signs of mildew pressure were omnipresent. Growers opting for lutte raisonnée had their nerves and patience stretched to the limit; following vineyard watch reports, weather forecasts and walking up and down their vines daily to determine whether spraying was required or not.

The first 10 days of August brought 40mm of rain at a time when drought is preferable. Lack of water brings the plant to a situation of hydric stress. The vine then switches its focus from plant growth to fruit ripening. The earlier the switch the more chance of picking ripe grapes in good weather.

The four weeks following 10th August were dry, sunny and hot, letting many growers hope for a perfect harvest which would be a fitting close to the millennium. During this time the grapes matured well. The high temperatures, often above 30°C and reaching 33°C on 11th September, enabled the grapes to gain enormously in concentration. Again yields were a key factor; the intensity of natural concentration brought by the dry heat depended on yields and on foliage health. Vines with an active canopy released a lot of water through evaporation, hence concentrating the grapes. Vines carrying low yields needed to release less water than overloaded ones to obtain the

same concentration factor. This illustrates perfectly the exponential link between high intensity and low yields.

The 13th September saw the return of rain which continued for a full 10 days. Very violent, localised storms actually hit Saint-Emilion from the 5th, only affecting relatively restricted areas, their power nevertheless occasionally caused severe devastation. The month of September saw twice as much rain as the normal 85mm. This led grapes to swell and was another contributing factor to massive over-production in any vineyard which had not been severely managed.

Nature was generous in providing a large harvest for 1999. It was up to man to intervene, protect against disease and cut back on the quantity to channel nature's efforts towards quality.

After the wine was safe in the cellar, the cataclysmic manifestation of the new century came with the storms of 27th December which decimated the whole country. Many people were without telephone, electricity and even water for up to 10 days. No damage was caused to vines but the devastation did spark off discussions about fundamental shifts in the weather pattern which could significantly affect Bordeaux's climate and render its greatest wines far less unique. Thankfully experts seem to be in disagreement and there is still a chance that this was just a freak occurrence not likely to reappear for another 400 years.

THE WINES

The first grapes to be picked are the white Sauvignon, these were generally harvested before the heavy rain and are giving fresh, clean aromas full of vibrant fragrance. Sémillon grapes suffered from swelling, were much larger in size showing less expression and rather more dilution.

Sweet wines benefited from the early development of botrytis on grapes carrying very high sugar levels. The first "tries" produced excellent, deep, rich and powerful wines, but the rain inevitably diluted the concentration level the further harvesting progressed.

For the red varieties, as is so often the case in Bordeaux, choice of the picking date was critical. Everyone got rained on but storms were localised and irregular. Growers who had exercised true control over their vines and managed to keep yields down were able to hold out for dry spells. For others, insidious grey rot pushed them into harvesting before full phenolic maturity was obtained. In this warm, damp environment, grey rot can have devastating effects, eating away a whole crop in a matter of 2-3 days.

Well managed vineyards provided healthy, ripe, fruit with unusually high sugar contents coupled with low acidity. Potential alcohol levels as high as 14,5% were found in the most precocious Merlot. This was actually dangerously high as it is considered that fermentation yeasts have difficulty surviving at levels higher than 15%. The September rain brought a little dilution which in these instances was welcome. It was also important to realise that phenolic maturity was several days late on the normal sugar/acidity criteria. Those who were able to wait long enough will find the skins convey soft, round tannins.

The quality of the wines of the '99 vintage is showing considerable irregularity. Overall grapes were ripe, but due to overproduction and late swelling from the rain, a significant proportion of wines will be lean, thin and lacking in complexity. Heat and moisture are detrimental to the development of deep character, personality and distinction. Grands crus classés should show generous fruit, good structure but will sometimes be lacking the depth, density and terroir expression which make a truly great vintage.

In theory, '99 would probably have been a good candidate for testing out the advantages of concentrators to remove excess water and help compensate from last minute dilution caused by rain during harvesting. On modest vineyards concentrating may well have been of considerable benefit but paradoxically the cost of these machines usually only allows the top grands crus to acquire them. These are the same properties who will have paid particular attention to yields and who may have been restricted from any further concentration because of the high levels of natural sugar their grapes contained to start with.

THE MARKET

World-wide exports of French wines showed a 9% increase in value during 1999. This rather positive view hides the fact that shipments of Champagne increased by a massive 35% in response to year-end celebrations, hence compensating for the 5% drop in volume and 1% drop in value of exports for French still wines. Whilst it is obvious that all wine producing areas have witnessed a less successful year than the previous period, it must be recognised that 1998 showed record-breaking figures (+13% in value, +5% in volume) after 1997 which was also a record (+27% in value, +23% in volume). The level of exports for French still wines is levelling out at 25 billion francs and 14 million hectolitres, Bordeaux making up 33% of the value and 15% of the volume.

Statistics in France

Approximately 60% of wines produced in the Bordeaux area are destined for consumption within the home market. Of this about 45% is sold through super-market and hyper-market chains which are very sensitive to price increases. The fall in volumes sold in this sector which began in September 98 was reversed towards the end of 1999, the last 3 months of 1999 were 7% up on the previous year.

Statistics abroad

Overall, Bordeaux exported 2,152,981 hectolitres of wine in 1999, worth 8,084 million francs this represents a drop of -12.7% in volume and -2.8% in value compared to the record 1998 figures.

The main export destinations for Bordeaux wines are the following:

	<u>Value in Thousands FRF</u>	<u>% change over 1998</u>	<u>Volume in hectos</u>	<u>% change over 1998</u>
United Kingdom	1,257,472	+ 16%	346,296	- 7%
Germany	1,257,062	+ 6%	469,391	- 1%
Benelux	1,150,762	- 1%	375,508	- 6%
USA	1,010,137	+ 13%	132,466	- 11%
Japan	772,057	- 38%	123,301	- 55%
Switzerland	747,703	+ 9%	101,029	- 5%
Netherlands	411,501	- 15%	189,257	- 19%
Denmark	388,081	- 3%	141,457	- 2%
Canada	230,235	- 7%	64,649	- 9%
Hong-Kong	85,035	- 26%	12,460	- 49%
Total exports	8,084,459	- 3%	2,152,981	- 13%

A year ago most of us were expecting numerous millennium celebrations. Descendants of Christian belief were going to party extensively and intensively over a 6 month period straddling the new year. Surely wine in general and Bordeaux in particular was going to be allowed to make its warm,

healthy contribution!. Like the bug, the London eye and the millennium Dome, all the excitement led to a rather non eventful anti climax. People may have dug more bottles out of their cellar than they normally would do, but they did not buy more from the shops.

If sales figures continue to be good it is important to bear in mind that volumes shipped are on the decrease in every major market. Quantities exported to the UK have dropped for the second year running. Japan, which had become Bordeaux's first export destination in 1998, has returned to a more reasonable and sustainable shipping pattern, equivalent to 1997. Again this is not considered as a worrying trend, it merely reflects a readjustment after the overheating of demand during 1998 and the consequential price increases. At 1st January 2000, stocks of previous vintages held by growers are up by 13%. This, combined with a large harvest, leads to an overall 8% increase in total quantities available. Pressure has been transferred towards the supply end.

At the lower end of the market, increased availability is forcing prices down. But in the premium category the difficulties of the '99 vintage are enabling those who have produced good wines to maintain high prices, equivalent to '98s. These wines are sought after and in today's "quality search" context, they will be in insufficient supply. The less interesting wines are likely to see their sale price plummet down to maybe 6.500 frs a tonneaux (being a 30% drop compared to last year's average price). Middle of the range chateaux, which include long term distribution considerations in their main priorities, have held a progressive price increase policy over the 1996-1998 period; they will want their efforts and goodwill to be recognised by holding their price points. The Grands Crus Classés, as always, are in a category of their own.

Bordeaux merchants are having to fight for business. Ever more concentrated distribution chains are able to bargain low prices and high promotional budgets out of the most desperate who are keen to maintain their market share and levels of turnover. The wine marketplace is going to become even more competitive as many new world countries increase their production capacity. Australia is well ahead on its strategy 2025 program, even if difficulties linked with insufficient wine making and storage facilities will temporarily hold back the red torrent of wine about to inundate the world, this will inevitably lead to reduced prices, making Australian wines more competitive and putting added pressure on Bordeaux.

The Grands Crus Classés situation

After the difficulties of the 1997 vintage, the market was hoping for a significant drop in prices for the 1998 en primeur campaign. Jean Guillaume Prats bravely opened the proceedings with a 25 % decrease in the asking price for Château Cos d'Estournel. This was considered adequate by professionals though not generous after +21.7% for the 1997 and +% for the 1996. The first growths of the Médoc dropped by a more conservative 14% which was representative of the overall picture on the left bank. The best St Emilion on the other hand sold for higher prices than the 1997. The good quality of the 1998 vintage provided the market with the confidence to engage in trading. As many distributors were still carrying a large proportion of their '97's, their first objective was to avoid holding unwanted stocks even if this meant sacrificing margins. This lack of profitability felt by many long standing traditional distributors generates frustration and ill feelings which in turn is causing distributors to only buy wines which are spontaneously sought after. Retailers are likely to be extremely selective about the wines they will decide to buy en primeur during the oncoming campaign.

Today many properties put on the en primeur market something close to 90% of volumes produced, allocations are taken up in a few days. The frenzy gradually waves out to the whole world concentrating an enormous proportion of Grand Crus trading around the en primeur campaign. High prices have severely bridled transactions outside this period. In fact, other than en primeur sales, Grands Crus trading on the Bordeaux marketplace has frizzled out to virtual non existence.

Many of these wines have reached luxury goods status. As with perfume, designer clothes and jewellery, the applied pricing policy has much more to do with image, marketing, dream, desire, aspiration and status than with intrinsic objective quality. There will always be a market for luxury products and top Bordeaux chateaux want to be part of it. Grands Crus used to be drunk by Bordeaux enthusiasts. Today many of them can no longer afford the wines which have grown out of their reach. This may appear brutal but it is the inevitable consequence of successful liberal economies.

Most Grands Crus Classés will be entering the campaign for their '99's in a relatively serene state of mind. Their wines should be good; quality disappointment would be the reflection of insufficient attention given to the vineyard which, at that level, would not be acceptable. Investment programs have been largely completed, coffers are full of cash, proprietors are scanning the world for new opportunities, some in the Bordeaux area, while others are tempted by the romance of the South of France or the exotic charm of Argentina or Chile. There are no big short-term worries for these chateaux. They are financially able to see their way through one or sometimes two difficult harvests, even if it means an 80% fall in turnover.

The 1999 campaign could however prove to be a crucial turning point. Last year many warning bells were sounding the same unanimous echo calling for reduced opening prices. This year most of these have fallen quiet, only the most dedicated Bordeaux enthusiasts are bothering to express any discontentment. This can be interpreted one of two ways; either distributors are satisfied with the reduced quantities they bought of 1998 or they have given up and have already decided that their position over the '99 vintage will be severe, selective and unforgiving. The answer will be known in a few weeks time.

Trying to anticipate on the pricing level of '99s is very difficult. The only way châteaux's pricing ambitions are going to start dropping is when they feel the pinch associated with insufficient sales. The truth is that, despite the high prices, very few professionals have been brave enough not to buy. These high prices will be maintained as long as négociants buy the wines and négociants will keep buying until they run out of customers. At this stage it seems likely that 1999 prices will remain stable. Having been wrong in my predictions over the last three vintages I can only hope to be proved equally mistaken this time round, but in today's context of healthy economy in most important markets, record-breaking stock-market values, worry-less proprietors and little complaint, there seems little chance of witnessing a drop in prices over the next campaign.

The quality issue

Within a given appellation and comparable price bracket there is a lack of consistency in the quality of the Bordeaux wine offer which can be disconcerting for the consumer. It has been said and reported many times before; there is far too much irregularity in terms of level of quality from one wine to another. In response to this perfectly justified criticism, Bordeaux is continuing to address the quality issue. It is a fundamental necessity that permanent pressure is exercised constantly throughout the profession to seek for constant improvement. General awareness is now very great, but it must be expected that progress is going to be gradual and slower than one would hope.

More than ever before Bordeaux is aware of the necessity to guarantee, not only the origin but also the quality of its wines. With such broad distribution, with so many growers, merchants and retailers it is difficult to get everyone to act in a concerted manner. The main difficulty is obliging people to fight against market forces. The parasite market of low quality Bordeaux wines feeding off the reputation of the Bordeaux name is still keeping too many people in business. In this commodity category the low price is far more important than the quality level. A grower supplying that end of the market is concerned with reaching maximum authorised yield at lowest possible cost. The only alternative is to aim for quality which is going to require more work, higher costs and reduced yields. The return on added investment is low and may even be uncertain. To opt for

quality takes commitment, faith, dedication, patience, perseverance and also some financial backing. One does not change his philosophy overnight and shift from volume to quality easily. Nevertheless, conscientious growers, producing high quality wines, are gradually finding takers at prices which can be as much as 40% higher than the average market price. This differentiation between basic wines and premium wines is likely to become much more relevant and justified with the '99 vintage as quality levels will vary greatly.

A true desire animates the CIVB to address the quality issue. After many months of preparation downstream quality checks (contrôle aval de la qualité) were put into application: 200 bottles of wine are purchased each month off supermarket shelves in France and abroad. These samples are tasted blind by a panel of professionals who mark the wines. For all wines of an insufficient standard, all parties mentioned on the label (grower, négociant bottler) are informed in writing, with a copy sent to the relevant growers syndicate. The accumulation of bad marks can lead to tighter and more severe controls being exercised over the grower and the négociant.

A rather more controversial procedure consists in encouraging anyone in the supply chain (négociants or courtiers) to report any sample received which is considered to be sub standard. Although approved quasi unanimously, it remains a very sensitive topic as merchants, growers or courtiers find it impossible to blow the whistle on their counterparts. So far these reports have remained conspicuously absent and it is fair to pronounce the failure of this measure only months after its adoption.

Label tastings

Every year the INAO sends its agents out to each wine-making facility to make up a representative sample of the property's overall production. This is done by taking a proportionate volume from each tank and then blending into one. The sample is then submitted to a blind Label tasting where participating professionals will determine whether the wine is deemed to be an adequate representation of the appellation it comes from. Tastings carried out on the 1999 vintage are showing an unusually high proportion of rejections. Early reports published in the tabloids indicating a record 30% rejection rate at the first set of tastings can easily lead the reader to think the 99 vintage is of unprecedented low quality, which is certainly not the case. This is actually very good news as it reflects the overall awareness of the necessity to be much more severe in eliminating sub-standard wines.

What could really make a difference is to massively improve the Label process. In the present system a grower will usually obtain the AOC Label for his whole production. His wine can be kept in separate batches of varying quality. If unscrupulous, the grower may then decide to sell his good vats to a reputable company looking for quality and his bad vats at a low price to someone less discerning on quality issues. Instead of the INAO agent recreating a representative blend of the whole production, it would be far more effective to assess each vat individually. Unsatisfactory lots would be easier to identify if tasted in isolation, and the decision of denying the right to AOC status would be less catastrophic for the grower as, hopefully, only part of the crop would be concerned. The daunting thought with this option is that the number of samples to be tasted would grow from 15,000 to anything between 60,000 and 80,000.

Other up-coming vine-growing areas have been able to implement a vat by vat quality control system. Each one of these areas has seen massive progress in the average quality of wines produced and has vastly improved its image. Vat by vat quality assessment is far from being widely accepted in Bordeaux but if we can keep pushing the idea and eventually have it adopted, it is likely to become the single most effective way of eliminating bad Bordeaux wines from all distribution channels.

More communication wanted from Bordeaux.

Many articles in specialised press abroad relentlessly accuse Bordeaux of standing still, resting on its laurels and doing nothing about falling market share or the competition coming from other wine producing countries. Bordeaux's main deficiency today lies in inadequate communication. As from 1st January 2000, CIVB (Conseil Interprofessionnel des Vins de Bordeaux) tax rates were increased by 50%. The virtual unanimous consent of both bodies, growers and négociants, is a sign of the overwhelming desire to improve visibility both at home and abroad. The CIVB has increased its budget by 40 million francs to a total of 170 million, of which 12 million are spent on research and 130 million on promotion and communication. Of course throwing more money at communication agencies is not sufficient to improve effectiveness, but at least there is a widespread desire to actively promote the Bordeaux name.

The appointment of a full time representative in London is a significant step in that direction. The important UK market will become a test bench for many new initiatives contributing to closing the gap between the growers and the consumers. It can be hoped that such decentralisation will gradually spread to other counties. We can then imagine CIVB offices in Germany, Asia, USA, and Canada making up a network of agencies able to adapt to the specificity of each market

The widely publicised "Bordeaux debate" held in London on 6th December 1999 shows not a change in awareness or willingness, but a change of attitude; telling the outside world in general and the UK market more specifically, that Bordeaux is aware of its deficiencies and working hard at resolving them. In a sector which is as wide spread, which carries such a strong historic background, involving so many people, progress is far slower than most of us would like, but progress is being made.

Conclusion

Bordeaux is a niche market, it only makes up 3% of all wines drunk throughout the world. Bordeaux has great potential for further development in many countries, but for that it needs to remain very specific by sticking to its terroir approach, it needs to be far better known and understood through more extensive communication, it needs to ensure that all wines carrying the Bordeaux name do justice to its origin conveying elegance, balance, character, complexity and most importantly: pleasure.

One cannot completely dismiss the terrifying spectre of an unknown disease wiping out the whole vineyard, but until then Bordeaux will strive to better its image, eliminate poor quality wines at the lower end of the market and improve the effectiveness of communication programs.

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March 2000