

Champagne

It's been a rough ride for champagne in the wake of last year's recession, but major producers are finding some reasons to be optimistic. Giles Fallowfield reports

Taking Stock

Erik Spaans, CIVC Collection

New spring growth on vines in Hautvillers, near Epernay

T

o the great surprise and relief of nearly everyone in Champagne, 2009 didn't turn out to be the *annus horribilis* that was widely expected. Champagne has shown its resilience even in times of recession and, thanks to a strong performance in November and December (see boxed quotes), particularly on the French domestic market, overall shipments ended the year just 9.1% down at 293.3m bottles. This was quite a turnaround, given that the Comité Interprofessionnel du Vin de Champagne (CIVC) estimate – made just last September – that shipments would reach around the 265m bottle mark was viewed as optimistic at the time.

French shipments ended the year only

fractionally down (-0.2%) at around 181m bottles, even though some value was lost as this market grew ever more competitive. The négociants' share of the market was the lowest it has been since 2001 at 65.99%, or some 194m bottles, but this is only down on 66.46% in 2008 when they accounted for 214m bottles.

In fact, while the shipment figure for 2009 is just about 293.3m bottles, actual consumption of Champagne in 2009 is put at something over 300m bottles as there were massive stocks estimated at 60m bottles in the trade at the start of 2009 as a result of the poor last quarter in 2008.

The major négociant houses will be more worried about the poor

performance of most export markets, particularly those outside Europe – principally, in terms of volume, the US and Japan, where shipments dropped respectively by 27% and 38.4%.

The current wave of industrial action by workers across the Champagne region is another headache they could do without.

Tough at the top

The dispute at P&C Heidsieck, where Rémy Cointreau is trying to trim its workforce, is still unresolved, and the ongoing battle at LVMH as the company tries to cut its costs has become increasingly bitter. There was an eight-day strike at Moët & Chandon,



Pierre-Emmanuel Taittinger



Harvest time in Champagne Pannier's vineyards

CERTAINLY 2009 WAS NOT ANOTHER RECORD YEAR, BUT AFTER SOME NECESSARY DE-STOCKING AT THE START OF THE YEAR, SALES IMPROVED PROGRESSIVELY AND NOVEMBER AND DECEMBER HAVE BEEN BRILLIANT MONTHS. WE HAVE PASSED THE STORM – 2010 WILL BE A YEAR OF RECOVERY

PIERRE-EMMANUEL
TAITTINGER
PRESIDENT, TAITTINGER

Ruinart and Mercier in March involving 500 employees, according to French newspaper *l'Union*, and workers at Veuve Clicquot have been involved in a longer dispute still not resolved at the start of April as the LVMH group tries to make employment conditions the same across all the houses in the company following the creation of Moët Hennessy Champagne Services (MHCS) last Spring.

MHCS is based in Epernay and now handles the administration, sales and marketing and buying services for all LVMH houses – Moët, Veuve Clicquot, Krug, Mercier and Ruinart – under one roof, including vital grape purchases.

Conditions of service are known to

(Below) One of Laurent-Perrier's Chardonnay vineyards, 'Les Plaisances'



Shipments of champagne by producer type 2000-2009

	Negotiants' share in bottles & %	Growers' share in bottles & %	Co-ops' share in bottles & %	Total in bottles
2000	168.06m, 66.36%	65.99m, 26.06%	19.19m, 7.58%	253.24m
2001	172.21m, 65.56%	67.23m, 25.59%	23.25m, 8.85%	262.69m
2002	195.07m, 67.80%	67.95m, 23.62%	24.70m, 8.58%	287.72m
2003	197.78m, 67.38%	68.58m, 23.37%	27.14m, 9.25%	293.50m
2004	202.44m, 67.16%	71.06m, 23.57%	27.92m, 9.26%	301.42m
2005	207.29m, 67.38%	72.63m, 23.61%	27.74m, 9.02%	307.66m
2006	217.67m, 67.65%	74.65m, 23.20%	29.46m, 9.16%	321.78m
2007	229.63m, 67.78%	77.49m, 22.87%	31.67m, 9.35%	338.79m
2008	214.29m, 66.42%	78.46m, 24.32%	29.88m, 9.26%	322.63m
2009	193.55m, 65.99%	74.81m, 25.51%	24.95m, 8.51%	293.31m

Compiled by Giles Fallowfield using CIVC statistics

have been different at Clicquot and Moët, while the houses based in Reims – Clicquot and Ruinart, the latter in particular – fear jobs will go as a result of the setting up of MHCS. Other potential problems that lie further ahead involve contracts for grape supply, which is said will all come from MHCS and be in the same format so growers that have for years had a contract supplying a particular brand, perhaps Clicquot or Krug, may get something in future from Moët Hennessy.

Why is this important? As seasoned Champagne watchers will know, this may disturb some loyal growers enough that when their contracts come up for renewal

they may consider going elsewhere.

But the head of one distinguished house told *Drinks International*: "It will all calm down soon, especially if profits are on the upside again."

Delicate negotiations

Pascal Férat, president of the main growers' union, the Syndicat Général des Vignerons (SGV), was also in the news last month (April). Newly elected on January 27 after a long-running battle for power in the union following the removal of previous president Patrick Le Brun from his post last November, Férat was calling for a minimum yield at the next harvest of 10,400kg per hectare. In 2009 the maximum yield for growers was set at 9,700kg/ha. The major houses will be relieved to hear that Férat also called for grape prices to stay at the same level [as in 2009].

However, grape prices remain very steep – several sources confirmed premier cru and grand cru prices in 2009 were, in some cases, at the same high level as in 2008, that is between €5.50 and €5.85 per kg. Given the still-difficult

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state of the market, some of the *négoce*s may want to see them fall further. Average prices only fell slightly in 2009, even though there was widespread doom and gloom at the time of the harvest when they were agreed. Clearly preserving the delicate balance of power between the growers and the *négoce*s is going to be a good deal more difficult this year, especially if there is little sign of the market picking up by mid-summer.

One thing which will make the annual negotiations on the maximum permitted yield for the 2010 harvest much more challenging is the fact that the growers are already sitting on close to the maximum they are permitted to hold in their *réserves individuelles*. These reserves are set at a level of 8,000kg/ha in an agreement that runs until the 2011 harvest, a level equivalent to just over half a harvest – around 230m bottles.

When the deal on the 2009 harvest yield was agreed between the *négoce*s and the growers, the then growers president Patrick le Brun found it easier to persuade his members to accept a basic yield of 9,700kg/ha [and thus lower income] because they were also permitted to put away up to a maximum of 4,300kg/ha into their *réserves individuelles*.

It was a useful bartering tool, helping to take the heat out of negotiations. But later this year, when the two joint presidents of the CIVC – Ghislain de Montgolfier representing the houses (president of the UMC) and SGV's Férat, now representing the growers – sit down to negotiate a new deal, they won't have this safety valve to help secure agreement.

Although the actual average yield achieved across the appellation in 2009 was slightly lower than predicted at 12,258kg/ha, growers were able to add a further 2,561kg/ha (on average) to their stocks and the level of growers' *réserves individuelles* across the appellation now stands at 7,340kg/ha. This is an average figure and many growers already have their maximum, so the maximum which could be put into growers' personal reserves is now just 660kg/ha (the maximum 8,000 minus the current average level of 7,340).

To make things slightly worse, in addition to whatever they make from the 2010 harvest the houses will also have 35m extra bottles immediately post-harvest, thanks to last year's agreement, in which the maximum they were allowed to bottle was 8,000kg/ha having bought in 9,700kg/ha from the growers.

Of course, if the market continues to pick up following its impressive rebound in November and December of last year, the desire of the *négoce*s to set a low yield for the approaching 2010 harvest (in order to keep supply and demand in line, thus propping up selling prices) won't be so strong. But the question is will it?

Year of ups and downs

Things are clearly still tough, as revealed by the recently announced year-end figures for Boizel Chanoine Champagne (BCC) group, the second



A Champagne Taittinger vineyard

largest in Champagne. In what it describes as a "difficult economic environment" in 2009, the group saw its net income fall by 21.7% from €20.53m to €16.08m. Group turnover fell by 8.2% from €300.65 to €276.04m.

Nevertheless BCC, which has a presence in all sectors of the Champagne market, managed to achieve a slight increase in its volumes, with the number of bottles sold across all its brands, including Lanson and Maison Burtin, rising from 19.8m in 2008 to 20.97m bottles in 2009. Despite the overstocking seen among distributors at the start of 2009, which particularly undermined shipments for the first half of the year, BCC has further strengthened its position in France (61% of volumes) and limited the drop in its export sales volumes to 8.2%.

The group's consolidated revenues came to €264.05m, down 7.6% at constant exchange rates. These figures reflect a satisfactory performance compared with the champagne industry as a whole, which saw its revenues fall by 17% on average, according to CIVC figures.

The performances achieved by the BCC's different houses have varied considerably depending on their customer base, price positioning and export exposure. Prestige lines such as Clos des Goisses (Champagne Philipponnat), Cuvée Louis XV (Champagne de Venoge) and Cuvée des Moines (Champagne Besserat de Bellefon) have sold less well than entry-level wines produced at Maison Burtin. Traditional sales to restaurants and wine stores have been hit harder than mass retail sales from

Chanoine and Maison Burtin. Lanson's sales have been less dynamic on export markets than in France, while Champagne Boizel's direct mail-order sales to consumers have performed well. Lower revenue came, then, mainly as a result of selling a poorer price mix of products, entry-level wines selling better than vintage and prestige lines.

Since Bruno Paillard and Philippe Baijot took over Lanson and Maison Burtin in 2006 they have brought in quite a few changes. As Baijot, chief executive of Lanson International, explains: "Our two main objectives were to identify and implement economies in order to improve the profitability of these houses and to increase the value and image of the brands. With regard to the latter, since 2006 we

Total Champagne shipments % change over previous year

Year	No. of bottles	% change over previous year
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	293,314,717	-9.09%

Compiled by Giles Fallowfield using CIVC statistics