



# A DIFFICULT balancing act

To maximise profitability it is vital that the Champenois' yield predictions are as accurate as possible, writes **Giles Fallowfield**

**THE CHAMPAGNE** region as it is currently defined will be all planted by 2015, giving no possibility of expanding production by putting more vines in the ground until beyond 2020 when the revision of the appellation may start to bear some new fruit. With worldwide sales continuing to recover there's a danger that demand will reach or even exceed supply in the second half of this decade. Even with the Comité Interprofessionnel du Vin de Champagne's (CIVC) very

conservative growth predictions shipments look set to rise above their estimated production ceiling by 2020, leaving little room for manoeuvre.

This year sales of Champagne have continued to recover gradually with overall shipments up by 4.7% in the 12 months to the end of June 2011. Given the continuing difficult financial climate Champagne's resilience may surprise some people, but it neatly demonstrates how tricky accurately predicting demand is even three years

ahead, let alone to the end of the decade. But this is precisely what the Champenois need to do if they are going to keep a measure of control over the market during the next challenging 10-year period. It is a skill they have honed over the past decade or so after getting things wrong over the Millennium. To be fair for them, the problem is far harder than in most other wine-producing regions because of the time lag they have to fund between making and selling their wine.

Individually the major houses have to make sales forecasts well ahead; the longer their wine is typically cellared before release, the trickier this crystal ball staring becomes and the further into the future they have to look. For while supermarkets may be legally selling their *sous-marques* produced from the recent 2011 harvest by Easter Monday 2013 (1 April), the better international brands will wait until Christmas 2014, while Krug won't put its 2011-based grande cuvée on the market before 2019.

But it is collectively predicting future demand accurately that's really vital. Getting it badly wrong is likely to have serious repercussions for all in Champagne. The region's ability to keep worldwide supply and demand in balance has been key to Champagne's success in the past and the period between now and the point new vineyards start contributing fruit will be one of the most difficult to

## THE ISSUE OF WHETHER THE CHAMPENOIS CAN MEET DEMAND OVER THE REST OF THIS DECADE IS VERY MUCH IN THE NEWS

manage. You don't, of course, always get much of a warning about problems ahead. When the worldwide financial meltdown became clear in September 2008 it was already too late for the Champenois to do anything about the volume they had agreed for the 2008 harvest and they picked the largest crop ever, equivalent to just over 405 million bottles, although the average actual yield achieved was only the third highest behind both 2007 and 1983. They didn't have to, with unequivocal news of the financial meltdown breaking mid-harvest, but they also paid the highest price ever for their grapes.

However, they were made more acutely aware of the importance of managing the

supply side of operations by this, the first real dip in sales in over 14 years, and today the CIVC approaches the whole issue far more scientifically, even than in the fairly recent past. The decision on yield is now based on statistics compiled by l'observatoire économique du CIVC which sets out to tailor production levels to demand far more logically and precisely, looking at both stock levels, plus the most recent shipment figures. The decision over the level of yield set each year is now usually made as late as possible so that the most recent shipment figures can be used to assess the market's strength.

### IN-FIGHTING

The process is not of course entirely immune from political influence and the views of the houses, growers and cooperatives rarely entirely coincide. This was aptly demonstrated this summer prior to the yield announcement with certain of the larger groups like BCC calling for yields to rise to 14,000kg/ha while the co-ops, and perhaps surprisingly on the face of it some growers, argued for a far more modest increase on the 10,500kg/ha agreed for 2010 (9,700kg/ha in 2009).

Some co-ops were against the yield being set much above last year's 10,500 kg/ha because they are already sitting on large stocks of Champagne. As a whole the co-ops and growers between them have stocks equivalent to nearly five years' sales, while the *négoce* has seen its stocks-to-sales ratio fall to a little over three years' worth. For their part the growers are worried about the jump in income the increased yield and the rise in grape prices per kilo will bring, as it's likely to significantly increase the tax they pay next year (their tax is assessed according to income in the previous year). This could be made worse for them if sales slump in 2012 – some expect that to be a more difficult year for luxury goods like Champagne than 2011 – and lower authorised yields are accordingly set by the

### Feature findings

- ▶ Sales of Champagne look set to surpass predictions this year, despite the continuing financial turmoil.
- ▶ Decisions on yield are now based on statistics from l'observatoire économique du CIVC and are made as late as possible.
- ▶ Amid much dissension between the big houses and the co-ops and some growers, the agreement was set at 12,500kg/ha for 2011 – whether or not the Champenois can meet demand is unknown.
- ▶ Nature is the only unknown variable that can have a significant influence and the *resérvé* individuelle will play a crucial role.
- ▶ Price rises may be the only way to dampen rising demand.

CIVC reducing their income in 2012 when they are paying the tax for 2011.

The agreement (see box, p32, for full details) set at 12,500kg/ha was announced early on 7 July 2011, partly to quell any further unsettling speculation prior to the expected precocious harvest, says Ghislain de Montgolfier, president of the Union des Maisons de Champagne and joint president of the CIVC. This level equates to around 360m bottles with a productive vineyard of just over 33,000 hectares, assuming the maximum allowed yield is reached all over the appellation.

The issue of whether the Champenois can meet demand over the rest of this decade is very much in the news. When I spoke to Michel Letter, head of the CIVC's observatoire économique and also managing director of Perrier-Jouët and GH Mumm, he had been talking about it earlier that day on French television. He says that with the maximum agronomic yield achievable when all Champagne's usable vineyards are planted, "we can produce about 390m bottles and in 10 years' time annual consumption will have reached this level. This year (2011) shipments will be about 330m bottles so we have another 60m bottles to meet the increase in demand over the next 10 years and that allows only around 2% year-on-year growth." ▶



**Table 1: Total shipments of Champagne with % change over previous year 1996-2010**

Year	No. of bottles	% change over previous year
1996	255,871,575	+2.64%
1997	269,049,721	+5.15%
1998	292,420,290	+8.69%
1999	327,097,151	+11.86%
2000	253,245,418	-22.58%
2001	262,698,304	+3.73%
2002	287,722,049	+9.53%
2003	293,509,624	+2.01%
2004	301,418,695	+2.69%
2005	307,665,132	+2.07%
2006	321,789,798	+4.59%
2007	338,796,703	+5.29%
2008	322,637,259	-4.77%
2009	293,330,613	-9.08%
2010	319,510,832	+8.93%

Source: Compiled by Giles Fallowfield using CIVC statistics

**Table 2: Champagne production and shipments 1996-2010 (15 years)**

Source: Table compiled by Giles Fallowfield based on information from CIVC statistics

Year	Actual production in Bottles incl deblocage	Shipments (m of bottles)	Difference between production & shipments
1996	275,606,000	255,871,575	+20,734,445
1997	248,867,000	269,049,721	-20,182,721
1998	340,177,000	292,420,290	+47,756,710
1999	340,544,000	327,097,151	+13,447,000
2000	331,407,000	253,245,418	+78,161,582
2001	290,616,000	262,698,304	+27,917,696
2002	320,479,000	287,722,049	+32,756,951
2003	223,385,000	293,509,624	-70,124,624
2004	382,726,000	301,418,695	+81,307,305
2005	359,402,000	307,665,132	+51,736,868
2006	364,236,000	321,789,798	+42,446,202
2007	403,776,000	338,796,703	+64,979,297
2008	406,216,000	322,637,259	+84,138,741
2009	351,974,000	293,330,613	+58,643,387
2010	315,040,000	319,510,832	-4,470,832
2011	Prediction below	Prediction below	Prediction below
2011*	364,298,090	330m	+34,298,090

\*2011 shipment prediction is based on a CIVC estimate for the year, while production is based on yield, including 2,000kg/ha coming out of the old réserve individuelle

To put this into context, Letter admits his own brands Perrier-Jouët and GH Mumm grew by 14% and 6% in volume

## PEOPLE ARE LIKELY TO HAVE TO RAISE PRICES TO SLOW THE INCREASE IN VOLUMES

respectively (17% and 7% in value) in the Pernod-Ricard financial year ending 30 June 2011 and that such an increase in volume can't continue over the next decade. "It will be impossible to grow by even 5% every year, perhaps the big houses who add value can grow by 3%, but not everyone can. People are likely to have to raise prices to slow the increase in volumes.

"Today the permitted yield is decided by looking at a combination of the level of stock we have and our forecast for the next three years, which was done in May. We predicted sales of 330m bottles in 2011, rising to around 337m in 2012 and then up to 345m in 2013," says Letter. With the

MAT figure for all shipments already reaching 325.4m to the end of June and, as he points out, the second half of the year historically usually adding at least a further five million bottles, it looks like the 330m figure will easily be passed.

"We are in a good trend, France is not bad, the US is OK and Japan is going well despite all its problems. While it's not

big in terms of volumes, the whole of Asia is booming and the European market is not too bad, although the UK is not performing well."

### LIMITS ON PRODUCTION

If we look at the supply side in detail first, we can demonstrate the likely limits of production over the next decade. The only unknown variable which could exert a significant influence is Mother Nature. Despite clear evidence of higher average temperatures and longer sunshine hours over the past decade or so, the Champagne vineyards are still located in a cool, northerly marginal climate for grape

production, prone to disease and vulnerable to both hail and frost.

We can, however, get a pretty good idea of production limits given that we know that the current delimited area available for vineyard will be fully planted by 2015 (see tables 3A and 3B). For this harvest just finished an additional 280ha planted in 2007/8 were due to come on stream and over the next four harvests a further 365ha should be added to the 33,344ha of active vineyard. This will make a total active vineyard area just 11ha short of 34,000ha, though as table 3B shows, at any given time up to around 1,000 hectares of additional vineyard is not producing usable grapes because either diseased, old or damaged vines have been dug up or are not yet mature enough.

To work out the theoretical maximum potential production over this coming decade we just have to multiply the number of active hectares in production by the highest possible allowed yield in kilos per hectare. The maximum allowable yield in Champagne is now 15,500kg/ha - this was the temporary agreed figure for an experimental five years between 2007 and 2012, but became the new official figure in

# champagne: yields

**Table 3A: New plantings within the currently defined Champagne appellation, completed and planned**

Source: Compiled by Giles Fallowfield using CIVC figures

1999-2000	305 hectares, which came on stream in 2003
2000-2001	311 hectares, which came on stream in 2004
2001-2002	363 hectares, which came on stream in 2005
2002-2003	357 hectares, which came on stream in 2006
2003-2004	359 hectares, which came on stream in 2007
2004-2005	351 hectares, which came on stream in 2008
2005-2006	310 hectares, which came on stream in 2009
2006-2007	280 hectares, which came on stream in 2010
Total over eight years is 2,636 hectares.	
2007-2008	280 hectares, due to come on stream in 2011
2008-2009	125 hectares, due to come on stream in 2012
2009-2010	100 hectares, due to come on stream in 2013
2010-2011	70 hectares, due to come on stream in 2014
2011-2012	70 hectares, due to come on stream in 2015

**Table 3B: Vineyard in active production 1996 to 2010 (plus 1982 & 1983 and 2011 estimates) in hectares**

Source: CIVC

Year	Vineyard planted	Vineyard in production	Vineyard not in production
1982	25 337	23,588	1,749
1983	26 154	23,903	2,251
1996	31 213	30 711	502
1997	31 176	30,547	629
1998	31 220	30,370	850
1999	31 210	30,255	955
2000	31 459	30,407	1,052
2001	31 731	30,504	1,227
2002	32 175	30,892	1,283
2003	32 486	31,233	1,253
2004	32 870	31,570	1,300
2005	33 223	31,924	1,299
2006	33 542	32,341	1,201
2007	33 801	32,716	1,085
2008	33 949	32,946	1,003
2009	34 051	33,080	971
2010	n/a	33,344	

a decree passed last November which also changed aspects of the *réserve individuelle*. However this maximum yield hasn't ever been achieved on average over the whole appellation, the highest average of 15,006 kg/ha being reached back in 1983, with 2007 and 2008 being the only years since that 14,000kg/ha has been crossed - 14,243 in 2007 and 14,228 in '08.

Years like 2003 and 1997, when actual yields dropped below 10,000kg/ha, may be rarer but they do still happen. In the 12

years between 1970 and 1981 only three years topped 10,000kg/ha and four years produced under 5,350kg/ha. Since the mid-'90s yields have certainly been generally higher but the average actual yield over the past 15 harvests (1996-2010) is only a shade over 12,000kg/ha at 12,073.1 kg/ha and once all 34,000 hectares are planted by 2015 that would produce around 356m bottles.

Letter says they believe that annual production of 390m bottles is possible, but

**Table 4: Actual average yields in Champagne over 15 years, 1996-2010 in kilos/hectare**

Year	Actual average yield
1996	10,356
1997	9,402
1998	12,926
1999	12,989
2000	12,580
2001	10,990
2002	11,972
2003	8,256
2004	13,990
2005	12,992
2006	12,997
2007	14,243
2008	14,228
2009	12,280
2010	10,903
2011	n/a

Source: CIVC

sees 14,000kg/ha as the highest regularly achievable yield across the current Champagne vineyards even if many of the 9,871ha planted with Chardonnay (2009 figures), some 29% of the total vineyard, could produce more. This yield level of 14,000kg/ha could produce some 412.5m bottles and so it looks like the *réserve individuelle*, where vineyard owners may hold a maximum of 8,000kg/ha in reserve (temporarily raised to 10,000kg/ha), will continue to play a crucial role when frost, hail, disease, excess sunshine or lack of rainfall reduce harvest volumes.

## DEMAND CONTINUES

But what about consumption? In its efforts to predict future demand the CIVC's observatoire économique estimates growth over the next decade at 2% per annum. If Champagne shipments in 2011 go no higher than 330m bottles, with such a rate of growth the 390m figure won't be reached until 2020.

But 2% per annum growth is a fairly conservative growth rate. The market worldwide was growing at a MAT rate of +4.7% at the end of June, even after a poor shipment performance in that individual month - down 3% overall. This gives a MAT total for shipments (12 months to the end of June 2011) of 325.4m bottles. But

# champagne: yields

**Table 5: Estimated Champagne production and consumption 2011-2020 starting with actual 2010 levels, taking two levels of yield (the 15-year average of 12,073.1kg/ha rounded up to 12,100kg/ha and 14,000kg/ha, the maximum amount the CIVC believes is achievable. Growth in consumption is taken at 2% and 5%, the active vineyard takes into account new vines coming on stream 2011-2015**

Year	Estimated productive vineyard in hectares with new vines coming on stream added 2011 to 2015 (in brackets)	Potential production at 12,100kg/ha (rounded figure, the 15-year average yield 2001-2010 was 12,073.1 kg/ha	Potential production at 14,000 kg/ha maximum yield CIVC sees as possible	Estimated shipments (m bottles) assuming annual growth of 2%	Estimated shipments (m bottles) assuming a year-on-year growth of 5%
2010*	33,344 (+288)	@10,903kg/ha = 315,034,340	@10,500kg/ha = 303,389,940	319.5m	n/a
2011**	33,632 (+125)	@12,500kgs/ha = 364,298,090	n/a	330m	330m
2012	33,757 (+100)	353,951,210	409,530	336.6	346.5
2013	33,857 (+70)	354,999,740	410,743,500	343.33	363.83
2014	33,927 (+70)	355,733,700	411,592,720	350.2	382.02
2015	33,997	356,495,980	412,441,940	357.2	401.18
2016	33,997	356,495,980	412,441,940	364.35	421.17
2017	33,997	356,495,980	412,441,940	371.63	442.23
2018	33,997	356,495,980	412,441,940	379.06	464.34
2019	33,997	356,495,980	412,441,940	386.65	487.56
2020	33,997	356,495,980	412,441,940	394.38	511.94

\*In 2010 the actual average yield was 10,903kg/ha

\*\*In 2011 the maximum yield was effectively 10,500kg/ha but with 2,000kg/ha taken out of reserve this becomes 12,500kg/ha  
Figure in brackets in column two is the number of hectares due to come on stream each year between 2011 and 2015

Source: Table compiled by Giles Fallowfield based on CIVC statistics,

with the second half of the year usually more important, the CIVC is now expecting shipments for calendar 2011 to exceed the 330m bottles it estimated in May, says Letter. In its detailed report looking three years ahead (2011-2013), they predicted shipments would grow to 330m in 2011, 337m in 2012 and 345m in 2013, growth of around 2% a year that would only take shipments over the 390m mark in 2020.

Shipments in 2011 of just 335m would see that 290m mark passed a year earlier, but with annual growth at the current rate of 4.7% the 290m bottle mark would be passed as early as 2016. While in years when nature is less than generous the *réserve individuelle* can be used to boost production – and the Champenois currently have over 200m bottles in the old and new reserves – prices may rise a good deal more quickly than the current 3 or 4% a year in the second half of this decade if that is the only way of cooling demand. *cb*

## The 2011 harvest agreement

While the maximum permitted yield in Champagne is now 15,500 kilos per hectare, for the 2011 harvest the CIVC and INAO have agreed a base yield of 12,500kg/ha. Of this 2,000kg/ha will come from the old *réserve individuelle* which is being run down over the next five years, so to reach that 12,500kg/ha producers will only need to pick 10,500kg/ha. However, to make matters more complicated, vineyard owners will also be able to put wine into a newly created *réserve individuelle* up to a maximum of 3,100kg/ha, so they will legitimately be able to pick 13,600kg/ha. Until the old reserve is completely run down producers will be allowed to have a maximum of 10,000kg/ha in their reserves, but at that point it will be reduced again to 8,000kg/ha, equivalent to just over half a harvest.

The reason for disbanding the old *réserve individuelle* and starting a new one is, as the Champenois say, merely technical. Some people were abusing the old system and could, merely by changing the company name, use their reserves to make additional wine while building them up again under a new guise.

In theory, this could have been done on a major scale by the largest single vineyard owner in the appellation. The fact that LVMH set up a new company in Epernay called Moët Hennessy Champagne et Services (MHCS) in early 2010 to handle administrative matters for all its six brands – Moët & Chandon, Veuve Clicquot, Mercier, Dom Pérignon, Ruinart and Krug – meant that they could, in theory, have used the reserve from the 1,684 hectares the group owns to make another 11.5m bottles of Champagne. But this loophole has now been closed.