

# Bordeaux En Primeurs in a COVID World

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RESPONDS TO A VINIV MEMBER

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VINIV

BORDEAUX

A life explored, a story bottled





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## Introduction

Earlier this month, multi-vintage VINIV winemaker Dilip Viswanath asked Jean-Michel Cazes a most relevant question : How will Bordeaux châteaux address pricing for 2019 futures in the context of today's economic shock due to COVID 19?

In his most recent blog post, called "Shelter-in-Place", Jean-Michel chose to address Dilip's question of purchasing fine wines 'en primeur' in the most thoughtful manner. He takes us through the history and mechanics of the Bordeaux trade, and sheds a light on his experience over the years.

As members of the VINIV community, many of you have met Jean-Michel and have gotten to know the intelligence and sensitivity of the man himself. I trust that you will find his prose to be a meaningful read.

Warm regards,

Stephen Bolger  
VINIV Founder and CEO



DILIP VISWANATH



## 2019 En-Primeurs : In the Starting Blocks

Attentive to the echoes that come from places of consumption, the members of the Union des Grands Crus are preparing for the month of June the official presentation of the excellent 2019 vintage in Bordeaux and in a dozen of major cities of the world. It will be, if not necessary, at least very useful, to ensure the success of the “en primeur” release of the vintage. In the coming days, the properties will also begin to welcome their potential clients on an individual basis. Bordeaux is only 50km (35 miles) away, Libourne at 80. It takes barely 6 more to reach Saint-Estèphe. Merchants and brokers can now drive around in the vineyard without special authorization.

Many say that postponing the release – the “sortie” – because of the sanitary situation is not desirable. September would not change much and a one year postponement, desired by some French or foreign operators, would cause two vintages to collide, questioning the very spirit of the system. Businesses along the chain must also be given the means to operate, in Bordeaux as elsewhere.

Of course, there are many uncertainties hanging over the market today. What will be the impact of the Corona crisis? What will be its effect on demand, therefore on purchasing decisions, volumes traded and selling prices?





# What to buy?

## The question : What to buy?

I received a message from a surgeon friend in Philadelphia, who has made wine at VINIV - our bespoke winery - for a number of years. He believes that in the next two years, the current commotion will have a “favorable” effect on the price of wine. In other words, he is expecting lower prices. Responsible for buying good wines for several groups of amateurs and maintaining their reserves, he questions himself and asks me to counsel him in his purchasing decisions. A legitimate question, but an embarrassing one. I don't have a crystal ball. Educated, however, by the experience of previous crises, I know that he is probably right. We must expect changes. They are sometimes brutal in our profession, but their duration and extent are difficult to predict. To all wine lovers who are pondering the same question, here is my answer:



## Understanding the “Place de Bordeaux”

To properly build and maintain a quality cellar well stocked with great Bordeaux wines, it is essential to understand how the distribution works. Bordeaux is the largest quality wine production region in the world. In the department of Gironde, the vineyard extends over a large area (around 300,000 acres in total) and produces around 5 million hectoliters of wine every year. A significant part of this volume is controlled by a powerful and well-organized cooperative network. There is a variety of marketing methods. For the most demanded segment, that is to say the 300 or 400 “chateaux” which have made its international reputation, Bordeaux benefits from a specific system – “the Place de Bordeaux” – established long ago. It does not exist nor operate in a similar fashion in any other region of the world.

The chateaux offer their wine “en primeur” to the merchants, the “Négociants de la Place”, a few months after the harvest and about a year before bottling, i.e. 15 to 18 months before their availability. The operation is carried out through brokers, called the “Courtiers de Bordeaux” who provide the necessary articulation and support and ensure the smooth flow of information and the speed – and the security – of transactions.

The négociants (let’s call them ‘merchants’), in turn, sell in France to wholesalers, restaurants, even individuals, or abroad to importers or directly to other operators, according to circuits which depend on customs and traditions – and legislation – of each country. It is a system that has worked for 300 years and has demonstrated its flexibility and its adaptability to new sales methods and markets discovered throughout the long history of Bordeaux. The commercial chain can therefore appear very long and sometimes very complicated. However, it is the basis for the distribution of the great Bordeaux wines around the world. It has been operating for centuries, with ups and downs, punctuated by periods of prosperity regularly interrupted by severe crises (vine diseases and phylloxera at the end of the 19th century, great depression of the 1930s, World War II, oil shock of 1973, Gulf War in 1991, financial crisis of 2008 etc.).



**GUIDED BY MALOU LE SOMMER AND JEAN-CHARLES CAZES,  
THE JOHNSTON FAMILY – FAMED NÉGOCIANTS - VISIT THE  
CONSTRUCTION SITE WITH BROKERS EMMANUEL MARLY,  
GEOFFROY VINCENT AND VIVIEN MALLET.**

This original trade organization, which we owe to the British, German and Dutch traders of the 17th century, is unique in the world. It has the advantage of separating the production and sales functions and allows each profession to focus on its specialty:

1. the producer concentrates on vineyard management, wine making, technical investment and search for quality. He does not have to worry about payment, which he usually collects before the wine is delivered (he financial risk is borne by the merchant, who finds himself immediately out of the game if he does not honor his signature...
2. the merchant focuses on logistics and sales, both of which are highly complex internationally.

#### **THE NÉGOCIANTS AND THE COURTIERS**

The “Place de Bordeaux” is made up of a multitude of trading companies (around 300 in Bordeaux and Libourne), more or less specialized by area or by type of product, some very old – a real spider web that effectively covers all the countries of the world.

The Négociant does the purchasing through the “Courtier”, the broker, who ensures the liaison with the wine producer. The Courtier “sense the market”, gathers information on available wines and is familiar of the merchant’s state of mind and needs. The profession is regulated. There are around 80 recognized “Courtiers” in Bordeaux, holders of a professional card issued by the Bordeaux Chamber of Commerce and Industry. They, along with 120 assistants, “juniors” or trainees, are very active year-round. Like the merchants themselves, they may have a specialty (selling in bulk or in bottles, for example). Together with the Négociants, they form a powerful force at the service of Bordeaux wine, young and dynamic figures little known to the public, to which I want to pay tribute by illustrating my remarks with a little portrait gallery.

This distribution of roles provides the chateaux with an efficient commercial structure that only very few could afford individually. It makes wines available all over the world for shops, restaurants and private cellars. This is what I like to call “capillarity” distribution, running from Bordeaux’s artery down to the most remote locations.



**GUIDED VISIT OF HAUT-BATAILLEY FOR  
A GROUP OF BROKERS AND MERCHANTS.**



## En Primeurs : The Release

Throughout the year, the Courtiers (brokers) continue to ensure a good two-way flow of information between trading houses and properties. When the time comes, a few months after the harvest, when the delicate blending of the lots of the young wine is finished, the new vintage can finally be tasted. If the general climate appears positive, marketing is then prepared in liaison with the brokers. They give the chateau indications on the possible “prix de sortie” (release price) and the identity of possible buyers. The tension gradually rises. When the moment seems favorable, the chateau decides its release price, payment terms and delivery dates. And finally fires the starting shot. Care must be taken to ensure that the sale does not fall on a public holiday in London, Hong Kong or elsewhere, and also that there are not too many that day to compete for brokers' attention.

Everything then goes very quickly, and orally. Brokers call each potential customer over the phone. If everything is well prepared and the business “climate” is right, transactions are usually quick. Finally, if necessary, the broker confirms the success of his intervention by issuing a “bordereau”, a slip, and sends the copy to each party. There are no invoices or purchase orders at this stage. The broker's fee is only 2% of the amount of the transaction. Of course, the success of the campaign depends on the strength of demand, which reflects and amplifies the tremors of the world economy, alternating moments of anxiety and serenity.

Later, once the wine is shipped, a few weeks after it has been bottled, the chateaux retain little control over its distribution. They can direct their sales to such and such a merchant but they quickly lose the trace of their bottles and the control of their prices. This is where the good understanding of the system, the understanding and the cooperation between all the actors takes on its importance. It's a key success factor. The good winemaker is not uninterested in what is happening in the places of consumption. Quite the contrary. By relying on a good understanding of its commercial channels, one has effective means to establish and maintain, at low cost, a very useful contact with the end customer, who is sometimes at the other end of the world.

This is what I personally have been striving to do for many years, benefitting from the help of the Trade and traveling around, alone or with a few friends who shared the same vision.



**DURING SEVERAL DECADES, OFTEN WITH FRIENDS, I VISITED THE WORLD TO MEET AND KNOW OUR CLIENTS. IN 1985, JEAN-MARIE AMAT, THE GREAT CHEF FROM BORDEAUX, WELCOMED AT HIS SAINT-JAMES RESTAURANT MICHEL DELON (LÉOVILLE-LASCASES), BRUNO PRATS (COS D'ESTOURNEL), CLAUDE RICARD AND OLIVIER BERNARD (DOMAINE DE CHEVALIER), JEAN-FRANÇOIS MOUEIX (MAISON DUCLOT IN BORDEAUX), OUR MENTOR PROFESSOR EMILE PEYNAUD AND THIERRY MANONCOURT (FIGEAC).**



## Slow and steady wins the race

The Chateau must also base its action on a long-term pricing policy, in conjunction with the distribution channels. It must be recognized that, in order for the chain to function and play its role, everyone must be able to make a living.

When it comes to price, the entire device is, in its purest state, an applied example of the supply / demand balance. A textbook case. It is subject to jolts, completely unexpected, which result from factors independent of the actors of the system. In the history of wine, this was the case for all major crisis of the past. They were numerous and brought about great changes. But, despite the often repeated forecasts of numerous nay-sayers, they have never put down a system which, like the Phoenix, has been able to be reborn and regenerated, sometimes with new players, both on the property and trading sides.

Thus, I have no doubt that COVID 19 and the current sanitary situation are steering our boat towards more tormented seas. What should we expect for the coming months? All things considered, experience tells me that the price of our products will come under strong downward pressure. This pressure will not affect existing stocks in the same way as it will affect the release prices of the 2019 vintage. The previous years have been acquired by the Trade at a certain price level and professionals will do their best to sell their inventory without recording a loss. In practice, what will happen will depend on everyone's financial situation and resilience. It is impossible to make a general forecast. Some will resist, if they have the ability to wait for better times ... others will eventually give up, and will get rid of their stocks by adjusting their selling price. They will start with the wines with the least sustained demand, at all price ranges, which have been in the past more difficult to sell, or less profitable. It is therefore possible that in the coming months the buyer will be exposed to offers that will seem interesting, perhaps irresistible. It is, however, impossible to predict where and when they will happen, nor at what level of the trade chain, nor for how long.

I'm only sure of one thing: if this sanitary situation leads us into the economic crisis that some people are blaring out, it WILL happen. In addition, competition is in full swing, information is circulating quickly and there is today great transparency for prices.

For the "en primeur" market and the 2019 vintage in particular, it is a completely different matter. We have to think differently. We can certainly predict that the pressure on prices will have an effect on the release price. It will be lower than that of previous vintages. The market will undoubtedly be narrower and the difficulties, which are global, will force the seller to adapt to the economic context. However, it should not be forgotten that the price of this new vintage will have an immediate effect on the value of previous ones, still present in the cellars of the buyers. So the chateau has to be careful. When it sets its release price, the chateau must protect its customers as much as possible and think about the long-term consequences of this decision. This means that the producer must have a real pricing policy and follow it over time.

Each feeds their own thinking in their own way. To schematise, there are three possible attitudes which are independent of the general price level and the quality of the crop:

1. Ask for the highest possible price at time "T". If it works, it's a triumph, great for the ego. To achieve this, if it is useful, it will be necessary to artificially reinforce demand by reducing supply by a smaller production, a more drastic selection or the release of only a small volume. Or a combination of the three.
2. Try to find the "right" price, which will generate profit for all the actors in the chain, without forgetting the end customer himself if he – or his widow (it works both ways) – decides to sell his cellar at auction in the future.
3. Do not think too much and offer the wine at a higher price than that of the neighbor. Because quality is better, of course... or this or that fashionable journalist gave him a higher score... From my point of view, it is the worst method, but... it requires so little effort and it's soooo much easier!

## Our approach

In our Bordeaux estates, Lynch-Bages and Haut-Batailley in Pauillac and Ormes de Pez in Saint Estèphe, we have long rejected #3.

When the circumstances permit, # 1 can work, but has the disadvantage of hindering a confident and constructive relationship in the long term. Conventional but more or less artificial methods of supply reduction to push prices up certainly do not improve the visibility of the product on world markets and often lead to an increase in stocks over time. This should never be forgotten: AN AVERAGE OF ONE HARVEST MUST BE CONSUMED EVERY YEAR.

This strategy can lead to selling at more or less broken prices large volumes of seconds, even thirds or fourth wines, a phenomenon that can be observed here and there, on both banks of the Garonne. It is therefore a risky policy, the consequences of which must be carefully assessed.

It is nevertheless conceivable in certain cases. The small vineyards of Pomerol are a good example of success. Others, which used to be called “Garage wines”, because of their very limited production, were in vogue twenty years ago. After some resounding successes, many experienced long-term failure due to the natural versatility of their customers and the narrowness of their distribution. Most have left the scene today. Their success often depended on the support of the specialized press. This being by nature, alas, very volatile, a self-respecting critic having to regularly discover new stars in order to keep his reader in suspense.

For our Bordeaux estates, we believe in proposition # 2 : Finding the “right” price which benefits all the actors in the chain. This approach expresses the classic distinction in the Bordeaux professional environment between so-called “distributive” brands and those sometimes qualified as “speculative”. It has long inspired our marketing strategy. I am personally convinced that this is the only policy which, combined with quality production, has enabled us in the long term to build a wide distribution of our wine and maintain its reputation. I am proud, when I travel, to discover Lynch-Bages in the most unexpected places.

I remember the joy I felt in the early 90's at a border crossing grocery store in Macau, in the middle of the no man's land of almost a kilometer which then separated the territory under Portuguese administration from the Chinese province of Canton.

Can a good knowledge of the mechanics of the system be useful to the end buyer? Certainly, yes. At the time of “en primeur” release, it allows him to better estimate the value that the vintage will take in the future, for a given chateau. And if not the guarantee, at least the probability that his purchase will turn out to be a good deal over time.



LOCAL GROCER IN ZHUHAI'S 'NO MAN'S LAND'



## A good cellar requires home work

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The information exists. In fact, in Bordeaux, there is an active and increasingly accessible secondary market for older vintages, provided that you consider the right channel and place your trust well. The numerous auctions in Paris, London or elsewhere can also give interesting indications. It's fairly easy to identify the chateaux that are most likely to prove to have been good purchases over the years. Of course, this requires a bit of curiosity and research. The best purchases do not necessarily relate to the cheapest wines. Petrus, Lafite and Mouton Rothschild, to take only these three examples, which are among the most expensive, generally turn out to be good choices over the long term. Other names, fortunately quite numerous, have successfully adopted the same strategy for a long time. Come to my mind the names of my neighbor Grand-Puy Lacoste in Pauillac, Léoville-Barton, Branaire Ducru and Beychevelle in Saint Julien, Calon-Ségur and Lafon-Rochet in Saint Estèphe, Giscours and Rauzan-Ségla in Margaux, Haut-Bailly in the Graves, Canon in Saint-Emilion. Of course, there are others.

I concluded my response to my friend in Philadelphia by regretting that I cannot give him real “tips” on the good deals which, in the weeks or months to come, could be – and will presumably be – put forth here and there. My advice is very simple: Knowing that there are excellent fine wines professionals in Philadelphia, I recommend that he knows them well, listen to their recommendations, and trust their judgement.

This is the same advice I would like to give to any potential drinker who does me the honor of reading my prose, wherever he is and whatever place he occupies in the vast world of wine. Hoping that these remarks will help him to be curious and interested in the engaging dynamic of Bordeaux “primeurs”. Just as I believe in a long-term vision to sell one's harvest, I am convinced that there is also a long-term policy to enrich his cellar successfully, for the greatest happiness of his family, his friends... and of his successors.

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