

Champagne stacks up



Michel Guillard - Collection CMC

Harvest time at Monthelon, Epernay

Despite some claims to the contrary, figures for champagne yields and shipments show no imminent danger of a shortage, reports **Giles Fallowfield**

If you were to believe the sometimes sensationalist stories you read in the mainstream press, you might have the impression that the Champagne industry lurches alternately from positions of huge glut to shortages of stock in the mere blink of an eye.

Looking beyond the headlines, to give an impression of a worldwide supply problem could be viewed as a mechanism by which the larger Champagne concerns can manage demand in the face of their own stock fluctuations. Or, to take a more cynical view, by which they can

manipulate prices upwards at the bottom end of the market.

LVMH boss Bernard Arnault declared Dom Pérignon to be selling so well it was running out of stocks in certain countries. And there is certainly evidence that, in markets where vintage counts, 2002 cuvées of the right pedigree are being gobbled up. Were these comments from Arnault a move to reinforce the impression that Dom Pérignon – with its huge production volume that dwarfs nearly every non-vintage cuvée other than Moët and Veuve Clicquot (also in the LVMH group) – is more of a

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**TO TALK OF
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PREMATURE**

JEROME
PHILIPON
BOLLINGER

Table 1: Total shipments of champagne with % change over previous year

Year	No. of bottles	% change
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

boutique brand and rarity?

It's true that production of champagne in the past two harvests of 2009 and 2010 has been restricted both by intent and, in the case of 2010, by the wet weather and the subsequent rot problems.

And on the demand side of the equation, despite the difficult worldwide economic situation, champagne volume has recovered and shipments in 2010 rose 8.9% to 319.51m bottles (Table 1).

Disregarding the pre-Millennial spike in 1999 shipments – which proved to be a distortion, resulting in a massive stock overhang and a dramatic fall in shipments the following year – this was the fourth largest volume ever shipped, after 2007, 2008 and 2006 when it was only 2.28m bottles higher.

Not short of stock

So production levels have fallen slightly, and demand has recovered reasonably well from the recession.

But does this mean that we are really facing an overall shortage of champagne in the short-term? I don't think so, and neither does Bollinger managing director Jérôme Philipon.

“To talk of a shortage is far too premature,” says Philipon, “it's clear, however, that shipments have improved and some of the most premium brands have seen a recovery over the past 18 months, which has created some tension around supplies of the top cuvées.

“But shortage, we are very far from that. You do the maths.”

Let's look at some facts. In 2010 the maximum permitted harvest yield was

Champagne supply and demand 2001-2010

Year	Hectares in active production	Actual average yields (kg/ha)	Equivalent number of bottles 75cl	Champagne shipments	Difference between production & shipments
2001	30,504	10,990	290,501,690	262,698,304	+27,813,386
2002	30,892	11,972	320,484,410	287,722,049	+32,762,361
2003	31,233	8,256	223,385,000	293,509,624	-70,124,624
2004	31,570	13,990	382,726,000	301,418,695	+81,307,305
2005	31,924	12,992	359,402,000	307,665,132	+51,736,868
2006	32,341	12,997	364,236,000	321,789,798	+42,446,202
2007	32,716	14,243	403,776,000	338,796,703	+64,980,297
2008	32,946	14,228	406,216,000	322,637,259	+83,578,741
2009	33,077	12,280	351,974,000	293,330,613	+58,643,387
2010	33,344*	10,903*	315,040,000	319,510,832	-4,470,832

*= CIVC estimate



(Above) GH Mumm vineyards at Avize

(Left) Perrier-Jouët's vineyards in Mailly

(Below) Bollinger's Jérôme Philipon: 'Far too premature' to talk of a shortfall

10,500kg per hectare. With 33,344ha of vineyards (CIVC estimate) in active production, this meant 303,389,940 bottles could be produced.

However with average yield across the appellation actually reaching 10,903kg/ha the potential volume is in reality 315,034,340 – the difference between the two being put into the growers' 'réserve individuelle' (of which more later).

So, this real 2010 harvest production figure of 315m bottles was only a fraction – less than five million bottles – behind the 2010 shipments of 319.51m. And 2010 is the first year since 2003 that production of champagne has dropped below shipments. Before that it was 1997, and these were the two smallest harvests in the past 15 years in Champagne.

In the other 14 harvests between 1995 and 2009, production exceeded



Giles Fallowfield



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shipments (Table 1) and over that period a 368.6m bottle surplus of champagne was produced.

It is true that some of this hasn't been made into wine and forms part of the growers' *réserve individuelle* (part of a crop set aside by growers as a form of insurance against future reduced crop levels or poorer quality vintages). But it is still available in times of need, for example if a major frost hits when the vines have started growing early, as in April 2003 – and again this year.

In the past few years the average *réserve individuelle* held by the growers has been built up, and it now stands only just below the maximum allowed – that's 8,000kg/ha – reaching 7,600kg/ha. With the current area in production, this is the equivalent of just under 220m bottles – more than two-thirds of the 2010 shipments total.

In addition to this volume sitting in tank – equivalent to more than half a harvest, which could boost any particular crop shortfall caused by disease or extreme weather – actual stock levels in the 12 months to end July 2010 reached their highest ever level of nearly 1.4bn bottles. That, even given an annual rate of consumption of 340m bottles, which hasn't yet ever been reached, is over four years' supply.

The *négociants* will be pleased to note that nearly half of this stock held in cellar, some 644m bottles, is owned by them, and the imbalance between stocks held by the *négociants* and those stored by co-ops/growers in relation to their sales has been slightly corrected, with the latter going down from 453m bottles to 436m bottles while the *négociants'* stocks rose by 74m bottles.

So, despite what you may have read, there isn't generally a shortage of champagne and – barring more than one disaster at harvest time substantially reducing the reserves, in combination with potentially huge markets such as China really taking off – there isn't likely to be in the short-term either.

Monitoring demand

It is also true to say that by simply adjusting the yield level at any given harvest – providing, of course, there are no disasters – the authorities are able to boost production in line with short-term predictions relating to growing demand.

Under the current rules a maximum of 15,500kg/ha could in theory be produced,



Alain Cornu - Collection CIVC

Chardonnay grapes ready for crushing in a traditional champagne press

which implies the possibility of making just over 445m bottles, given the current area (33,344ha) in active production.

Actual average yields have only crossed the 14,000kg/ha mark four times in the past 40 years but two of those instances were in the very recent past in 2007 and 2008, which produced respectively 14,242kg/ha and 14,228kg/ha. At that level, which is clearly feasible, around 410m bottles could be made.

The Champenois are now carefully monitoring demand on a month-by-month basis and, as Michel Letter, managing director of Mumm and Perrier-Jouët, who also heads up the CIVC committee analysing such stats, says: "We are already looking at what sort of level of yield looks to be right, given the market performance. In the first two

Michel Letter: 'yield level not ours to choose randomly'



months of 2011 shipment volumes are up 11% on the previous year, but these are very small months and we want to wait until the end of June to see if we have a strong recovery in the market.

"The yield level is not chosen randomly," he continues. "We look at two things to make a forecast for growth: the level of stocks held, which we wouldn't want to see fall below three years [at current consumption rates]; and how the market is performing.

"If we think demand will increase to between 325m and 330m bottles, that would warrant a yield of around 11,000kg/ha. For 330m to 340m bottles it would be closer to 12,000kg/ha."

He believes a level around 12,000kg/ha this year would be good and, importantly, would allow for a sufficiently high income for the growers to take some pressure off grape prices. But at this stage it is still too early to call.

Export-led recovery

So, in a year that saw champagne shipments rise back above the 300m bottle mark, which markets is the increased demand coming from?

Once again growth, or rather recovery, was export-led. Shipments outside France were up 10.82% to 134.5m bottles – a rise of 22.2m bottles – while French domestic shipments grew by 4.22m bottles, a rise of just 2.3% (see box on French domestic sales).

The strongest recovery came from the markets outside Europe, which were also those that suffered most in the financial crisis. They grew at about twice the percentage rate (+28.7%) of the traditional European markets, although because they are smaller in total combined size (if you take out the US and Japan, the remaining

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Shipments to top 10 export markets and France in 2010

Country	No. of bottles	Change over 2009
France	184,998,231	2.3%
UK	35,488,401	16.3%
USA	16,934,242	34.9%
Germany	13,313,273	21.5%
Belgium	8,806,008	7.8%
Italy	7,464,935	45.4%
Japan	7,183,113	5.6%
Switzerland	5,442,295	12.34%
Spain	3,689,307	23.8%
Australia	3,687,140	25.8%
Holland	2,474,876	-9.5%
Export	134,512,601	10.82%
Total	319,510,832	8.9%

Source: CIVC

Shipments to top 10 export markets and France in 2009

Country	No. of bottles	Change over 2008
France	180,770,128	-0.24%
UK	30,523,359	-15.21%
USA	12,552,070	-27.00%
Germany	10,947,967	-5.41%
Belgium	8,168,385	-17.58%
Italy	6,803,419	-27.92%
Japan	5,133,802	-38.39%
Switzerland	4,846,500	-10.89%
Spain	2,979,997	-27.15%
Australia	2,931,941	-19.63%
Holland	2,735,858	-22.10%
Export	112,560,485	20.45%
Total	293,330,613	9.09%

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Michel Guillard - Collection CIVC

Vineyards in Moussy, near Epernay

countries only account for 21.8% of total export shipments between them) in terms of volume this meant a rise of some 12m bottles versus Europe's 10m.

The so-called BRIC countries – which are set to form four of the five largest grocery markets in the world, with the US demoted into second place by China by 2015, according to food and grocery analyst IGD's forecasts – look increasingly likely to account for champagne's long-term future growth.

The exception may be India, where tax holds the market back. Of the four nations, it was the only one that fell in 2010, down 8.9% and it hasn't reached 200,000 bottles yet. By contrast, China, Russia and Brazil saw growth of 89.9%, 87.6% and 63.2% respectively, though between the three they still only account for about 3.1m bottles.

"China is still a small market but we have seen tremendous growth in 2010," says Michel Letter. "The growth in Hong Kong [where shipments were up 45.6% to 1.25m bottles] is also 80%, accounted for by [sales in] China. We have nearly 450 sales staff for the group (Pernod Ricard) and that network gives up an important advantage. Brazil is growing, but it still not very big and LVMH has a commanding share there [more than two-thirds of the market]. Russia is a difficult market where the distribution channels are not that well organised."

Patrick Spanti, export director at Jacquart & Associés Distribution, one of the two major co-operative brands, says: "China is developing fast, it's mainly in

the international hotels but also in the off trade.

"Champagne used to be the wine of European people who lived there, and some locals who had spent time in Europe, but today there is a growing consumption by the Chinese who see champagne as a symbol of success. But it will take time for Chinese locals as champagne is mainly a gift item. They have to learn to drink it."

Spanti agrees that the main obstacle in Russia is the lack of distribution network but, he says: "Demand has definitely picked up. By the end of March, Jacquart has already shipped the same volume as was sent in the whole of 2010.

"Russia has always been a good market for quality French wine, with no cultural obstacle. Now the rouble and the credit situation is back to normal, shipments have started again and this market may well develop faster than Asia."

For Bollinger things are a little different as it's hard for them to find the wine to expand into new markets. "In Brazil we are positioned as a very expensive wine just in top restaurants, we simply don't have the inventory," says Jérôme Philipon. "In China we are distributed by the same importer as Domaine Romanée Conti. One day China will become a significant market for champagne. The Chinese love brands and champagne will fit well – they will not be interested only in top Bordeaux.

"Hong Kong is also an important gateway," Philipon adds. "I lived there in the past and I know people pick up

Champagne: French domestic sales in 'grande distribution'

The French market is important to champagne, in 2010 accounting for nearly 58% of total shipments. The price in France of 'premier prix' champagne in 'grande distribution', which accounts for about a third of all domestic sales, rose with the lowest price moving up from below €10 a bottle to between €10 and €11, while the average price for champagne as a whole stood at €17.91.

- Sales of champagne through **hypermarkets** and **discount shops** reached 29.8% of the total market in 2010, as against 29.9% in 2009. Volumes sold through this sector rose 2.6% to 50m bottles, with value up 4.1%, to €895.8m. Sales at prices under €10 a bottle fell by 30.8%, and sales of champagne priced between €10 and €11 rose by 26.7%.
- In all, 5.64m bottles of **premier prix champagne** were sold at a price below €11 against 5.78m bottles in 2009. The major international marques accounted for 70.6% of the volume in this sector and 74.7% of the turnover in 2010. They sold 35.3m bottles, up 2.1% on 2009, with an average price up 2.4% to €18.95.
- The **co-operative brands** saw volumes rise 15.7% in 2010, with 3.9m bottles sold, while the base price dropped 4.6% to €17.97. This sector of the market has recovered to 2008 levels when it accounted for 7.7% in terms of both value and volume. The growers' French sales in this channel reached 1.4m bottles, a fall of 2.6%, but the average price rose by 0.7% to €15.17.
- **Non-vintage** champagne still accounts for more than 80% of the market. **Rosé** and **vintage** sales picked up by 19.5% and 22.8% respectively and now account for 5.1% and 4.7% of the market.
- **Prices** of vintage champagne went up by 1.1% in 2009 and by a further 0.5% in 2010 to reach €22.03 on average. The rosé market grew in volume but prices fell by an average of 3.5%.
- **Demi-sec** styles fell in volume by 2.9% and now account for 6.6% of sales compared with 8.1% in 2008. Sales in discount shops fell from 5.38m bottles in 2009 to 5.1m in 2010 at an average price of €10.70.

a couple of bottles whenever they are travelling through because it is so much cheaper than most surrounding domestic markets.

"Bollinger always does well where there has been some British interests and influence in the past. It's the same in Australia, which is another important market for the brand and growing well [up 25.8% in 2010 to 3.7m bottles]."

CHINA IS STILL A SMALL MARKET BUT WE HAVE SEEN TREMENDOUS GROWTH IN 2010

MICHEL LETTER
MUMM/
PERRIER-
JOUËT

Renewed impetus

For the moment, though, the UK and the French domestic market, the two largest, remain central to Bollinger's fortunes and to champagne's too and, this being a Vinexpo year, the Champenois always save up some new cuvées to show off at the Bordeaux show.

Because there is lots of activity and there are new wines to promote, the months that follow Vinexpo are usually fairly bullish in terms of sales, as all have the beneficial effect of renewing consumer interest in the category. **DI**