



THE GOOD, THE BAD and the bulky

The bulk wine sector is facing turbulence, with yields falling and increasing prices set to rise even further. As it faces a global supply shortage,

Lauren Eads examines the state of the market

THE BULK wine industry is not entirely dissimilar to the London Underground, really. The tube's vast network of tunnels is near invisible to those walking at street level, but beneath their feet lies a complicated, logistical network that transports millions of people every day.

The same could be said of the bulk wine industry. You don't always recognise a bulk wine on a supermarket shelf, or witness its delivery, but they are there, the result of a multi-billion pound industry shipping wine into the UK to be bottled in their millions.

Strictly speaking, bulk wine is any wine shipped in containers, rather than in bottles or smaller packaging, and bottled in the country of consumption. At a

consumer level, the concept of a bulk wine is almost entirely invisible, save for a label's tiny 'bottled in the UK' legal notice. Bulk wine's entry to mid level pricing [typically £4-£8] is perhaps the only other tell-tale sign. However, even this indication is eroding as bulk wines move, albeit slowly, up the price ladder.

LARGEST MARKET

Bulk wines are now estimated to account for 62% of all wines sold in the UK, according to UK-based bottler Kingsland, with around 85% of all Australian wine sold in the UK shipped in bulk. By value, the UK remains the largest market for bulk wine exports, importing £459 million worth of bulk wine in 2015, the vast

majority coming from Australia. This makes sense, given that the UK is home to Europe's largest wine warehouse and distribution centre, Accolade Park in Bristol. This year, the facility, owned by Accolade Wines, which produces Hardys, Banrock Station and Echo Falls, introduced a sixth bottling line. The facility is now able to fill a staggering 1,200 bottles of wine every minute, tripling its output to produce around 600 million bottles each year, which represents a third of all wine consumed in Britain each year.

"Bulk wine offers an enormous advantage in saving on freight costs, hence benefiting the environment," says Otilia Romero de Condés, general

manager of the World Bulk Wine Exhibition, held annually in Amsterdam, “but it also results in substantial cost savings for producers, particularly for those operating in medium to low-medium wines, which can be received by the packer with lower investments by the producer. Bulk wine transportation also reduces dramatically the carbon footprint. Producing bulk wine also maintains a very important winegrowing surface worldwide, which maintains the rural world and, of course, the environment, including places where if there were no vineyards, there would be deserts.”

AN ATTRACTIVE ROUTE

Consider also a retailer’s quest to eliminate costs through the supply chain, and bulk becomes an attractive route to market. Stigma does still exist, with

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detractors viewing the increasing volume of wines bottled overseas to be a slap in the face to a potential workforce and domestic industry that could have benefited from bottling at source, not to mention fears that bulk shipping ultimately leads to a loss of quality and heritage. However, these attitudes are lessening as freight technology improves, and the quality gap narrows between wines bottled at source and those bottled in market.

“Years ago bulk wine had the stigma of being a poor-quality wine,” asserts Romero de Condés. “Today, the most demanding international markets, such as

the United States, the largest wine consumer worldwide, or the Nordic countries, purchase important volumes of bulk wine and bag-in-box, most of it excellent quality. In recent years, this message has seeped into society and the ultimate beneficiary is the consumer.”

Underlining bulk’s growing importance, in March a new global wine-trading platform launched – Vinex. The London-based, multi-lingual exchange platform allows buyers and sellers to trade wine in bulk using multiple methods; auction, tender, fixed-price and swap offer. At the time of its launch, its founder, Denys Hornabrook, a 24-year veteran of the bulk wine industry, said there had been little change in the way bulk wines had been traded for decades, despite there having been “significant growth in demand for in-market bottlings in the last eight

years”. Vinex has effectively digitised the bulk industry’s conventional trading processes, introducing a level of efficiency and real-time analysis of the industry pricing that was previously unavailable.

“There’s now real pressure on the sector to look for more efficient ways to receive market information and view wine inventory levels in real time,” says Hornabrook. “We think the Vinex technology will introduce

that efficiency and enable greater market connectivity, and really advance the process of sourcing, sampling, buying and supplying of bulk wines.”

GROWTH DRIVEN BY SPAIN

Indeed, in the entry- to mid-level market, the question really becomes why *wouldn’t* you ship in bulk? Bulk wine now accounts for 38.6% of global wine exports, having reached a record 36.3 million hectoliters in 2015 – a 3% increase on 2014 – according to Italy’s *Il Corriere Vinicola*. This growth was driven by Spain, the world’s biggest bulk wine producer, which increased its volumes by 10% to 14

Feature findings

- > Volumes of global bulk wine exports rose by 3% in 2015, but dropped in value by 13.7% to \$3.1 billion. This drop was due in part to a healthy 2015 vintage, with supply outstripping demand and driving down prices.
- > Harvest volumes for 2016 are already predicted to drop significantly, both in the northern and southern hemispheres, with the next 12 to 18 months expected to be defined by a global shortage.
- > This is already starting to affect the price of bulk wines, with savvy buyers rushing shore up supply before prices increase further.
- > The bulk wine industry is becoming increasingly flat, as varieties historically tied to particular regions become increasingly interchangeable.

million hectoliters in 2015, and Chile, whose volumes increased by 15% to 3.7 million hectolitres. This contrasted with France and Italy, whose volumes dropped by 9% and 13% respectively.

But while overall global volumes of bulk wine exports continued to rise in 2015, their value dropped by 13.7% to \$3.1 billion, continuing its decline since 2013’s £4bn peak. In the UK, the price per litre of bulk wine dropped in seven out of its 10 top markets in the first six months of 2016, according to *Il Corriere Vinicola*. South Africa took the biggest hit, with its price per litre dropping by 11.6% to £0.49. Chile saw its price per litre drop by 11.1% to £0.68, while Italy’s bulk wine value dropped by 7.9%, the US’s by 6.9%, Argentina’s by 5.3% and Germany’s by 5.2%. Only Spain (15.8%), France (1%) and New Zealand (9.7%) posted gains on the price per litre of bulk wine imported into the UK.

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bulk wine



Bulk wine is bottled in the country of consumption

Such price decreases can be explained by the relatively healthy 2015 vintage. With supply tending to outstrip demand, prices consequently decreased, demonstrating producers' control, or lack thereof, over the price of bulk wine.

"As there are now large volumes of commercial wines being produced in universal styles, price is reflective of supply and demand," explains Hornabrook, referring to commercial wines within the £4-£8 bracket. "It's very difficult for producers that have a business model that specialises in high-volume commercial wine to add value themselves. They are very much a price taker."

PENDULUM MAY SWING

In 2016, the balance between supply and demand, and consequent pricing, looks set to swing in the opposite direction. While a healthy 2015 harvest has kept bulk wine prices low, they are expected to rise over the next 12 to 18 months, with the precarious 2016 vintage threatening global supplies.

"We are entering a really interesting phase where the pendulum may swing back," believes Hornabrook. "We believe we are going to be entering a global supply shortage. There are already constraints on what will be able to be produced in 2016. South Africa has had its worst vintage in four years, Chile its worst in five and Argentina its worst in 10. Australia was about average and New Zealand had a good vintage. But that's being compounded by the US having average yields and massive shortages throughout France and Italy."

Top 10 bulk wine importers to the UK (Jan to June 2016)

Source: *Il Corriere Vinicola*

	VOLUME (million hectolitres)	YOY % change	VALUE	YOY % change	£/LITRE	YOY % change
Australia	100.42	0.2%	£64.02	-3.6%	£0.64	-3.8%
New Zealand	13.052	1.2%	£27.20	11.0%	£2.08	9.7%
USA	32.394	0.8%	£27.08	-6.1%	£0.84	-6.9%
South Africa	36.518	14.2%	£18.00	0.9%	£0.49	-11.6%
Chile	24.822	7.2%	£16.99	-4.7%	£0.68	-11.1%
Italy	8.786	13.1%	£7.37	4.2%	£0.84	-7.9%
Argentina	4.592	15.2%	£5.20	9.1%	£1.13	-5.3%
France	2.462	-23.9%	£4.26	-23.1%	£1.73	1.0%
Germany	3.101	-2.5%	£3.28	-7.6%	£1.06	-5.2%
Spain	5.394	-3.7%	£3.21	11.4%	£0.60	15.8%

Trade talk: Global volumes of bulk wine exports hit a record high in 2015, but their value declined. How can the bulk wine industry work to build value into the industry?



ZAKKIE BESTER, MANAGER/CELLARMASTER, RIEBEEK CELLARS, SOUTH AFRICA

"Unfortunately, bulk wine is seen as a commodity and commodities will always sell at low prices. The only way to add value to bulk wines will be to pay more attention to wine of origin and specific varietal offerings. How we are going to achieve this in a surplus environment will be challenging but is the only way forward. I suggest we start working together as South Africans as a united front and demand higher prices for our premium wines. South African Chenin Blanc, for instance, does not deserve to be seen in the same category as Spanish or Italian generic white wines. Our quality is way above that and deserves better prices. We as a wine industry need to look after our own gems, but it can only happen if we get the industry players to stand together."

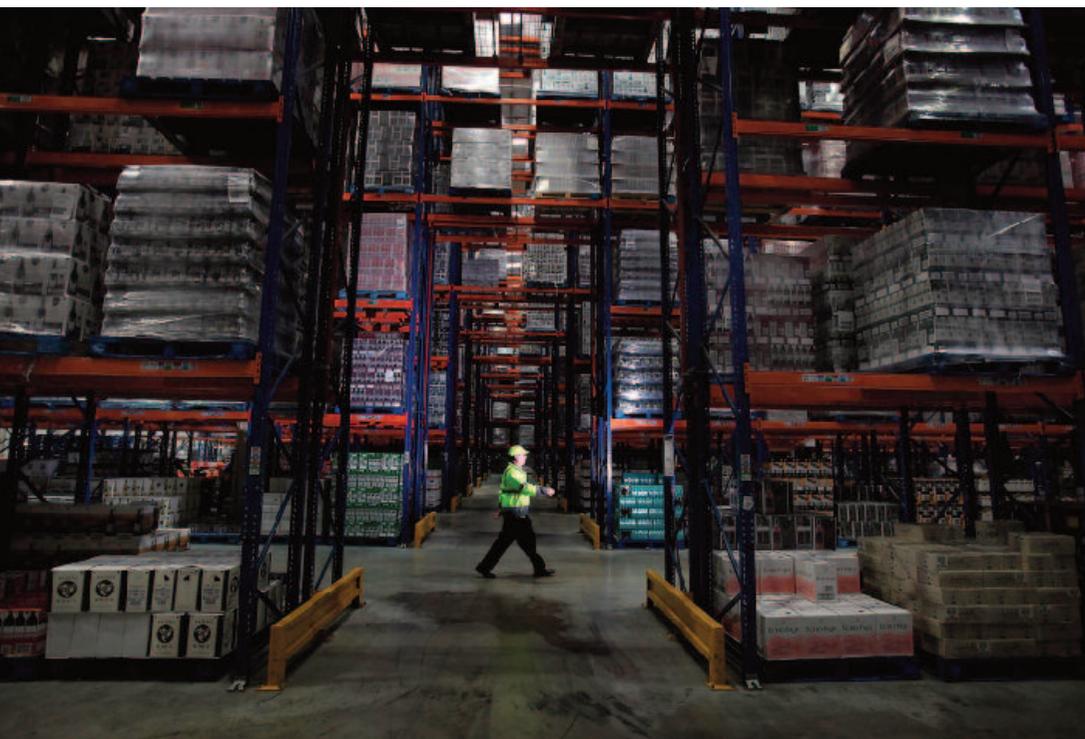


PAOLO LASAGNI, MANAGING DIRECTOR, BOSCO VITICULTORI, ITALY

"It's very difficult to build a market value unless you have a strong brand. The bulk wine industry can improve its value just at a single winery level: if a winery builds up its reputation as a valuable company, customers will be willing to pay slightly more for its premium bulk wines. With reference to 2015 vintage, we have to take into consideration that there had been very good harvest conditions pretty much worldwide, therefore the overall production has been very generous from a volume point of view, with a consequential decrease in price, especially for the less appealing varieties."

While a healthy 2015 harvest has kept bulk wine prices low, they are expected to rise over the next 12 to 18 months, with the precarious 2016 vintage threatening global supplies

bulk wine



Bulk wines are estimated to account for 62% of all wines sold in the UK

Production estimates are already starting to tip bulk wine prices upward. Vinex's Global Price Index, which combines the price of five key varieties in major wine-producing countries to determine an average weight price, recorded a 22% increase in the past 12 months to 5 October.

'We believe we are going to be entering a global supply shortage. There are already constraints on what will be able to be produced in 2016'

"We expect that will go considerably higher once we have a clearer picture around the vintage," warns Hornabrook.

In the southern hemisphere, 2016 harvests in Chile and Argentina dropped by 30% and 25% respectively, due largely

to the effects of El Niño. Here, the price of bulk wine has already begun to rise, leaving international buyers grappling with fluctuations in price. In Chile, stocks of good-quality wine are already low, with varietal Pinot Noir and Merlot "close to being sold out", according to bulk wine specialist Ciatti's September 2016 report, with Cabernet stocks expected to be depleted by December.

"International buyers who do not enjoy pre-existing relationships are arriving to find they have to pay perhaps 50% more than they were hoping to, but realise if they wait any longer prices will only have increased again," the report stated.

Updating its assessment in its October report, Ciatti said Chile's 2016 vintage had started at \$0.40/l for basic Cabernet Sauvignon, with the price now at \$0.80-\$0.90. "Next year's vintage may start at approximately \$0.70-\$0.80 and go from there," it said. "Prices for Cabernet, Merlot and good-quality Sauvignon Blanc are increasing, and sellers are fairly firm: it's case of take or leave the quoted price."

Top 10 bulk wine importers 2015

	Value (million US\$)
UK	562
Germany	546
US	250
France	247
Italy	136
Belgium	112
Russia	101
China	99
Switzerland	95
Canada	91

Source: *Il Corriere Vinicola*

Top 10 bulk wine exporters 2015

	Value (million US\$)
Spain	559
Italy	383
France	339
Australia	321
Chile	253
USA	239
South Africa	202
New Zealand	197
Germany	98
Argentina	64

Source: *Il Corriere Vinicola*

In Argentina, Ciatti said buyers were already struggling to source supply – "prices are high and activity low".

HAILSTORMS & DROUGHT

In Europe, severe hailstorms in France hit bulk-wine region the Languedoc, while drought in much of Europe has driven down yields. France and Spain's harvests are both expected to be approximately 10% down in 2016 (by 20% in the Languedoc), according to Ciatti's September report, while early signs suggest that Italy's Pinot Grigio harvest could be down by as much as 15%.

Recognising that stocks of entry-level Italian wines were very low, Ciatti said the price for generic reds and whites from the 2016 vintage will "depend on export demand and the output of Italy's main competitor, Spain".

bulk wine



Accolade Park in Bristol

With regard to importers, the UK remained the biggest importer of bulk wines in 2015, according to *Il Corriere Vinicola*, followed by Germany, the US, France and Italy. Outside of mature markets, Russia, which had been pegged as an emerging player for bulk wine, suffered a downturn in 2015, in part because of the collapse of the rouble. The value of its bulk wine imports dropped by \$8m, causing it to fall behind even the comparatively tiny Belgium. China is emerging as a future prospect for the bulk wine

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industry, and the global wine industry as a whole. The country almost doubled the volume of its bulk wine imports in 2015 from 82m hectoliters to 146m hectoliters. Values also rose by nearly \$30m to \$99m, bucking the overall trend seen across the bulk wine industry in 2015.

However, any future growth in this market, at least in the medium to short term, will depend on the ability of

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JULIE FERNANDEZ, HEAD OF EXPORTS, RAPHAEL MICHEL, FRANCE

“As much as possible we have to keep a good balance between supply and demand to maintain stable and coherent prices. You just have to observe the situation in France this year: we started the campaign with quite high prices and at the end of the campaign there are still volumes available on which you can now observe big price decreases. This volatility doesn't help to build a safe and strong business in the long term. We also have to focus on quality and service to our customers to be credible, consistent and justify the price to final consumer.”



OTILIA ROMERO DE CONDES, GENERAL MANAGER, WORLD BULK WINE EXHIBITION

“The way to raise the value of bulk wine value on international markets is to strengthen even more the quality of bulk wines through the elaboration of wines that possess varietal denomination, protected geographical indication or designation of origin. In the first half of 2016, Spanish wine has increased from 16% of bulk wines to 24%.”

producers' and buyers to sustain demand.

“Once packing companies are well established in this country, everything indicates that purchases will increase,” says Romero de Condes. “We have no doubt that, in the future, the numbers will show very important growths.”

While the bulk wine market is undoubtedly healthy and growing, bulk wine producers and buyers will face constraints over the next year with supplies almost certain to decrease and prices already rising.

Commercial wines, by their nature, are substitutable, with buyers lacking supply in one region generally able to secure supply from another in healthy vintages. A lack of Chilean

Chardonnay for example can have a significant impact on sales of Australian Chardonnay. A side effect of this practice has been a general flattening of the bulk market, observes Hornabrook.

FREE-FLOWING SUPPLY

“We are seeing retailers' own labels taking Pinot Grigio from Romania and large volumes of Shiraz/Syrah

from the South of France, which historically was the domain of Australia,” says Hornabrook.

“We are seeing the flatness start to develop where the markets are open and better connected and supply is more free-flowing and less constrained by historical styles. So in terms of adding value, being a price taker is extremely difficult. Producers that are playing in this space can only control their costs and must be looking for greater efficiencies. Every production and grape dollar must be effective, because they are now competing across currencies and across different global forces and interest rates.”

Substituting of regions to secure supply naturally becomes harder in years defined by reduced yields. In the short term, the most pressing concern for bulk buyers looking ahead to the next 12 months will be securing supply, as prices continue to nudge upward.

As Hornabrook observes: “This is a time when the market becomes very active in terms of moving quickly to shore up supply, and buyers that are really in tune with the market will already be moving quickly.” db