The economic situation of Bourgogne wines

Return to the highest summits

Bourgogne wines this year set new export records, despite the global economy continuing to flag. Sales have been buoyed by the continual efforts of professionals in the Bourgogne wine sector, by the consistent quality of successive vintages, by new consumer trends (drinking less, but better quality), and by the soaring purchasing power of wine-lovers in Asia and other wealthy countries.

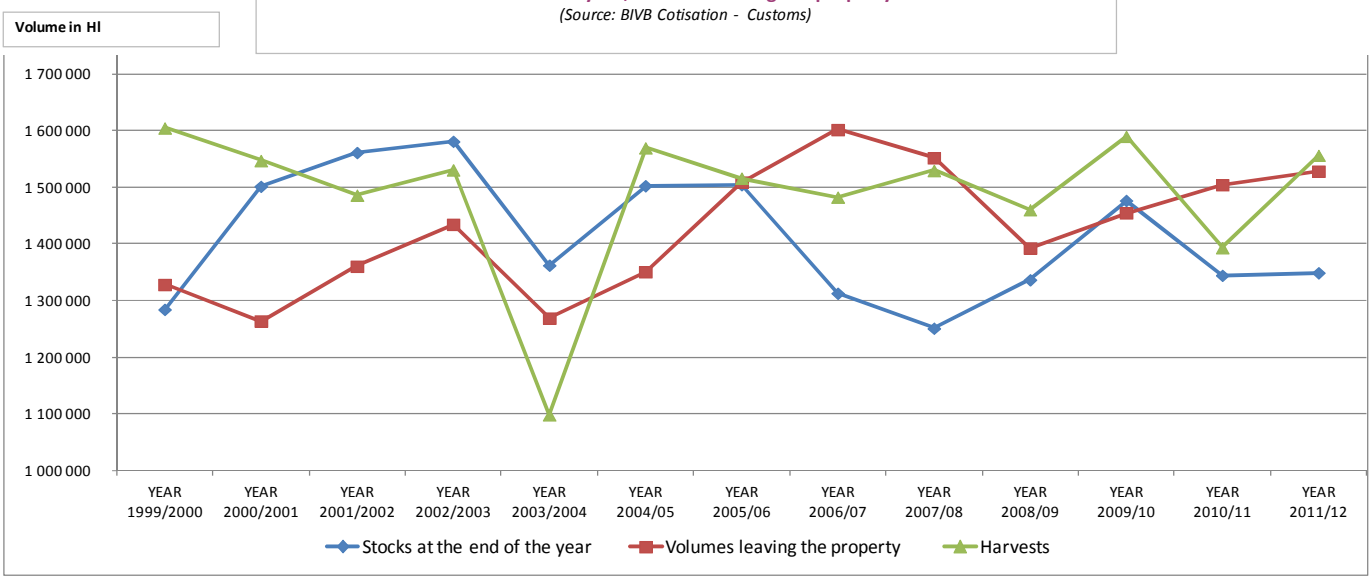
In France, the new retail networks have performed well, also showing record sales and good value creation. The traditional markets require more investment to achieve the same results. Bourgogne has maintained its position in the restaurant sector, broadening its offer and being boosted by sales by the glass. Wine tourism and direct sales are attracting many, while developments on the circuit of specialist wine stockists are looking promising.

The overall figures do not, however, reflect the disparities which exist across the wine region. Certain companies are experiencing profitability problems. Faced with the prospect of limiting availability - due in part to the low 2012 harvest - Bourgogne wine producers want to preserve their markets by controlling price rises and avoiding external speculation.

Regional market: growth despite low stocks

With the equivalent of **203.7 million bottles put on the market** and with **growth of 1.5% compared to the previous vintage**, the volumes leaving properties in 2011/2012 (bulk and in bottles) were healthy.

Graphic n°1
Volumes of wines sold by producers by wine year (August of year N to July of year N+1)
Stocks at the end of the year, volumes leaving the property and harvets
(Source: BIVB Cotisation - Customs)



Volumes of wine leaving the property were boosted, in part, by the still-dynamic levels of acquisition by bulk wine merchants (875,000 hl). **This grew again and was more than 1% higher than in the previous year**.

The stocks of wine remaining with producers at the end of the 2011/2012 year were **stable but low (1.35 million hl),** after a drop of 9% for the 2010/2011 year.

Equivalent to less than 11 months of an average harvest, this is a low level, especially since the volume of the 2012 vintage will certainly be below average.

The forecasts for 2012/2013 cannot be compared to the period 2003/2004. Although the 2003 harvest was small, the economic situation bore no comparison: stocks on estates were higher and the volumes sold considerably lower (*graphic n°2*).

Today, although recession continues to impact on the global economy, stocks on estates are lower and sales of Bourgogne wines are higher.

Bourgogne wine professionals **would like to limit the effects of this low harvest on ever-growing demand.** While a **price increase is inevitable, it will be controlled,** in order not to put off consumers in either traditional or new markets. This is a crucial factor in an ever-more competitive sector.

France: "Drink less, but drink better"
The current trend boosts the attractiveness of Bourgogne wines

Bourgogne, in step with certain other French wine regions, is maintaining its market share in France. It is benefitting from consumer choices that are increasingly qualitative, as a consequence of the economic downturn.

The context is difficult. With a 0.6% drop in purchasing power, consumers quite reasonably do not want to sacrifice their spending, but rather to control it.

Wine is benefitting from this trend, which is accompanied by another movement, so-called "slow drinking".

In 2012, purchases of AOC wines therefore increased. Those in the market are refocusing on a demographic of wine consumers, which may well be shrinking, but which has strong potential. The average annual budget per household has increased from 312 euros in 2011, compared to 301 euros in 2008 (*source: Kantar Worldpanel*).

Given their positioning in the mid/high-end, **Bourgogne wines naturally benefit from this structural change, with a 2% increase in sales in France** (107 million bottles), mainly thanks to the supermarket sector.

Bourgogne wines popular in gastronomic restaurants

Bourgogne wine is still very well positioned in the French restaurant trade, benefiting from a decrease in frequentation of fast-food outlets in favor of higher-value outlets (*source: NPD Crest*). 2012 was a year of contrasts, with a notable drop in restaurant-going in the first four months, a gloomy hotel sector, and activity in the seminar sector flagging.

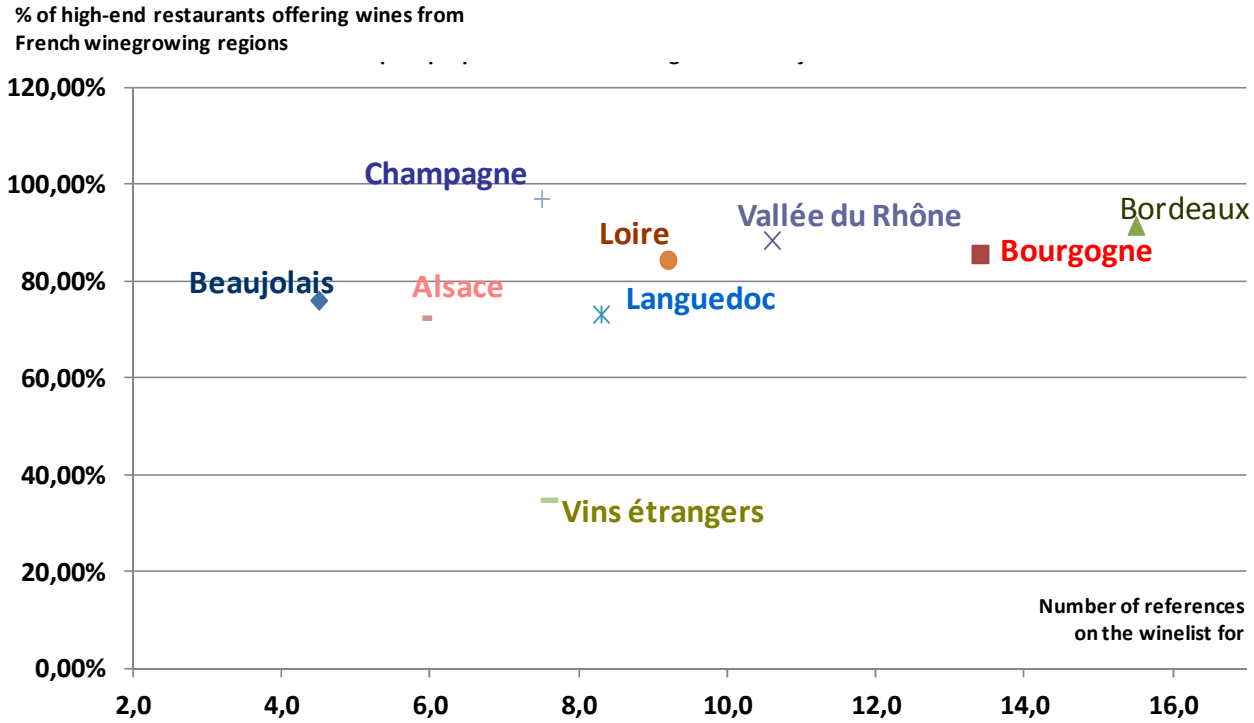
In 2011**, Bourgogne wines were available on the wine lists of as many restaurants as those of other French wine regions producing larger volumes** (*graphic n°2).*

The number of references on wine lists is growing: out of 874 gastronomic restaurants surveyed in 2011, each establishment offered on average 14 Bourgogne wine references, **a 4% increase over 2010.**

Graphic n°2

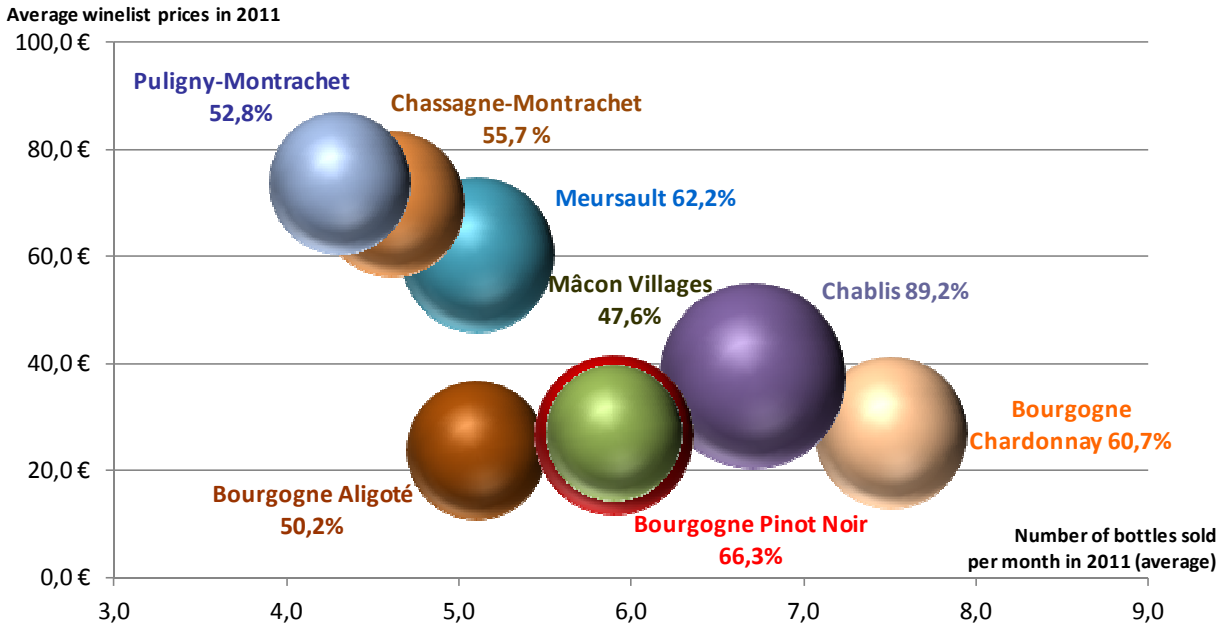
Number of product references by French winegrowing region offered on the wine list of 874 high-end restaurants

(Source CHD 2011)



The eight most popular Bourgogne appellations were available in 50% of these restaurants (*see graphic below*).

Graphic n°3
Number of bottles sold and their sale price in 2011 in 874 high-end French restaurants , % of responses by AOC offered - *(Source CHD 2011)*



How to read the graph:
The size of the bubbles is proportional to the % of responses given, by 814 French gastronomic restaurants, to the question: Which Bourgogne AOC wines do you offer in your establishment?

Bourgogne: a significant share of annual sales for specialist wine stores

Between 7 and 10 million bottles of Bourgogne are sold on this circuit annually.
Bourgogne wines represent on average 13.4% of total sales (including Champagne and spirits) of the 91.7% of wine specialists who stock it, accounting for 16.7% for the total volume of wine sales.

Between 20 and 25% of wine specialists consider that sales of Bourgogne wines are going to increase, for both whites and reds.

This high-value market has room for further growth. **The number of stockists climbed again in 2012: +3.5%, with 176 additional sales outlets**. The average basket went from 35.8 to 36.6 euros including taxes per client. Overall sales were up +2.9% *(source: EQUONOX 2012 - survey of 200 specialist wine stores).*

Wine tourism and sales on the estate: sectors with strong potential

Close to one million tourists come each year to Bourgogne, which is ideally located on a major route for vacationers.
The influx of clients and wine tourists is mainly made up of French and other European visitors *(graphic n°4)*.

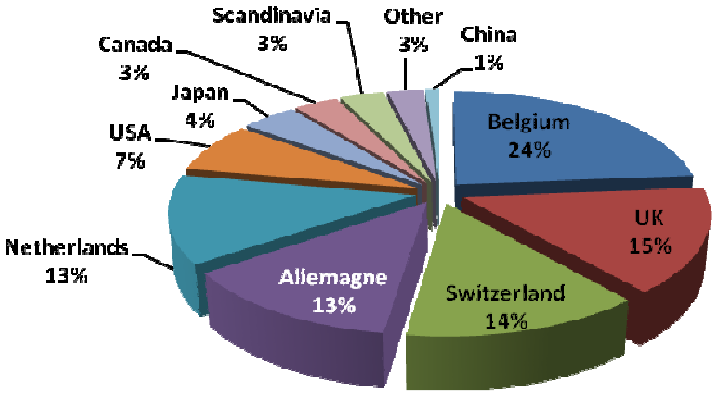
The clientele from beyond Europe remains more of a rarity, accounting for less than 25% of sales direct from the property. Tourists from other countries are nonetheless starting to emerge, coming from Brazil, Ukraine, Asia and Russia, for example

Graphic n°4

Study: Wine tourism and the opportunities it presents

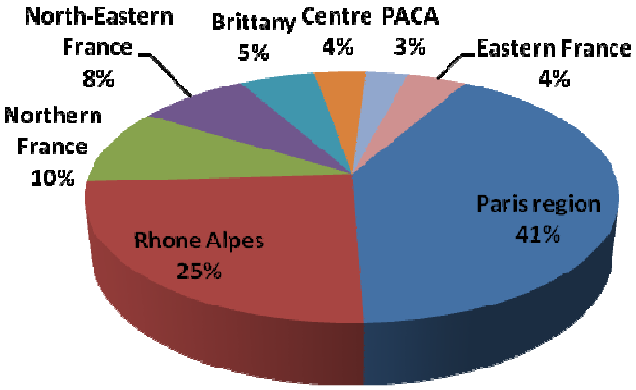
Where your main foreign customers come from ?

(data from 135 estates and producers interested in wine tourism)



Where French tourists come from? (excluding Bourgogne)

(data from 149 estates and producers interested in wine tourism)



This activity is becoming more professionalized. The Bourgogne Wine Board (BIVB) carried out a survey during the summer of 2012 amongst 149 businesses involved in wine tourism.

- 50% are signatories of the "De Vignes en Caves" hospitality charter set up by the BIVB (guaranteeing a high-level, individual welcome for visitors)
- 21% adhere to the national "Vignobles & Découvertes" label
- 96% have tasting premises available
- 86% have at least one person who speaks a foreign language
- 25% offer tasting packages offering either accommodation, on-site catering or sale of other local products

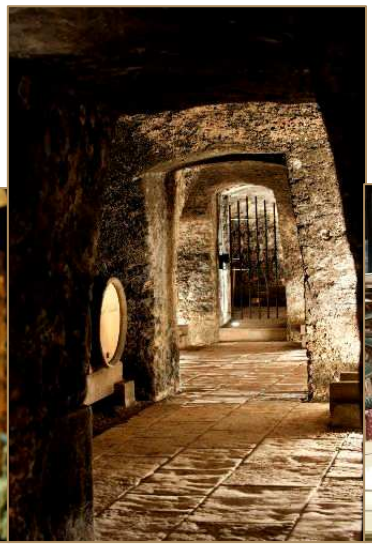
Wine tourism, a source of revenue:

- 26% of these businesses have attracted a new clientele
- 29% have increased their sales
- 23% have gained in notoriety

However, the constraints on growth are numerous for these businesses (lack of time, difficulties in adapting infrastructure, major investments involved).

On a global level, more than 40% of luxury purchases (including wines) are made whilst traveling, by tourists from emerging countries, in particular the Chinese. *Bain & Company* anticipates continued growth in this market of around 4 to 6% per year.

With the economic stakes high, international competition is fierce. **Bourgogne can depend on its natural and human advantages to stand out: authenticity, atypical terroir, conviviality, and the unrivaled broad range of its wines.**



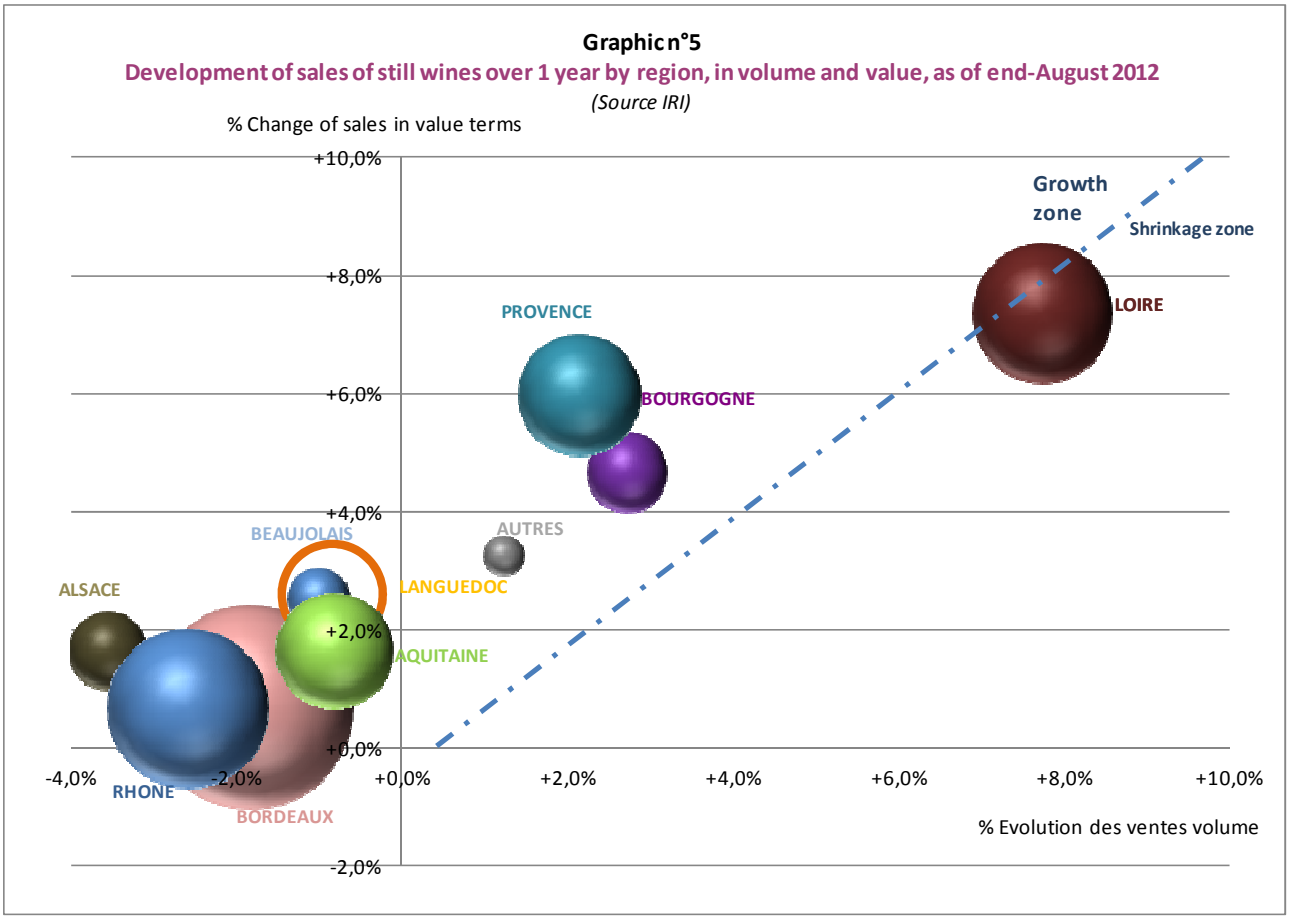
Bourgogne beats records in the supermarket retail sector

In the last year, to the end of August 2012, **sales of Bourgogne wines continued to grow on the hypermarket and supermarket circuit, and <u>set a new record</u>** with 230 million euros in revenue and 36 million bottles sold, despite a generally unfavorable overall economic context.

In the still wine segment, Bourgogne, with record sales of 194 million euros (+4.7%), is the only wine region (excluding rosé wines) which showed both:

- **significant growth in sales by volume:** more than 29.5 million bottles sold (+2.7% year-on-year)
- **a measured increase in the average price of its wines** (+2%)

This jump in sales is attributable **to both red wines (+3.4%) and white wines (+5.8%), and covers all Bourgogne appellations.**



<u>How to read the graphic:</u>
The size of the bubbles is proportional to the share of the region's AOC still wines by volume.

To this can be added the extraordinary growth of Crémant de Bourgogne, in the otherwise stagnant market for sparkling wines. **The record sales reached 6.4 million bottles** (+8.4 % year-on-year), for revenue of 36.6 million euros (+9%).
The appellation has become the second-best-selling AOC sparkling wine, and the one with the highest price point after Champagne. Crémant de Bourgogne is positioned as the preferred choice for the consumer seeking a little luxury at a reasonable price.

Sales of Bourgogne wines in "modern" retail outlets (including small supermarkets, convenience stores, discount stores, and drive-ins) account for **48 million bottles, or 45% of the French market.**

Bourgogne is positioned as the most attractive region in the French AOC wines segment in the retail market: it is the main contributor to growth in value. It occupies an unusual position, because relatively little Bourgogne is sold in special offers (23% of the volume sold compared to 25% for the average of all AOCs).

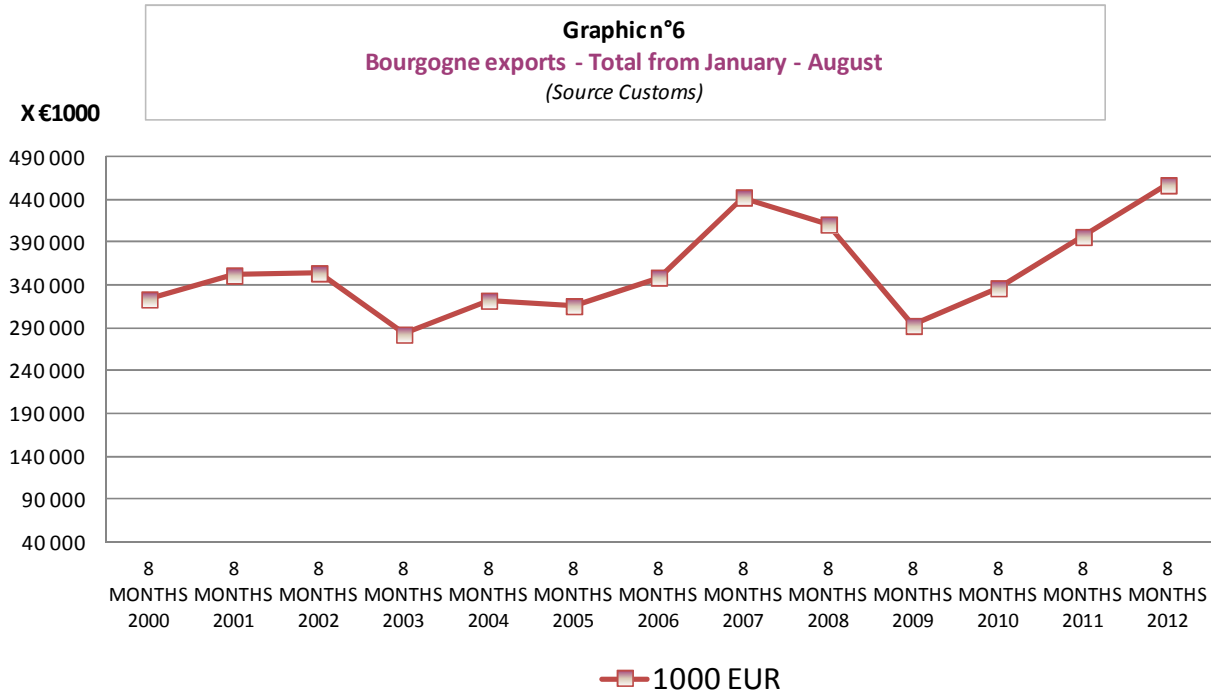
Bourgogne wines are perfectly in step with demand on this circuit, despite their weak presence in certain profitable niches (rosé and Bag-In-Box©). With a large and diversified offer selling for between 4.2 and 17.9 euros/bottle, the region's wines are attracting more and more consumers who are reorienting their purchases towards enjoyable quality wines.

The implementation of **in-store promotional days** by the Bourgogne Wine Board (BIVB), run by **staff specially trained in Bourgogne wines**, allowed for increased sales in one of the key periods for the region: between the fall wine promotional events and the end-of-year festive season.

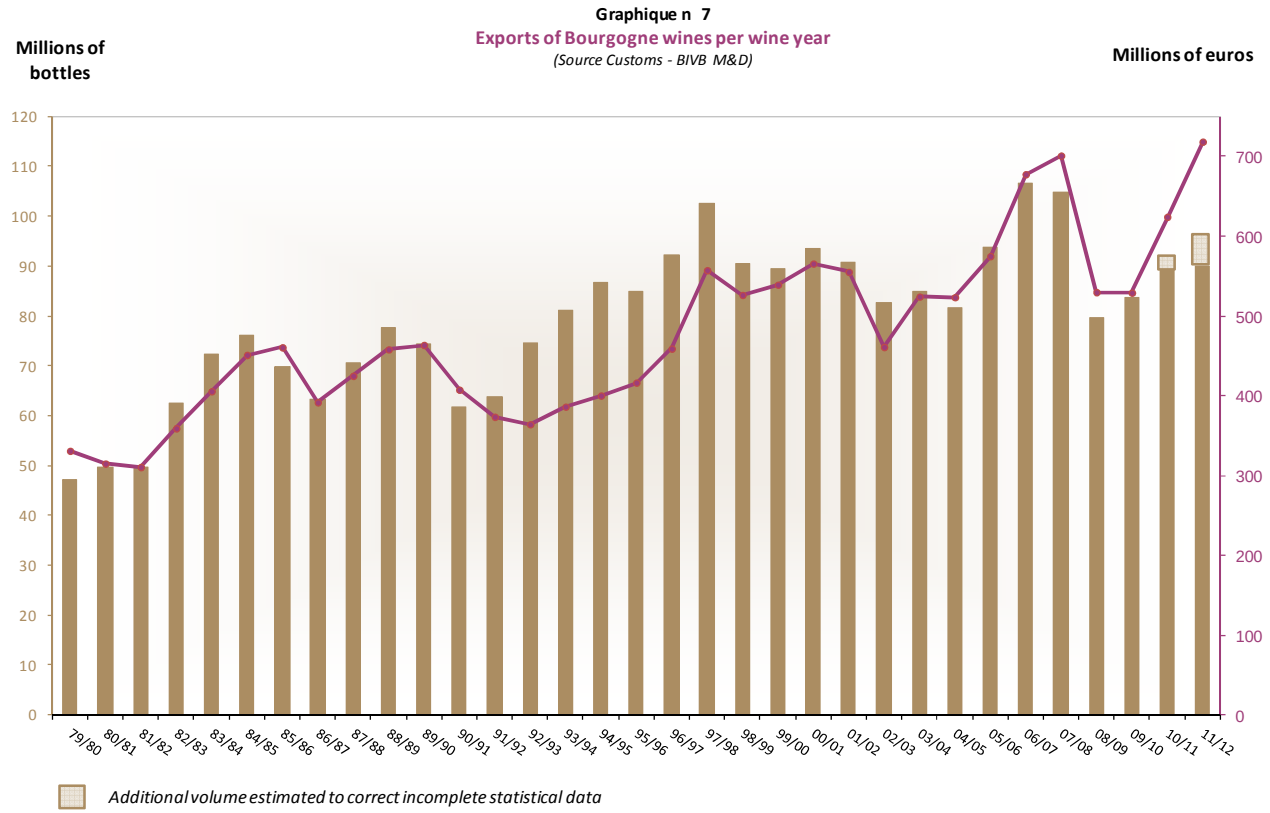
Export: traditional markets sustain growth, Asia powers ahead

Bourgogne wines have a strong presence on the international market. Having been hit by the global economic downturn, **the region has succeeded in profiting from the renewed vigor in global wine sales**, notably in the new consumer markets.

During the first eight months of 2012, sales of Bourgogne wines on the export market were up strongly: +15% (for a total of 457 million euros).
This trend confirms the excellent results of the **full year from August 2011/July 2012. This period also showed a +15% increase (with total sales worth 719 million euros), an all-time record for Bourgogne** *(source: Customs and BIVB M&D)*.



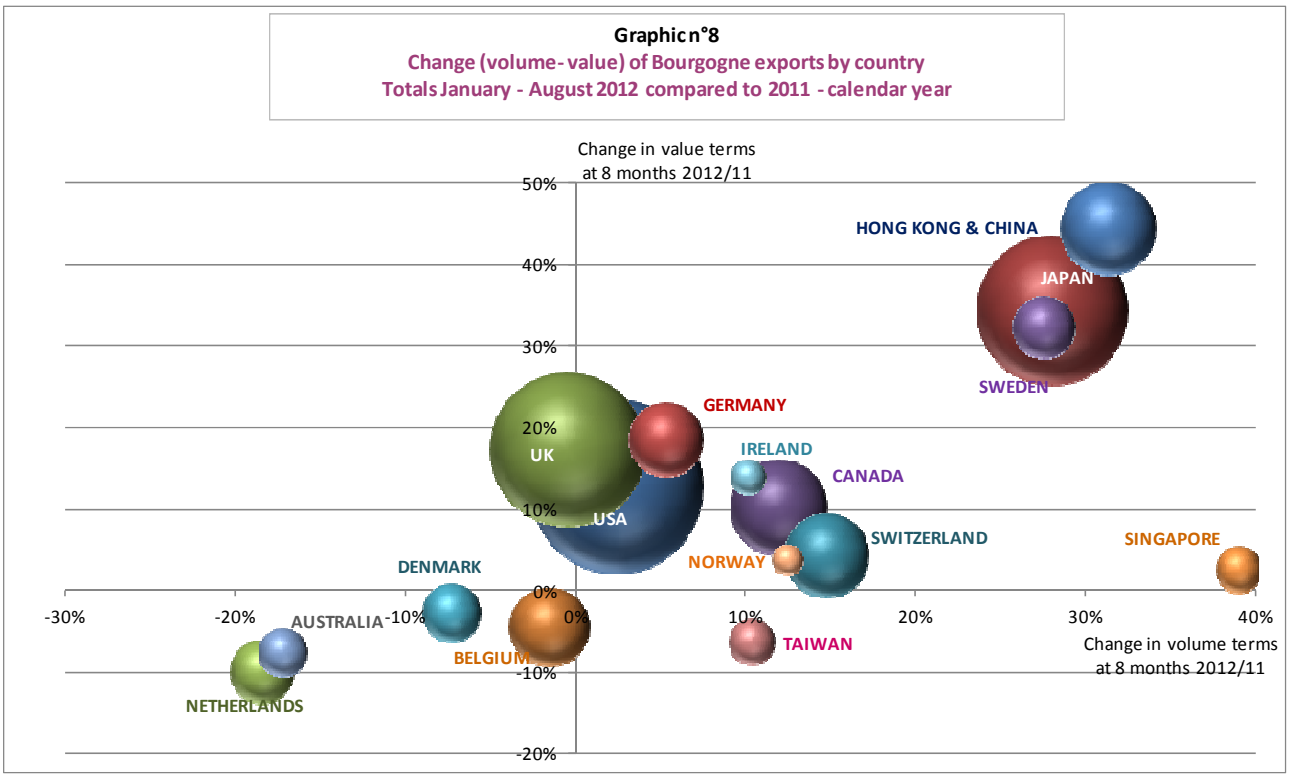
Bourgogne wines have sold for good prices on the export market, given that the increase in volume is more limited (+1%), or 90 million bottles, according to statistics from customs.
One should however also add to this figure a volume not included in the official statistics since the implementation by customs authorities of a simplified declaration scheme. Including this additional volume, estimated from various sources of information, **it is reasonable to consider that closer to 95-96 million bottles of Bourgogne were exported during the period.**



Bourgogne has succeeded in preserving, or even strengthening its three main traditional markets: the United States, the United Kingdom and Japan. On top of these historical outlets, it has also expanded into Asia and some emerging markets.

The traditional markets, whether mature or restructuring (UK, USA, Japan), remain the bedrock outlets for Bourgogne. Over the first eight months of 2012, they accounted for half the region's wine exports, with close to 28 million bottles (45 million for the full year), for revenue of 237 million euros.

China and Hong Kong nowadays represent a significant share of exports of Bourgogne (6% of sales in the first eight months of 2012, compared to less than 1% over the same period in 2007).



How to read the graphic:

The size of the bubbles is proportional to sales of Bourgogne by country.

The main markets for Bourgogne can be broken down into three groups (graphic n°8):

- **Markets undergoing strong growth**: Japan, China/Hong Kong and Sweden
- **Growing markets undergoing reconstruction**: United States, United Kingdom, Canada, Switzerland and Germany
- **Declining markets due to the economic downturn**: Belgium, Netherlands, Denmark and Australia.

Remaining true to its historical clientele and also present on new markets, Bourgogne manages to preserve its wide range of outlets in Europe, the Americas and Asia – a key factor for continued growth.

Three markets with strong growth

table n°1 - Bourgogne Exports	Year 2011- 2012		8 months 2012		Var. 8 months 2012 / 2011	
Year 2011-2012 (August year N to July N+1) 8 months (January - August)	vol x 1000 bottles	value in €1000	vol x 1000 bottles	value in €1000	vol x 1000 bottles	value in €1000
JAPAN	9 883	100 791	6 773	70 399	28%	34%
HONG KONG & CHINA	2 353	42 190	1 474	27 554	31%	44%
SWEDEN	3 848	17 421	2 648	12 057	28%	32%

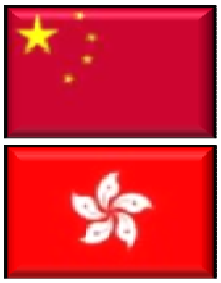
Japan - The 3rd biggest market for Bourgogne in terms of value *(table 1)*

In 2012, this long-standing market continued to show the healthy growth started in 2011. During the first eight months of the year, sales totaled 70.4 million euros, up 34% over the same period in 2011, itself a record year.

Bourgogne is the only French wine region whose market share is regularly growing. It accounted for 35% of the revenue from French AOC wines exported to Japan in 2011.

Bourgogne wines benefited from the upturn in sales in the restaurant sector and in specialist wine stores. They thus succeeded in setting new sales records with price positioning at the high end, whereas overall sales in Japan mainly refocused on wines at less than 2,000 yens (supermarkets and discount stores).

China and Hong Kong - The 5th biggest market for Bourgogne in terms of value *(table 1)*



Taken together, the Chinese and Hong Kong markets are showing strong growth, driven by demand for high-end wines. Despite, or rather because of its relatively small-scale output (0.4% of global wine production), Bourgogne is seen as particularly attractive for its "signatures" with their evocative names, whether for appellations or companies.

During the first eight months of the year, sales of Bourgogne wines climbed to 27.55 million euros (+44% compared to the same period in 2011).

The interior of mainland China (excluding coastal zones) has benefited from major state investments since 2008. **The big metropolitan areas that have grown up offer fresh outlets for Bourgogne.** Chengdu, one of these metropolises, is the fourth biggest city by population, and wage increases there are running at 13% (*source: Alternatives Economiques*).

The principal threat to growth in exports of Bourgogne is the nascent protectionism in mainland China. The Chinese alcoholic drinks industry has called on the government to investigate imports of European wines, arguing that European subsidies give an unfair advantage over local production. This situation could lead to an increase in import taxes in China, which are already set at 48%, including 14% in duty.

By contrast, the government of Hong Kong wants to see the territory become "a hub of the wine trade in Asia", and imposes practically zero duty or levies.

- Detailed market figures are available on demand.

A representative for Bourgogne wines in China

Given the increasing popularity of Bourgogne wines in China, the Bourgogne Wine Board (BIVB) has decided to strengthen its position in this dynamic market. In September 2012, it appointed Lucie Bourgeois within the framework of France's VIE program to encourage young people to gain valuable work experience abroad. After a few weeks of training at the BIVB offices in Beaune to immerse herself in the culture of Bourgogne wines, Lucie will head for Shanghai in November.

Key missions:

- To provide a link between the BIVB, training organizations and official Bourgogne wines trainers in that part of the world, to help set up specific training seminars with key trade influencers and wine lovers alike.
- To establish and maintain a network of key trade influencers who are committed to promoting Bourgogne wines, and to report back to the BIVB on their needs in terms of economic information and materials needed to present Bourgogne wines (brochures and training aids, etc.).
- To monitor the Chinese market for fraudulent use of Bourgogne appellations and report back where necessary.

Lucie Bourgeois speaks Chinese and is passionate about the country's culture. Her international profile is a real strength. She has already lived in China for two years as well as spending a year in Australia and Canada. During her education in international business studies, she specialized in Asian markets and Mainland China in particular. She has a wide range of experience in the world of wine, from working in the vines to promoting French wines for export, and even spent a few months learning about becoming a sommelier.
"I am honored to be able to represent Bourgogne wines, which are a global reference for great wines, in a county that is so important and so multicultural as China," she says.

Sweden - The 12th biggest market for Bourgogne in terms of value *(table 1)*

Sweden is **a healthy, sustained market.** Since 2008, recessions have had little impact on the economy of this country: national debt was 37.5% of GDP in 2011, compared to 86% in France. GDP per capita is among the highest in the European Union and global imports have been buoyed by a strong currency.

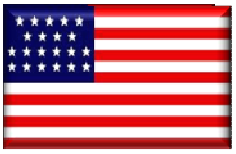
Bourgogne, with a 32% increase in sales in the first eight months of 2012, benefited from the success of high-end food and drink products, and an increase in wine consumption.

The market is controlled by the Systembolaget monopoly for retail distribution, but direct imports are possible for the restaurant sector. The catering circuit covering cafés, hotels and restaurants, circuit offers good opportunities for Bourgogne wines, given **strong interest in its wines on the part of top local chefs.**
The white wines are especially adapted to Nordic cuisine, with Chardonnay particularly appreciated, as is Crémant de Bourgogne, for which Sweden in the leading export market. This trend is likely to continue thanks to a cut in sales tax in the restaurant sector in 2012, from 25 to 12%.

Growing markets undergoing reconstruction

Tableau n°2 - Export Bourgogne	Camp 2011- 2012		8 mois 2012		Var 8 mois 2012 / 2011	
Camp 2011-2012 (août année N à juillet N+1) 8 mois (Janvier - Août)	vol x 1000 bouteilles	valeur en 1000€	vol x 1000 bouteilles	valeur en 1000€	vol x 1000 bouteilles	valeur en 1000€
ÉTATS-UNIS	15 089	151 024	9 394	93 498	2%	13%
ROYAUME-UNI	20 104	123 459	11 715	73 560	0%	17%
CANADA	5 817	40 829	3 981	28 288	12%	10%
SUISSE	2 259	35 234	1 463	22 032	15%	4%
ALLEMAGNE	4 151	28 674	2 483	17 181	5%	19%
IRLANDE	1 712	7 212	910	3 772	10%	14%

United States - The leading market for Bourgogne in terms of value *(table 2)*



The USA has become the leading export market for Bourgogne wines in terms of value, ahead of the UK (+13% in terms of value over the first eight months 2012/2011).

The country's economy is once more growing (almost 2% in the second quarter of 2012), driven by household consumption and exports (+40% in five years).

Wine consumption is following the same curve, with a 5% increase for still wines, and 13% for sparkling wines (*source: Wine Institute*). **However, the US market is increasingly leaning towards bulk wine imports**, which more than doubled in the first half of 2012 year-on-year, **to the detriment of bottled wines** (*source: International customs*). Bourgogne is exported almost exclusively in bottles.

The fine wine segment is dominated by French wines, led by Bordeaux and Bourgogne (16% of the segment by value). **Bourgogne is one of the three most-sought-after French wine regions, for which demand will increase, along with Bordeaux and Côtes du Rhône** *(competition survey, FranceAgriMer)*.
It is a highly competitive market, one where local producers are wooing wealthy and traditional consumers.

Wine consumption is developing away from the dining table, which is boosting the catering circuit, direct sales and online sales. The upsurge in exports of Bourgogne wines, especially for Regional and Villages appellations and Crémant de Bourgogne, can in part be explained by this situation.

Bourgogne wines sign up for the "Declaration to Protect Wine Place and Origin"

Through the Bourgogne Wine Board (BIVB), Bourgogne has joined the 15 other winegrowing regions that have subscribed to this declaration since it was created in 2005, namely Champagne, Chianti, Jerez, Long Island, Napa Valley, Oregon, Paso Robles, Porto, Rioja, Sonoma County, Tokaj, Victoria, Walla Walla Valley, Washington and Western Australia. Chablis winemaker Christian Moreau will represent Bourgogne.
The declaration states that: "*We, as some of the world's leading wine regions, join together in supporting efforts to maintain and protect the integrity of these place names, which are fundamental tools for consumer identification of great winegrowing regions and the wines they produce.*" Signatories are hoping to create a united force within the wine-producing world regarding the issue of accurate labeling and the importance of location to winemaking.
The aim of the declaration is to **inform consumers, key decision makers and the world's media regarding the importance of origins** in the production of wine. Some of these names are indeed considered as "semi-generics" and as a result are used as a brand or to qualify types of product, such as "Bourgogne" or "Chablis" for example.
Within the framework of this declaration, winegrowing regions are coming together to raise awareness about the need to protect the integrity of these places and origins, which are vital references for consumers to identify key winegrowing areas and their wines.

United Kingdom - 2nd biggest market for Bourgogne in terms of value *(table n°2)*

This market remains **the leading export destination in terms of volume for Bourgogne. Imports of Bourgogne wines to the UK have been on the rise since 2011**. With a good selling price, UK sales were up 17% by value during the first eight months of 2012.

The market is built around the "off-trade" (carry-out sales), which accounts for 83% of wine volumes. This tendency is boosted by ambitious strategies of certain retail groups (Accolade Wines, Waitrose, etc.).

At the opposite end to this continually renewed and cut-price segment, **mid- to high-range wines, such as Bourgognes, are once again showing an increase in sale price,** driven up by higher taxes. This could accelerate changes in consumer habits and **lead to higher-quality consumption.** The return of French regions with prestigious appellations confirms this trend. Bourgogne is managing to sell Villages appellations and *Grand Crus* at good prices.

Canada - 4th biggest market for Bourgogne in terms of value *(table n°2)*

Canada **showed an overall drop in wine consumption** (-3%, *source: Statistics Canada statcan.gc.ca*). The country is moving towards a strategy of "less, but better": each state monopoly makes selections based more on quality than quantity.

Bourgogne benefits directly from this strategy which tends to enhance the value of its appellations. Average prices have risen across all appellations. Nonetheless, the internal policy aimed at making local wines more attractive could intensify competitive pressure.

The movement in sales of Bourgogne by volume is very variable between the three monopolies in 2011: strong growth in Quebec (+15%), stability in British Colombia (+1%), but a significant drop in Ontario (-11%).

Switzerland and Germany - The 7th and 9th biggest markets for Bourgogne in terms of value *(table n°2)*

These are very competitive markets: the purchasing power of wine-lovers is quite high, but they are demanding.

In Switzerland, two French regions clearly dominate the export market for still AOC wines: Bordeaux and Bourgogne together account for between 65 and 75% of exports, depending on the year. The share of Bourgogne wines varies from 12 to 15%.

Over the period 2005/2011, the average annual rate of growth of Bourgogne exports was approaching 9%. It accounts for an average of 5-7% of exports of French AOC wines by volume. This trend accelerated over the first eight months of 2012, with growth of 15% by volume.
The *Grand Crus*, *Premier Crus* and Villages appellations of Côte de Nuits reds enjoyed the best market positioning in terms of price over the first eight months of 2012.

In the high-end and premium segments, favored by restaurants, Bourgogne offers the advantage of lower prices than other prestigious French regions. The appellations of the Côte de Nuit and Côte de Beaune are available in all Swiss gastronomic restaurants.

Although the **German** market is still suffering the effects of recession, Bourgogne has recovered its market share (+5% by volume over the first eight months of 2012) with wines selling for good prices (+15% in terms of value). It is the main wine region to show significant growth in the German "modern" distribution sector (*source: IRI 2012*).

Economic report compiled with the help of the BIVB's Pôle Marchés et Développement - November 2012

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BOURGOGNES
L'âme des vins de la Terre

Key figures for Bourgogne wine *(Sources: Customs/IRI Symphony/BIVB/DRAF/CHD Expert/GTA)*

November 2012

Average production

1.5 million hectoliters

of which
- **61%** white wines
- **31%** red wines (and rosés)
- **8%** Crémant de Bourgogne

and
- **1.5 %** Grand Cru Appellations
- **47.5 %** Village and Premier Cru Appellations
- **51 %** Regional Appellations

representing
- **6.5%** of French VQPRD production
- **3%** of wine production in France
- **0.4 %** of worldwide wine production

28,320 hectares in production (3% of France's area under vine)

2 main varietals:
- Chardonnay (*56% of all production*): the varietal for nearly all the region's white wines
- Pinot Noir (*31% de la production*): produces nearly all the red wines

Other varietals with significant production: Aligoté (white, 7.5 %), Gamay (red, for Coteaux Bourguignons, Bourgogne Passetoutgrain and Mâcon, 5%), Sauvignon (for Saint-Bris, 0.5%) - Averages over five years (2006/2010)

100 different appellations
(22 % des AOC françaises)

of which
- **33** Grands Crus Appellations
- **44** Villages and Premiers Crus Appellations
- **23** Regional Appellations

The businesses

3,800 Wine estates (of which **1,300** bottle and sell more than 10,000 bottles annually)
250 Wine merchants
23 Cooperatives

The market

200 million bottles sold (average)
47% exported

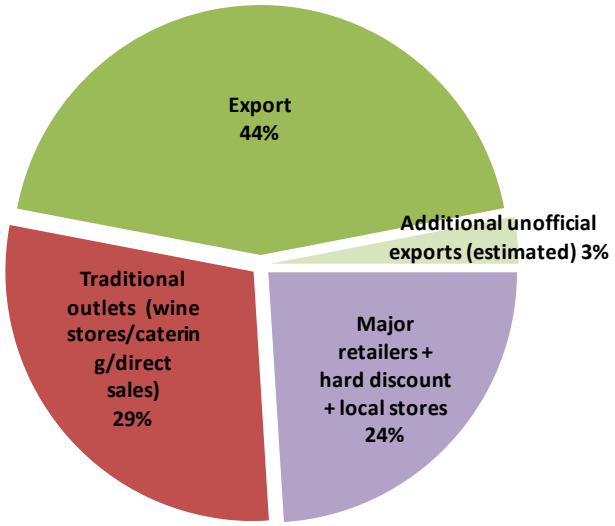
1.46 billion euros estimated revenue

Bourgogne accounts for:
- **3%** of the global wine trade, in terms of value
- **18%** of French AOC still wine export sales in 2012 (and 6.5% of the production of these wines)

The regional importance of the sector

2% of the agricultural area exploited in Bourgogne
3% of the GDP of Bourgogne
45,000 jobs (direct and indirect), accounting for 7% of total jobs in Bourgogne

Breakdown of sales of Bourgogne wines
(October 2012)



Sources : BIVB/French Customs/IRI/CHD/Equonoxe