

A spring without en primeur - the foreboding of a market without buyers?

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Every spring, the wine market gets buzzing, and all its attention focuses on the Bordeaux en primeur campaign. Between the end of March and the beginning of April, the tastings of the last vintage take place. Journalists and experts publish their assessments of the wine quality. Châteaux put their production up for sale following a well-trodden procedure. Depending on the context and demand, the en primeur campaign can be more or less long and intense, but in any case, it sets the tone for the entire wine market. The "Place de Bordeaux" remains the heart of this market and represents a formidable marketing and logistics machine.

This year, the 2019 vintage would have been the focus of all this attention. But the COVID-19 crisis has passed by. In a recent study, we discussed the risks of launching the en primeur campaign despite the sanitary and economic situation. However, since the end of May and the release of Pontet Canet 2019, the campaign seems to be well underway. Is it, however, indispensable to embark on such a risky adventure?

The sale of Pontet Canet can be viewed as a success with the entire inventory sold over one day, albeit at a 31% discount compared to the 2018 vintage. Does this mean that launching this campaign is the right choice? We still don't think so. Given the uncertainty and apparent lack of interest at present, perhaps a more reasonable option would have been the outright cancellation of the en primeur campaign. A postponement would have been permissible given the quality of the wines. Yves Beck, one of the few experts who has tasted them, considers the vintage to be great, if not truly exceptional. Jane Anson, who tasted the Pontet Canet 2019, shares this opinion. This, however, would have left the question of when to organize the campaign best?

Substantial controversy exists on whether the en primeur campaign should have taken place this year. This article looks at the issue from an economic perspective, analyzing the current supply and demand on the secondary market (i.e., bottled wines), transposing these conditions on the primary market (i.e., wines still in barrel) and comparing them to those of previous uncertain campaigns.

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According to a recent study by the European Association of Wine Economists (www.euawe.com), the secondary market is likely to experience a price decline of around 30% in light of the latest economic forecasts. This is mainly due to pressure on demand caused by lower incomes and a reduction in wealth. The study further assumes that supply will remain relatively stable. But nothing is less certain. Indeed, some buy-side players may well find themselves on the sell-side, reducing their inventory to ensure their survival. This is particularly the case for restaurants and hotels, but also for investors who may be forced to compensate for losses on other markets. In such a case, the price decline could be even more severe.

On the primary market, the situation has rarely been so uncertain and complicated ahead of an en primeur campaign. It has only been the case for the 2008 vintage (put up for sale in 2009) which can be used as a benchmark. The world was then reeling from the worst financial crisis since 1929. Fine wine prices had contracted by around 20% on the secondary market and above all transaction numbers were in free fall. The 2008 vintage, described as good to very good, followed a rather average 2007 vintage. Producers had back then decided to significantly lower prices (up to -45% for the most prestigious wines) to sell their production, but also to allow the entire Bordeaux trade to overcome the crisis. Indeed, many negociants still had considerable inventories of the 2006 and 2007 vintages on their books and had acute liquidity needs. Economists agree that the current crisis is even more brutal than the one of 2008. The 2019 vintage is probably better than 2008, but it follows a 2018 vintage that was infinitely better than 2007. In short, based on this comparison, a significant decrease, at least similar to the one surrounding the release of the 2008 vintage, is necessary to allow the 2019 vintage to find its buyers. Pontet Canet's 31% price decline this year follows a drop of 25% in 2018 as compared to 2016 (a qualitatively similar vintage). The price drop over the past two vintages is therefore significant for this château.

To better understand the situation, it is further necessary to account for the multiple interactions between the primary and secondary market that are sources of opportunities and risks. A well-conducted en primeur campaign can be a real driver for the entire wine market. This was the case in 2009. The successful campaign had led to an increase in interest in fine wines driving up demand and prices on the secondary market. This hypothesis does not seem plausible today as the starting point is far too different: the need to shift the campaign to a time necessarily less favourable than spring; historic buyers on the brink of collapse; a high quantity of quality back-vintage wines still on sale due to an uninterrupted series of excellent vintages over the past five years; economic and health uncertainties. There is a genuine risk that a postponement/launching of the en primeur campaign will contribute to destabilizing the market and result in a twofold negative effect: a failure of the en primeur campaign and an accelerated price drop on the secondary market.

Moreover, even if the 2019 campaign is satisfactory, it will have to be followed by a successful 2020 campaign next spring. Nor should long-term risks be overlooked: it is the very functioning of the en primeur campaign that could be called into question if the 2019 sales were to turn into a fiasco. In practical terms, the market does not need 2019 and forcing its offering is a considerable risk. A slump in early prices would drive the secondary market down. Fine wines, as an alternative investment vehicle, would consequently lose much of their appeal in the eyes of investors in the context of resilient stock markets. A withdrawal of these players from the market would cause prices to plummet durably, both on

the primary and secondary markets. On the other hand, keeping prices constant to attract buyers carries the risk of not selling. The loss of reputation would be dramatic for the Bordeaux marketplace. Purchases could stop or slow down for a long time and speculation on a future severe price drop ensue.

The most reasonable solution would have been to support the secondary market by managing the supply of available vintages and to reserve the 2019 vintage for a later stage in the hope of a strong recovery in 2021. As a great vintage, it can be kept and will not lose in value. The storage and cash financing costs involved also appear to be well measured in terms of the stakes at hand. Moreover, it will allow for an opportunity to reflect on the very concept of en primeur campaigns, which has, admittedly, lost some of its appeal to many market participants in recent years. Undeniably, producers gradually managed to transfer most of the risk induced by price variability to negociants (and to end customers), while reducing the gains they could hope to realize. A cancellation would provide an opportunity to set the balance of power straight, but would also require targeted support to help producers cope with the ensuing logistical and financial problems.

Overall, a cancellation would have been an opportunity to consider a "New Deal" between producers, brokers and negociants, which would revitalize the system of primeur wines.