

Whither UK Wine Production?

Winegrowing in the UK has never been as visible as it is today, with the highest planted area ever – around 1,500 ha – and even more vineyards being planned. Some of these are very substantial – one of 240+ ha has recently been announced – and these larger producers will have to sell their wines well away from the farm-gate and into the wider market place. History shows that in farming, when a product is popular, gets plenty of press interest and appears to be achieving a high price, everyone piles in. Although vines are perennial crops, and require a large capital investment in order to get from the newly planted vine to a bottle on the shelf, the magic of “milady vine” (as Major-General Sir Guy Salisbury-Jones termed it) makes light of this aspect.

At the moment, it would appear that growers are achieving good prices for their wines – *“I could probably sell all of our wines three or four times over without any problem”* says Chapel Down’s Frazer Thompson is a recent press quote – and with volumes still quite small (in relation to what is to come) everything appears to be rosy. But will this last? Will prices fall or will demand rise to meet supply?

My view of still wine production is that for winegrowers selling a good proportion of their wines direct to the public via the farm-gate (even though operating a farm-gate outlet is not a no-cost option) the prices achieved (£6-12) are probably acceptable, although ought to be £12-£15 a bottle retail (i.e. in the same price bracket as mid-market wines from Chablis and Sancerre) to make the investment in vineyards sustainable.

However, for winegrowers selling still wine through third parties to retail at £6-£12 it is probably an economically unsustainable activity. On the high-street and in supermarkets, anything much above £10 is a sticking point and UK-grown still wines will really only sell in volume at under £10. Waitrose, who say that they sell more UK-grown wine on the high street than any other retailer, have 19 still wines on their website, 18 of which are under £10 – they range from £6.16-£9.49 a bottle – with only one, a red, above £10 at £11.39. For many growers in this situation, their yields are too low and their costs too high and when one deducts VAT at 20%, Excise Duty at £1.69 and merchant’s margins of 30-35%, there is probably enough to pay the direct costs, but not enough to make a contribution to capital expenditure and to depreciation. Taking the long view, the current owner, having ploughed in the money and written it off, there is no immediate cash-flow problem, but as a long-term investment, it is a non-starter.

The main problem with UK-grown still wine is that the quality is by-and-large not good enough for the price required to be a fully profitable product. Other cool climate growers, Chablis and Sancerre – as I have pointed out above – market their wines in the UK in the £12-£15 region (with plenty at nearer £20) and at the moment, UK-grown still wines seldom achieve these prices. If UK winemakers were able to make good still Chardonnay and sell it as a Chablis-replacement at a Chablis-style price, then this could be the solution, but – except in very ripe years – that is simply not achievable in our current climatic situation. Likewise Bacchus – which has a good reputation and sells because it is similar to Sauvignon blanc, a style people in the UK enjoy – if it would sell

at the same price as Sancerre and mid-market New Zealand Sauvignon blancs, then it too could prove truly profitable. At the moment though, £10 is a sticking point and anything above that reduces demand significantly. The Wine Society for instance have the market leader – Chapel Down Bacchus – priced at £9.95.

The situation for UK-grown sparkling wine is, on the face of it, somewhat brighter. Prices of most UK sparkling wines are in the £17-£27 range with a few over £30 (Waitrose currently list sixteen priced from £33.24-£14.24.) At these prices – or at least at prices around £18-£20 – there is probably sufficient profit to pay for both the direct production costs, plus enough remaining to pay for cost of the stock required to be in the bottle-fermented sparkling wine business and the capital invested in the enterprise.

However, how long these prices will remain at these levels is another matter. The UK market for sparkling wines of all types is around 100 m bottles a year, but the market for sparkling wines in the price bands UK-producers need to be i.e. over £18 is probably less than 10%-15% of the total, so perhaps around 12.5 m bottles and is pretty well all Champagne. At the moment, the volume of UK sparkling wine available for sale via high street outlets and supermarkets (as opposed to sales from the farm-gate and direct to the consumer) and therefore in direct competition with the £18 and over Champagnes is probably only 500,000 bottles a year which therefore represents only around 4% of this price sector of the market. But – this will change.

The best guide we have to the amount of UK sparkling wine which will be available in the future is the planted area. Given that most vineyards don't start fully cropping until their fourth year and given that most UK sparkling wines are aged for 2-3 years – the current vintages from most producers are 2005 and 2006 – the big increases in plantings of sparkling wine varieties (mainly the trio of Champagne varieties) which took place between 2004 and 2010 – the WSB shows the total planted area of all varieties up from 761 ha to 1,324 ha – will start producing wine for the market from 2012 onwards. My estimate is that the 500,000 bottles available now will rise to possibly 5 m bottles by 2020. Of course, this is based upon current planted areas and if this continues to rise then so, eventually, will the production.

If my figures are anywhere near correct – and I fully expect that there are several factors in the market (such as on-trade sales) which could skew these – then the amount of the current UK market for sparkling wines over say £18 that UK-grown sparkling wines wish to take rises from the current 4% to perhaps 40%. Is this at all possible? Even though the market for sparkling wines in the UK ought to expand – despite the current economic climate, it has risen by 10% since 2004 – to expect that UK sparkling wines can expand their sales by 10 times in this relatively short time frame is a big ask, although not in my view an impossible one and there are several scenarios one can envisage.

The first is that no one knows what market exists for a new product. To take two other alcoholic products: where was the market for Baileys or Red Bull before they were invented? Answer it didn't exist. OK, so these products are heavily promoted and heavily

distributed, but they started from sales of zero. Given that the current 500,000 bottles of UK sparkling wines available for high-street and supermarket sale is spread very thinly – let's say for want of an example that bottles sit on 1,000 different shelves – who can tell what the sales will be when its sits on 2,000, 3,000, 10,000 different shelves? What I am saying is that at the moment the product is seen by very few shoppers and by making it more available, sales will surely rise.

The second scenario – and one that we have seen before with UK-grown wines (albeit still wine) – is that a significant fall in price will stimulate sales. At the moment, the market leaders on the high-street and in supermarkets (Chapel Down, Ridgeview and Nyetimber) are on sale at prices in the £17-£27 region and this is probably seen by many consumers as too high for a product that doesn't (yet) have the cachet of Champagne when it comes to giving, drinking and being seen drinking. Remember that much high-end Champagne is given as gifts and drunk on special occasions where conspicuous consumption is important. What price UK sparkling wines have to be to get sales moving when bigger supplies are available is debatable and will doubtless not be addressed until bigger supplies are offered for sale. However, my guess is that if the top quality UK sparkling wines were sub-£20, then this would certainly stimulate sales.

The question of whether producers can afford to sell their wines at lower prices is one that only time can answer. I am sure that the big producers have looked at many different retail price scenarios and will have worked out what are the lowest prices they can sell at. However, if the buyers for the high-street retailers and the supermarkets decide that they will only stock UK sparkling wines if they are priced on the shelf at say £17-£20, then what options do producers with large volumes to sell have? They can try and defer sales by increasing their stocks (very punishing to cash-flow), they can advertise and promote their products in order to stimulate sales (a very expensive and indirect way of capturing sales) or they can seek out different markets such as exports, the Olympics, the internet, and more direct-to-consumer sales (also not an instant fix). Or they can accept lower prices and see what happens.

Some producers may of course decide that they will sell grapes rather than turn them into wine, and this will undoubtedly give rise to a fall in grape prices. This may provide an opportunity for some adventurous producers to launch some cut-price cuvées, although given that the grape element of a bottle of sparkling wine is a relatively small percentage of overall production costs and given that the time taken to get a bottle of sparkling wine on the shelf is relatively long, this is no instant fix.

Of course, none of the above may happen: the market may not expand as fast as supply; producers may not wish to lower their retail prices to meet the aspirations of supermarket buyers (i.e. the professionals who buy wines); grape prices may stay stubbornly high. In which case producers will go out of business and vineyards will be grubbed – we have seen this before when between 1998 and 2004 the area in production fell by 26%. However, I really hope this will not happen.

I believe that many UK-sparkling wines are really world-class and recent competition results have shown this. I also believe that the wine trade is actually starting to accept this and, more importantly, is willing to persuade their customers that it bears a Champagne price because it is of a Champagne quality. The one thing that UK winemakers must strive to achieve is the highest quality possible. This means using the best varieties for the job – and with the honourable exception of perhaps Seyval blanc, Pinot blanc, and Auxerrois – this means Chardonnay, Pinot noir and Meunier; giving the wines sufficient time in the bottle to develop some “expensive” lees-influenced characteristics; to adjust the balance of the wine with a dosage level that suits the market – not their palates; and lastly, packages and presents the wines in line with the prices they wish to achieve.

There is no control over the supply of UK sparkling wines and people will continue planting vineyards until the bottom falls out of the market. Prices will probably dip – but possibly only for a few cash-strapped producers – and the leading wineries will hopefully pave the way for others to follow. It's less than twenty-five years since Carr Taylor and Lamberhurst started to sell the first commercially available sparkling wines and the first Nyetimber cuvée wasn't released until 1997 – less than fifteen years ago – so we have come a long way in a relatively short time. The next fifteen years ought to be interesting!

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