Global Market Report

April 2017
Volume 8, Issue No. 4

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The focus of this month’s report is activity at ProWein 2017, a show which, like its previous instalments, was vast and busier than ever before. Each with two halls of the massive Messe Düsseldorf, Italy (1,600 exhibitors), France (1,500) and home country Germany (1,000) dominated, with 600 Spanish and 400 Portuguese exhibitors in an Iberian hall and 120 Argentine, 120 Australian and New Zealand, 100 US and 100 Chilean exhibitors packed into the bustling International Hall. Overall there were 6,500 exhibitors (the most famous being singer-songwriter Sting, who popped in to promote his Tuscan winery) and a show record 58,500 visitors from 130 countries.

There were a number of recurring themes that cropped up when talking to ProWein attendees. Firstly, the global wine market feels in balance. The OIV has a mid-range estimate of 2016 global wine production (excluding juice and musts) at 259.5 million hectolitres, down 5% on 2015 and ranking “among the three poorest years for production since 2000”. Its mid-range estimate of 2016 global consumption levels was 243.2 million hectolitres – some 17 million hectolitres lower than production, but when production of brandy, vermouth, vinegar etc. is taken into account, the market is looking somewhere near production-consumption parity. This, combined with a move away from generic bulk wines towards better quality generics and varietal bulk wines – generally speaking – and a premiumization trend present to varying extents in a number of key consumer markets, and the overall price trend on bulk wines should be firm-to-rising.

However, there are very good deals to be had at the moment on European wines: some pricing in France and Spain, for example, is softening. The European buying campaign has commenced slower than growers and wineries have come to expect in recent years. Spain has certainly received interest from buyers who have previously sourced from Chile, with Chile’s 2017 harvest appearing troubled. On the whole, though, it seems that instead of securing their long-term needs, buyers are happy to hang back, cover short-term needs and acquire little-by-little on all but the particularly hot varieties, such as Provencal rosé of the upper qualities and Sauvignon Blanc from New Zealand.

Talk of Sauvignon Blanc was another recurring theme at ProWein. The energizing of this variety has been led by New Zealand: the varietal accounted for 85.6% of the country’s wine exports in the 12 months to June 2016. In that time, the US became New Zealand’s biggest export market both by volume and FOB value (+24% to NZD460.6 million), as the US dollar’s strength encourages imports and US consumers hone their taste for imported wines, seeking an alternative to Chardonnay and Pinot Grigio.

New Zealand also saw good FOB value growth to the UK (+8% to NZD361.7 million) and Canada (+13% to NZD107.4 million). However, future expansion of New Zealand’s Sauvignon Blanc output is constrained by space and, if demand rises faster than the ability to increase production in New Zealand, as some forecast, prices will rise on the back of an acute shortfall. Sauvignon Blanc from other New World growers will be of even more interest.
California saw a large influx of demand for its 2015 Sauvignon Blanc due to the low yield that year and in the preceding few years. Its 2016 Sauvignon Blanc vintage was up nearly 20% on 2015 to 105,509 tons, still one of the lowest in a recent set of low Sauvignon Blanc harvests: California has not expanded its plantings of the varietal in ten years and supply of the varietal is relatively tight. Meanwhile, the Sauvignon Blanc, Chardonnay, Cabernet and Merlot varietal bulk markets in South Africa are hot: South African Sauvignon Blanc has been priced at USD0.57-0.72/litre, with the spread encompassing available 2016 stock – good to go on a quick removal basis – at one end, and expected 2017 pricing at the other. Chile’s troubled harvest means all of its 2017 grapes have been allocated and its standard 2017 Sauvignon Blanc is currently priced at USD0.80-0.90/litre.

Chile at the moment is facing a very strong Sauvignon Blanc demand from the US and Europe: traditionally known for its entry-level Sauvignon Blanc, Chilean plantings in the past 20-30 years of better quality product – in cooler areas – are now bearing fruit. A question mark over Sauvignon Blanc is how Brexit will affect UK demand for the varietal, but it is likely the Sauvignon Blanc market will remain hot at least until the end of this year/start of 2018, when the 2017 Northern Hemisphere harvest is known.

**Argentina’s troubles have created a lot of talk about the future of the Malbec market.** While 2017 vintage quality is said to be excellent, with good tannins, pH levels and concentration levels, heavy frosts in spring and a heatwave late in the growing season have meant bunches are coming in lighter and volumes are going to be significantly down for a second successive year: the last estimate was 1.8 to 2.0 million tons, up slightly from 2016’s 1.7 million tons but significantly down on the new, 2.5 million ton average. This is sending Malbec grape tonnages close to USD1,000+/ton for entry-level Malbec, and high-end Malbec from the Uco Valley – where some have forecast the harvest to be as much as 30-40% down on the average – could move towards USD2,000/ton. Naturally buyers are considering alternatives and Chilean growers who happen to have some Malbec hectares are taking a closer interest in these. The Malbec market, then, could see some supply diversification across the New World, with some supply out of Chile, California and South Africa (opportunities for Malbec from France have been stymied by low output due to poor conditions in its growing regions, and a very different taste profile compared to Argentina’s). It may be time for Malbec to slip its close association with Argentina – if it is found that consumers readily accept alternative origins. The supply will have to come from somewhere: there is not enough Malbec in Argentina to satisfy demand.

A week after ProWein, on 29 March, UK Prime Minister Theresa May triggered Article 50 of the European Union’s Lisbon Treaty, finally beginning the two-year exit negotiation process between the UK and the 27 other EU member states. In a poll undertaken by ProWein and Geisenheim University of 1,500 wine sector experts from 46 countries (large and small growers, wineries, co-ops, retailers, wholesalers and importers/exporters), the UK and Italy were rated as the least attractive and most high risk markets in which to sell wine into, with France not far behind. While wine consumption in France and Italy is experiencing a slight decline, and both markets are of course dominated by their respective domestic product, “the forthcoming Brexit and constant rise in the tax on wine are the main reasons why wine producers rate Great Britain very low in terms of market attractiveness,” ProWein said. Read our Brexit Update for more on the current attractiveness – or otherwise – of the UK market.

Meanwhile China, Hong Kong, Russia, Japan, Australia, South Korea and Brazil were named as the markets disproportionately attracting buyers compared to their current importance. For US and European wine companies, “operating on these geographically and culturally distant markets in Asia and Oceania represents a great challenge over the next few years.” Immediately after ProWein, Ciatti pitched its stand at the China Food and Drink Fair in Chengdu. See our Chengdu review for what was learnt at this very different show.

Interestingly, ProWein noted that its poll found that “wine producers generally look to the future more optimistically than wine marketers who are in direct contact with end users”. While retailers, wholesalers and importers/exporters must deal with the cut-and-thrust of shelf space, price points and consumer fickleness (often in saturated markets), producers deal with Mother Nature, a paragon of constancy by contrast! All eyes now turn to what hand she has dealt Argentina, Chile, Australia, New Zealand, and South Africa. While the latter three look like having experienced average-sized harvests of very good quality, volumes in the former two look like being down significantly on the normal. Read on for more and don’t hesitate to get in touch with your Ciatti broker for more information.

Robert Selby
ProWein’s International Hall was well-populated by US wines companies with a significant presence under California’s Wine Institute banner. Due to the strength of – and premiumization within – the US domestic market, some US companies who used to export in bulk now have little need to, so ProWein is less active as a scene for Californian bulk wine: the focus is case good exports.

Many of the Californian wineries promoting their case goods at the show were from the North Coast and Northern Interior, such as Napa Valley and Sonoma, and were happy with a good-sized 2016 harvest after a 2015 harvest well down. Preliminary data shows a 2016 Californian wine grape crush up 8% on 2015 at 4,000,790 tons. The crush in Sonoma reached 221,379 tons, up 21.6% on a very short 2015 crush, and still down significantly on harvests in 2012-14; Napa’s crush reached 146,588 tons, up 18.1% on the short 2015 crush and, like Sonoma, still well down on the harvests of 2012-14.

US bulk exports used to be big business at ProWein, but good growth on the US consumer market for wine, the premiumization trend that has made US buyers sometimes less finicky on price than their European counterparts, and the move away from generic wines in California, has resulted in quieter bulk export activity. Discussion surrounding importing into the US has grown, attractive as it now is from a dynamic sales, value and currency standpoint. A ProWein/Geisenheim University poll of producers attending ProWein found that the US ranked topmost in terms of the markets producers wished to expand into, with 30% placing a high importance on entry into the US, ahead even of ProWein’s home market Germany (24%) as well as the UK and China (both 19%). Provencal rosé, Prosecco, sparkling wines in general, and New Zealand Sauvignon Blanc, are leading the way.

Richard Halstead, chief operating officer of Wine Intelligence, analysed the apparently important millennials segment at a briefing so heavily attended that it overflowed onto the concourse, highlighting how much interest this consumer segment is generating. Interestingly, Halstead’s research seemed to suggest that millennials – those born between 1981 and 1995 – are not fundamentally different to any prior generation in outlook and habits, and can be treated as a defined segment only “sometimes, but with caution”.

Halstead found differences within the millennials segment: just under half (48%) of millennials are ‘Millennial Treaters’, those cosmopolitan consumers who are into wine; and the statement “more likely to try new and different styles of wine on a regular basis” was true of US, UK and Australian millennials, but less so of their Canadian or German counterparts. Phrases like “breaking down traditional boundaries” and “mixing stuff together” applied to millennials slightly more than any other generation: that is certainly true if the success in the US of proprietary ‘heavy red’ or ‘black red’ blends – targeted at the millennial male – is anything to go by. That said, US millennials tend to know fewer wine brands and wine regions than their elders: they are very aware of this and thus suspicious of anything that

See next page for more on California.
does not look conventional, such as gimmicky labels (they are “not thrilled at being patronised or conned”). The message Halstead had was: “Don’t patronise young consumers with ‘funky’ for its own sake”. In short, wine companies need to recognise the importance of younger consumers in their portfolios because, if nothing else, they are potential customers for the next 30-40 years. But are millennials significantly different to previous generations and going to “revolutionise” the category? “Possibly,” Halstead concluded, “but more data is needed”. Perhaps the most important statistic was that, if a millennial is “into” wine, they will typically spend USD15-25 on a bottle in the off-trade.

Why is the US consumer market for wine dynamic right now, with a strong premiumization trend? Responses at the show ranged from the relative health of the US economy, wine tourism boosting wine education, and successful marketing. Something that came up often was ‘DTC’ – or direct-to-consumer – sales. According to ProWein, in the US there is a trend towards wine sales online and via food retailers, and a decline in wine merchants and speciality wine retail. The growth in online wine sales is partly powered by an increase in sales via wineries’ own online stores. “This specific development reflects two current trends in the US,” ProWein said. “The number of small wine-growing estates is currently growing at a rate of 4% and DTC sales from winemakers to end consumers is booming with double-digit growth rates.”

Key Takeaways

The US is increasingly becoming an attractive market to export to, due to the strong dollar and the premiumization trend (if a millennial is “into” wine, they will typically spend USD15-25 on a bottle in the off-trade, according to Wine Intelligence research). Ciatti has seen a slowdown in export shipments to the UK and EU due to the strong dollar, but US wine exports to the world for full-year 2016 rose 1% in value due to the increasingly premium nature of the Californian offering.

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Despite tough times at home, Argentina was present in force at ProWein. In addition to the big players and the established wineries under the Wines of Argentina banner, there was a gathering of smaller wineries under an export banner part-subsidised by the Argentine government as part of moves to aid exports. The general feeling was that the 2017 harvest, currently underway, will be a second successive short crop (though quality will be excellent). There was also the feeling that the Argentine wine industry needs to deploy long-term growing and export strategies in order to make it more resilient to struggles such as those it is experiencing now.

The 2017 crop in the Uco Valley – Mendoza’s premium Malbec region – is forecasted to come in at between 210,000 and 230,000 tons (some say 30-40% down from the normal), forcing buyers of premium Malbec into the eastern region. The eastern region’s own harvest has been downwardly revised from between 660,000 tons and 730,000 tons, to between 610,000 tons and 674,000 tons. There will thus be high Malbec prices across Mendoza. High-end 2017 Malbec grapes from the Uco Valley will start at around USD1,500-2,000/ton; entry-level material from the east of Mendoza now looks like being close to USD1,000/ton. These high prices may tempt some international buyers to source Malbec from elsewhere if they can find it, such as from Chile. It is becoming clear that this will become a necessity for some as there will not be enough good quality Argentine Malbec to go around.

Such strong pricing could be rendered more attractive if the Argentine government devalues the peso this year. One dollar is currently worth approximately 15 pesos; Argentine exporters say the optimum exchange rate needs to be at more like 20 pesos to help trade. The jury was out among ProWein exhibitors as to whether this peso devaluation would happen. Growers are facing soaring energy bills, 40% inflation and workers unions calling for wage rises to meet that inflation. One winery said it was now more cost-effective to import Chinese glass wine bottles for bottling its wines than to source the bottles domestically. The new government has helped – it devalued the peso by 40% on coming to power in 2015, and has greatly reduced the time it takes for wine exporters to receive a 6% export tax reimbursement, aiding cash flow – but more needs to be done.

There was some agreement that Argentina needs a concerted effort to convert old vineyards of 2,200 plants per hectare into far more efficient, 5-6,000 plants per hectare vineyards. This would aid another much-desired change: a widening of the price heirarchization of Argentina’s wine offer, to diversify its customer base and make it more resilient on the international market, and less reliant on its saturated domestic market.

Another small harvest is ensuring that 2017 grape prices are very firm: entry-level Malbec could start from USD1,000/ton, with the upper end reaching USD2,000/ton. Good to premium quality 2016 Malbec wines are sold out: anything that remains is priced steeply.

**Key Takeaways**

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**Argentina Time on target**

**Harvest Watch:** expected at between 1.8 and 2 million tons - only slightly up on 2016’s 1.7 million tons – due to heavy spring frosts and a late season heatwave
Due to unseasonal conditions throughout the growing season, Chile’s harvest is running well ahead of schedule and should be completed by the end of April instead of end May/early June as is the norm. January’s harvest estimate of 1.1 billion litres now seems hopeful – the crop is looking smaller with each day that passes – but most still expect it to come in above 2016’s short 1.01 billion litres. Merlots and Cabernets are beginning to come in and the quality of the reds is looking very good – not only an improvement on the El Niño-affected 2016 crush but superior to a normal year, as juice levels are highly concentrated and the alcohol level looks like being up a degree.

There was some talk at ProWein regarding smoke taint. A small amount of Merlot and Cabernet has been found to contain “guaiacol” – smoke taint from January’s forest fires – and the growers are being attentive in separating out affected grapes from the rest, with helpful scientific and viticultural advice coming from the US in particular. The tainted grapes will go into high-sugar wine selling at entry-level prices into the domestic market. Confidence is high that guaiacol is not a big issue and there’s a great deal of enthusiasm regarding the quality of 2017 reds. The harvest’s rapidity (even Carmenere should be all in by May), combined with the fact each varietal is not becoming ready in normal succession, is creating logistical pressure but the Chilean industry’s longstanding investment in state-of-the-art machinery is keeping harvest 2017 on course.

2017 grapes have all been allocated and wine prices are super firm and continuously going up. Unlike in the earthquake-affected (2010) and El Niño-affected (2016) years, Chile is coming from a short previous crop, short inventory and lower stocks in the cellars, as well as the global situation probably being the most balanced it has been in 20-30 years – Chile is receiving big demand pressure from domestic business as well as from abroad. It is thus felt by some that there will be no price drops on Chilean wine until 2018 at the earliest. On the flip-side, price rises are reasonable and controlled, perhaps up USD0.10 per litre: it will not be a repeat of the earthquake year, when soaring prices scuppered demand. Chile’s peso averaged 660.77 to the US dollar in March, trending weaker throughout the month, a helpful improvement – as far as exports are concerned - on the February average of 643.21.

Chile is facing a very strong Sauvignon Blanc demand thanks to the popularity of the variety inspired by New Zealand. Chile can point to 20 years’ worth of new, cool-area plantings of good quality Sauvignon Blanc grapes producing good quality wines with a long shelf life. Vintage 2017 Sauvignon Blanc will be all allocated in the next two months: buyers are trying samples and willing to close. Merlot is the next hottest wine – it is short and has increased in price the most – and then Chile’s old stalwart, Cabernet Sauvignon. Buyers should not wait to secure their Sauvignon Blanc and Merlot needs, while Chilean Malbec – although not yet receiving demand – will be allocated very quickly once the first buyer enters the market, as there will not be enough 2017 Malbec in Argentina to meet demand. Chile still holds stock of 2016 wines, but much of this will already be allocated for the domestic market. Any remaining good quality wines are expensive, but moving regardless.

Key Takeaways
There are now no 2017 grapes left to allocated. Prices are unlikely to fall in the foreseeable future as a second successive below-average harvest is now expected. Big domestic companies are in need of wine, and sellers are prioritising longstanding relationships.

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Straight after ProWein, Ciatti set its stall out at the China Food & Drink Exhibition in Chengdu. The wine and spirits element of this massive exhibition took up five of its nine halls and reportedly attracted 100,000 visitors alone; days one and two were particularly busy, with a high buzz of activity particularly around Australian and Chilean wines, with day three on the quiet side. Stands were elaborate, lively and often accompanied by loud music, with big format stands from European countries, California, and Wine Australia.

The Wine Fair contrasted significantly with those in Europe: Chinese culture can differ from western culture, and patience is required when navigating these differences. The fair, like the Chinese market itself, is increasingly important for the Australian wine industry and the Australian government has published a helpful ‘Doing Business in China’ page on its website, which interprets Chinese business etiquette. Click here for more if you are reading online. At the Chengdu show it was apparent that WeChat, China’s answer to WhatsApp, is the new email/communication focus; WeChat goes beyond WhatsApp in that it integrates a number of other applications, such as the ability to make payments.

The grower countries of preference for Chinese buyers continues to be Australia and Chile due to the Free Trade Agreements these countries have with China. Australia’s tariffs are currently at 5.6%; they will reduce to 2.8% from January 2018 and finally to 0% from January 2019. The China-Chile FTA has been in effect since 2006.

Ciatti received more enquiries for case goods versus bulk than in previous years, with buyers looking to use their own brand/label, or look to buy a label. The emphasis was on entry-level Shiraz, Cabernet and Merlot, and finding competitive pricing on these. Premium wines, meanwhile, were not so in demand. Enquiries for Penfolds’ labelled stock continues.

Many customers prefer to see CIF pricing instead of FOB: it is likely that many Chinese prospective buyers have not shipped internationally before and do not want the added responsibility of freight. A large number of Chinese buyers seem to purchase from an agent who already has stock based in China, essentially making it a domestic purchase for them. Cutting through the noise, many potential buyers were found only to desire very small volumes, and some importers wanted more than just wines – such as concentrate or puree for products other than wine.

China is still a new market and all potential buyers need to be vetted carefully. Ciatti heard stories of bulk wines entering China then being blended with water and chemicals to boost volume. Due to such incidences, certain suppliers are having authenticated certification applied to their labels as verification that their wine has not been tampered with or blended with water/other substances. In turn, forged certification is a possibility. Again, navigate this market with care and vet all potential buyers thoroughly.

The show was a good way of meeting more China-based wine buyers face-to-face and forging new direct relationships. Wine and Spirits remain just part of the Chengdu show, with everything from kimchee to candy, baby food to boxed pasta in the neighbouring halls as well as machinery to process and label it all. There is a possibility the fair’s location will switch from the New Century International Exhibition Center next year, but it is expected to remain in the city of Chengdu. Whilst Ciatti did not attend the separate Shangri-la and Kempinski Fairs, we understand these cover those promoting labelled stock and are highly popular.
For the brokers from Ciatti’s Europe office, this year’s ProWein was busier than ever before; each day was packed with meetings, even the last, which traditionally peters out in the afternoon as people begin to wend their way home. The feedback from French, Spanish and Italian exhibitors can be summed up by the sentiment “It’s beautiful to be attending this kind of show,” impressed as they were with ProWein’s organisation and size. The French and Italian presence filled two halls each; Spain shared a hall with Portugal.

In contrast to ProWein’s frenetic activity, the France and the Spain wine buying campaigns are characterised by some degree of slowness. There is evidence of a little softening of the market on some wines in France and Spain. In Spain, the price of white wine is tending down as there is ample supply; the price on the lower quality whites is falling fastest. The price of good quality Spanish reds – with good colour and 12%+ alcohol – remains stable and buyers are recommended to buy now to cover their needs for the next 3-4 months. There is various supply of more entry-level, 11% alcohol reds. Spain is receiving interest from North American buyers who usually source from Chile, though some of this interest will wait Chile’s 2017 harvest is better known. The weather in Spain’s key La Mancha growing region has been consistently cold enough to avoid bud-break happening before the frost risk has passed; things climate-wise are proceeding smoothly.

Ultra-premium 2016 Provencal rosé is sold out; medium and entry-level qualities are available. French Sauvignon Blanc and Malbec differ markedly in style from their New World cousins and are not seeing a spike in interest: right now the price of bulk Sauvignon Blanc out of the Languedoc and Gascony is softening, while the Malbec-producing areas struggled with weather in 2016 and do not have the volumes.

Figures released by France’s Federation of Wine & Spirit Exporters (FEVS) show a 1.8% drop in French wine export volumes in 2016, to volumes equivalent to 135.6 million 9-litre cases. Export value reached EUR7.87 billion, down 0.8% on 2015 “due to the impact of the [weakening] pound sterling […] on Champagne sales in the UK, its second biggest market”. Champagne export volumes to the world were down 1.3% to 11.9 million 9-litre cases, with value at EUR2.62 billion, down 2.5%. Export volumes of PDO still wines (-0.5% to 58 million cases) and PGI still wines (-5.4% to 37.7 million cases) were down, while exports of varietal still wines without geographical indication (+5.3% to 8.6 million cases) and other still wines without geographical indication (+0.1% to 11.8 million cases) were up. According to various data supplied by Harpers Wine & Spirits, while 131 million bottles of sparkling wine were sold in the UK off-trade in 2016 – up 13% on 2015, thanks largely to Prosecco,
English sparkling wine and Crémant – sales of Champagne fell 0.3%; in the UK on-trade, Champagne volumes fell 16% between 2014 and 2016, suggesting Champagne was beginning to lose share even before Brexit.

Over in ProWein’s two Italy halls, much talk was of Brexit. At the moment, Prosecco sales to the all-important UK market remain dynamic but there is concern regarding the pound’s weakness and some uncertainty over UK consumer confidence moving forward. Requests around the world for Prosecco are still on the rise; the speed of the rise is slowing, from approximately 20% growth per month in 2016 (compared to the equivalent month of 2015) to 5-6% per month so far this year. Prosecco production from vintage 2016 was enough to meet a 15% rise in demand, so there will be sufficient 2016 product to cover the requests for it. It is not envisioned that there will be a shortage, but there will be a low level of remaining stock. In short, production and consumption is moving towards equilibrium – and the current price (EUR2.50-2.80/bottle) is at or only slightly above that which is deemed optimal. Expanded production will not bear fruit for another two years, in harvest 2019, so the rising demand has been met by a temporary granting of an increase in yields per hectare, in order to keep prices under control. If next year there is a slowing in demand this temporary grant will be rescinded.

The implementation of the new Pinot Grigio DOC Delle Venezie, in which significant IGP area is becoming DOC area, is becoming clearer. The planned switch to the DOC inflated demand for the IGP Pinot Grigio, as buyers around the world accumulated more stores of IGP in the expectation that DOC wines, whose volumes are more tightly restricted, would cost more. This meant that when the implementation of the DOC was postponed from the 2016 vintage to the 2017 vintage, some companies found themselves with more Pinot Grigio than they would like. Thus, so far in 2017 there has been a slight fall in the 2016 Pinot Grigio price, from EUR1.20/litre to EUR1.00/litre and, for entry level, just below EUR1.00. There are opportunities, then, on Italian Pinot Grigio: entry-level Italian Pinot Grigio can at the moment be more attractively priced than Australian product on some markets. Talk at ProWein was of how the new DOC Delle Venezie will work. It is hoped that now the bureaucracy has been cut through, the laws made clear – they are seemingly quite straightforward – and steadily being disseminated to all potential customers, the uncertainty will disappear and the market will move forward. Bottlers will need to invest in a new machine to attach the new neck labels, but the cost of these machines is not prohibitive. It is now hoped the new DOC programmes and maybe their prices will be ready within 1-2 months.

The DOC Sicilia is taking measures to protect Sicily’s Nero d’Avola and Grillo wines. International buyers who have not in the past two years bought these wines from Sicily in bulk (for bottling in their own country) will now only be permitted to buy these wines in case good format. Only permitting case goods is a way of helping to safeguard quality and ensure official quantities, and allows the grower to potentially retain more margin.

Finally, Ciatti broker for Italy and eastern France, Florian Ceschi, will be attending the Vinitaly wine show in Verona on April 9-12. If you’re attending the show and would like to speak to Florian, contact him using the details listed below.

**Key Takeaways**

The market is slow as buyers wait until mid-April, after the last chance of frosts, to see how the 2017 harvest is sizing up. There are currently good opportunities to be had on all wine categories in southern France, with some wines priced only slightly higher than their Spanish equivalents — especially the dry whites out of South West and Charante — and of course offering the French origin cache. While super-premium and medium-premium Provence rosés are high-priced and very hard to find, prices on the non-premium material is trending down.

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ProWein took place as the South African harvest was moving rapidly to a close. The country’s 2017 harvest was similar time-wise to previous years: in some areas the harvest started one week earlier, but most areas had the normal 10 week harvest period. Quality looks excellent, with the very dry conditions perfect for producing healthy grapes with no rot, good bunch-forming and phenologically ripe fruit, while maintaining healthy acidity and pH levels.

South Africa’s industry expects prices on 2017 wines to be 5-10% higher than on 2016 wines, with the average increase looking like 7-8% (all based on 2016 Rand-based pricing and the exchange rate at the time of ProWein). This increase is driven by various factors: by the South African wine industry’s efforts to improve sustainability after many years of incomes at barely survivable levels (compounded in the last 24 months by an ever-weakening local ZAR currency), and by demand. South Africa is becoming increasingly important for bulk supply of Sauvignon Blanc, Chardonnay, Cabernet Sauvignon, Merlot, and recently also Shiraz, as other New World supply countries become short on these varietals. The pressure especially on South Africa’s Chardonnay and Cabernet prices is further exacerbated by the uprooting in past years of these varietals to make way for alternative higher-yielding varietals, dependent on region and microclimate. Generally, South African wineries are staying firm on price and not accepting lower offers.

The 2017 harvest in Australia kicked-off 3-4 weeks late due to unseasonal conditions during ripening: at ProWein, where there was 75 Australian exhibitors, expectations were of an average-sized harvest of approximately 1.8 million tonnes, with no disease pressure but around 25,000-50,000 tonnes lost to hail. This harvest size would be similar to 2016’s 1.81 million tonnes, which was 100,000 tonnes up on the 2011-2015 average, up 5.9% on 2015’s 1.71 million tonnes and the largest crush since 2008. Cooler climate areas look like having good harvests, with above-average crops expected, but there is the potential for grapes not to ripen fully due to the unseasonal late and cooler conditions.

The latest Wine Australia Export Report shows that, in the 12 months to December 2016, the value of Australian wine exports grew by 7% to AUD2.22 billion and volume increased by 1% to 750 million litres. The average value of exports grew by 6% to AUD2.96 per litre, the highest level since 2009. Export value growth was driven by bottled exports, most notably at higher price points. Bottled exports grew by 10% to AUD1.8 billion and the average value grew by 8% to AUD5.48 per litre, a calendar year record.

Exhibitors reported that in the past 12 months there has been significant interest from North America for Australian wines, with Australian Pinot Grigio receiving significant demand and creating pull-through

See next page for more on Australia and New Zealand.
for Australian Shiraz and Cabernet. As all producer-
countries are experiencing, the market is now mostly
about varietal bulk with generics losing importance:
Shiraz and Cabernet from South Australia and South
Eastern Australia are what’s really in demand, along
with Pinot Grigio and to a lesser extent Sauvignon
Blanc on the whites. Buyers increasingly are seeking to
cover immediate needs instead of longer-term needs,
assuming a reduction in Australian pricing. Buyers are
recommended to act now as demand is strong.

The word ‘China’ was never far from the lips of
Australian exhibitors. As Wine Australia said in its 2015-
16 production and inventory report, published during
the China Food & Drink fair in Chengdu at which it
had a significant presence: “The growth in Australian
wine exports was mainly driven by Asia, as a result of
increasing wealth, interest in wine among the emerging
middle class and the introduction of the China-
Australia Free Trade Agreement in December 2015.”
The top five export markets by value were: Mainland
China (23% of value), the US (21%), the UK (16%), Canada
(9%) and Hong Kong (5%). Exceptional growth to
mainland China continued, with export value up 40% to
a record AUD520 million.

New Zealand’s 2017 harvest is slowly getting underway
and, thus far, is running about one week behind. The
vintage is looking challenging with ripeness slow,
cooler weather and some rainfall that has put some
disease pressure on some vineyards. The final tonnage
is expected to be average-sized – down from 2016’s
bumper 436,000 tonnes but up from 2015’s small
326,000 tonnes. Yields are down on early fruit being
picked. A USDA report dated 27 February forecasted
the New Zealand harvest at 418,000 tonnes, down 4%
on 2016 as less than ideal weather conditions during
the growing season in Marlborough – which accounts
for 66% of the country’s growing area – is expected to
offset a 2% increase in hectares. Marlborough Sauvignon
Blanc of course remains the main buzz around New
Zealand wines: some 72.3% – nearly 304,000 tonnes –
of New Zealand’s 2016 harvest was Sauvignon Blanc,
and there have been fears that 2017 storage capacity in
Marlborough, as much as 20%, had been significantly
damaged by November’s 7.8 magnitude earthquake.
The consensus now seems to be that storage capacity is
good enough to handle the 2017 vintage.

Ciatti expects to see 2017 prices similar to last year’s, but
the next two to three weeks of picking could have a big
influence on this. If disease does become a bigger issue
there will be two distinct price points. New Zealand
wine is experiencing strong demand, especially from
the US, a market in which, in 2016, it became the third-
biggest importer by value, behind only Italy and France
(between 2012 and 2015 the amount of New Zealand
wine shipped to the US grew by 42%). Thus, pricing
should stay relatively steady and this has been seen with
grape prices. New Zealand wine exports are forecasted
to rise by 8% in 2017 to 250 million litres.

Key Takeaways

South Africa’s wineries expect 2017 prices to be 5-10% higher than 2016 prices, with the average increase
looking like 7-8%. Buyers of Australian wine are recommended to act now as demand is strong. Pricing
for 2017 New Zealand grapes is very similar to last year’s, but the next two to three weeks of picking
could have a big influence on this.

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The UK’s exit from the European Union was never far from the discussion at ProWein, though major fears over Brexit’s possible future impact on the wine trade still seem to outweigh evidence of deleterious effects thus far. A week after the show, on 29 March, UK Prime Minister Theresa May triggered Article 50 of the European Union’s Lisbon Treaty, finally beginning the two-year exit negotiation process between the UK and the 27 other EU member states.

In a poll of 1,500 wine sector experts from 46 countries, conducted by ProWein and Geisenheim University, the UK market – the world’s sixth-largest wine market and the world’s second largest wine trader by value and volume – was one of only two markets (the other being Italy) perceived as being both a high risk and low reward market in which to do business. Due to the low potential margins on wine one can expect to make in the UK thanks to the retail sector’s competitiveness and the ever-increasing tax burden levied by the UK exchequer, the low reward aspect of the UK market has been long-established. But the high risk factor is new: Brexit. What will any new customs agreements between the UK and the EU look like, will the pound continue to weaken, and how will UK consumer confidence fare during this period of uncertainty?

As set out in its Brexit White Paper, the UK government is committed to “ensuring free trade with European markets” and is prioritizing “securing the freest and most frictionless trade possible in goods and services between the UK and the EU”. The UK will not seek membership of the EU Single Market, “but will pursue instead a new strategic partnership with the EU, including an ambitious and comprehensive Free Trade Agreement and a new customs agreement”. According to the UK government’s website, wine imports into the UK from outside the EU are currently subject to a “third country duty” of EUR32/hectolitre (unless subject to other measures); imports from inside the EU are exempt from this customs duty. The likes of French, Spanish, Italian and German exporters to the UK will be hoping, then, that a post-Brexit UK-EU Free Trade Agreement negates the implementation of such levies.

Third countries – meaning for the purpose of Ciatti’s report, the US, South Africa, Argentina, Chile, Australia and New Zealand – may in future enjoy a levelling of the playing field when it comes to UK duties. Any advantages to the EU producers of any future UK-EU Free Trade Agreement may be offset by similar deals made between the UK and the third countries. In its White Paper, the UK government said Brexit would free the UK to “secure new trade deals with other countries” around the world, with future trade ties already having been discussed with the US, Australia and New Zealand.

UK consumer confidence bounced back after the initial shock of the Brexit vote on 23 June. Following an index of -12 immediately after the Brexit vote, market research firm GFK’s respected consumer confidence index has been between -3 and -8 in recent months, with the index for March at -6. To put this in perspective, this is roughly where UK consumer confidence was in the years leading up to the 2007-08 financial crisis: since at least January 2006, UK consumer confidence has only been in positive territory during 2014 and 2015, and was last there in January 2016.

“Consumers remain cagey about the state of their personal finances and the general economic picture for the UK, especially as wage growth fails to keep pace with the rising costs of living,” said Joe Staton, GFK’s head of market dynamics. “Since the Brexit referendum, household spending has been a big driver of growth, so any slump will dent future economic prospects. However, if we [UK consumers] carry on shopping, as seen by [an] uptick in the Major Purchase Index, then forecasts for a post-Trigger/pre-Brexit slowdown could be proved wrong.”

The cagey UK consumer is facing higher wine prices due to the post-vote 20% depreciation of pound sterling. At the end of 2016 the UK’s Wine & Spirits Trade Association (WSTA) warned that the cost in the UK of the average bottle of wine from Europe could rise by GBP0.29/bottle and from outside the EU by GBP0.22/bottle. The cost of wine to independent
businesses has increased by anything from 10% to 16% since the referendum, depending on supplier.

Adding to the pricing pressure is the persistent hike in the excise duty that the UK levies on wine imports – these have to be paid whether the wine has been imported from outside the EU or from inside. Since 13 March, duty on beer, cider, wine and spirits increased by the rate of retail price inflation, currently 8.9%; the excise duty rate on a bottle of wine is now GBP2.16 per 750ml (up from GBP1.69 in 2010), and on sparkling wine – exceeding 8.5% but not 15% ABV – it is GBP2.77 (up from GBP2.16 in 2010). Levied in addition to this is Value Added Tax, currently at 20%. According to the WSTA, UK wine duty is the second highest in the EU: 39.4% of all EU alcohol duty collected across member states is collected by the UK chancellor. Since 2008, wine taxation in the UK has increased 54%.

With an unhelpful exchange rate, increased taxes and consumer confidence steady but not strong, the UK wine market is indeed looking like a high risk, low reward market. In addition, the UK continues to experience a long-term decline in wine consumption, with sales volumes falling from 133 million 9-litre cases in 2010 to 120 million in 2015. Within that declining trend there is good news, such as a rise in sparkling wine consumption thanks largely to Prosecco, English sparkling wine, and Crémant (Champagne growth has stalled in the past two years). Prosecco traders at ProWein seem to be happy with the UK market’s current dynamic, with sales yet to slow, but naturally there is worry regarding the longer-term picture. Producers such as South Africa, Australia and New Zealand lean – albeit less and less so – on the UK as an export market: they are hoping that the pound recovers and, in the long-term, that they can enjoy a level playing field with EU producers. Some in the wine trade are trying to be positive and are hoping Brexit will not have strong negative consequences: there indeed may be opportunities to be had, with some believing Brexit will drive growth in the higher value wine market. Right now though, making any predictions is a bold move. A conference discussing the challenges of Brexit will take place at Vinexpo in Bordeaux on 20 June.

### UK still & sparkling wine sales by origin

(2015; 000s 9-litre cases; source: WSTA)

- **Still**
- **Sparkling**

<table>
<thead>
<tr>
<th>Country</th>
<th>Sales (000s 9-litre cases)</th>
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<tbody>
<tr>
<td>Australia</td>
<td>25,000</td>
</tr>
<tr>
<td>USA</td>
<td>15,000</td>
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<tr>
<td>France</td>
<td>10,000</td>
</tr>
<tr>
<td>Italy</td>
<td>7,500</td>
</tr>
<tr>
<td>Spain</td>
<td>5,000</td>
</tr>
<tr>
<td>Chile</td>
<td>2,500</td>
</tr>
<tr>
<td>South Africa</td>
<td>1,000</td>
</tr>
<tr>
<td>New Zealand</td>
<td>1,000</td>
</tr>
<tr>
<td>Argentina</td>
<td>500</td>
</tr>
<tr>
<td>Germany</td>
<td>250</td>
</tr>
</tbody>
</table>
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