THE WINE AND SPIRIT TRADE ASSOCIATION

Guide to the En primeur wine market

The WSTA produced a guide aimed at consumers wishing to invest in En primeur wines to advise of the checks they should make before investing in wine. The checklist is designed to protect buyers from the risk of wine fraud. Members are advised to reproduce this advice on their websites and/or use a link to the WSTA website.

What is en primeur?

En primeur, or opening offer wines, refers to the release and sale of wine by growers and their merchants before they are bottled and ready for physical delivery. The main areas that are regularly involved in this process are Bordeaux, Burgundy and the Rhône; and vintage Port. The wines themselves are delivered some time after the en primeur sale during which time the wines complete the maturation process, usually in barrels. They are then bottled before finally being delivered to the merchant and becoming available to the customer.

How does it work?

Typically wine merchants will be invited to taste wines while they are still maturing, and some time before they are ready to drink. Their experience enables them to say how the raw wine that they are tasting will taste when it is a finished product, and judge whether the wine is worth the price that the grower is asking for it, even though it tastes quite different from the final drinkable wine. The wine merchant offers the wines it selects to customers in the form of a promise to deliver that wine later, at a fixed price now. This price excludes UK Excise Duty and VAT. If the customer chooses to buy, he pays the merchant and an invoice is raised which states that the customer has a right to the wine at a future date. Often merchants also issue annual statements confirming the wines that have been paid for and when those wines are likely to be delivered to the UK.

When the merchant finally receives the bottled wine, the customer has various options. He can take personal delivery, pay the UK Excise Duty and VAT and store, drink or sell the wines as he chooses. Many customers prefer to have the wine stored by merchants or specialists rather than at home. This can be “under bond” which means that the payment of Duty and VAT is delayed while the wine is in a properly registered and controlled warehouse. Other merchants ask their customers to pay the Duty and VAT when the wine arrives in the UK regardless of whether they take personal delivery or store the wine with them.

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Why buy en primeur?
Demand for some wines can exceed their supply, and it is possible that all of a grower's wine is sold before it is bottled. It can then be very difficult or expensive to obtain that wine at a later stage. In addition, buying en primeur gives assurances about the provenance, since the customer is effectively buying directly from the grower. The customer can also be certain of the conditions in which it is stored; buying at a later stage, perhaps when the wine is ready to drink many years later, does not enable control of these conditions. The customer also has the ability to specify the bottle size. Finally, it has been the case that fine wine, in limited supply, has increased in price.

Customers have been able to sell at a profit. It must be said, however, that there is no guarantee of this, and the price of wine (as in the case of many other assets) can fall as well as rise. Rather like art, it is good advice to buy wine that you will enjoy, rather than count on it appreciating in value.

On the other hand there are risks and costs associated with buying wine en primeur. The first of these is that the wine may not turn out to be as good as projected by the merchant. Secondly, money is tied up while the wine matures when it could be earning interest. Thirdly, money has been paid to a merchant, and by the merchant to a grower, without taking possession of the product itself.

Why do producers sell en primeur?
The big advantage for producers is liquidity. Without this early sale they would require more capital to finance their operations without income for several years. Selling en primeur means better cash flow.

When are en primeur wines delivered?
This varies by region. The largest region is Bordeaux and the en primeur offer of the previous year's vintage is typically made in June of the following year. Delivery of the bottled wine will then take place 18 months to two years later (i.e. about 2½ years after the harvest or vintage).
Some customers will pay Duty and VAT shortly after the wines arrive in the UK; others will delay this payment and may even sell the wine without paying Duty and VAT (in other words while it is still stored in bond).

When is payment due?
Subject to a wine merchant's terms and conditions, payment is due when the customer's order is accepted by the merchant. Some merchants have closing dates for their en primeur campaigns, and if demand exceeds supply they will allocate the wine, perhaps by ballot. Other merchants sell on a "first come, first served" basis. In all cases payment is a significant time before delivery.

Is there a risk?
Wine prices can fall as well as rise. Wines can turn out to be less attractive than expected. In addition there is a clear risk in paying for a product which is delivered a considerable time later, and there have been instances where a merchant has sold more wine than he has managed to obtain from the grower. Some people will then be disappointed! There have also been bankruptcies of merchants or growers between the time of payment and delivery of the wine, and as a consequence customers have not been able to obtain delivery of the wine that they paid for. It is

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also possible that a grower oversells his output, and when the time comes to deliver is not able to do so, despite having been paid by the merchant.

There have been instances of fraud and non-delivery of wine, despite the payment and contracts.

So there certainly are risks to buying wine in this way. However, dealing with a reputable merchant can reduce these considerably.

Checklist – ask these questions about the merchant offering en primeur wine:

- Consider the size and reputation of the merchant. Large, established businesses are much less likely to suffer bankruptcy or engage in dubious trading; they will be independently audited and their administration will be more professional and subject to checks.
- How long has the business been trading?
- How much cash and other assets does the company have compared to their en primeur purchases?
- What is the turnover, credit rating and number of employees?
- How is the management supervised?
- Consider whether the merchant offers guarantees or carries insurance. Some merchants ensure that if a grower does not deliver the wine as arranged that funds are returned to the merchant and so to the customer, through a bank guarantee or insurance, or wine obtained from another source.
- Does the merchant own the wine he is offering for sale, or does he just hope to buy it from the grower once he has your order?
- Are prices competitive? Do they include delivery?
- Where can they be stored once delivered to the UK? Are these facilities secure and climate controlled? What is the rental charge and does this include insurance?
- What paperwork, such as invoices and statements, will you receive to ensure that you can prove your entitlement to the wine that you have paid for?
- Is the title to your wine clearly established, through labelling and/or statements and invoices?
- Is your wine stored separately from the company's own wine?