

AGRIFRANCE 2017 RURAL REPORT

THE US WINE MARKET



AGRIFRANCE
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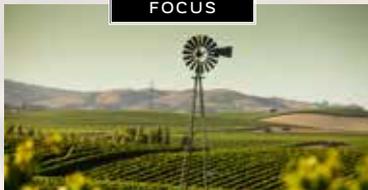
PANORAMA



THE RURAL LAND MARKET IN 2016

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FOCUS



THE US WINE MARKET: A NEW ELDORADO FOR FRENCH WINE?

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P R E F A C E

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BEYOND FRONTIERS IS THE US A NEW EL DORADO FOR FRENCH WINE PRODUCERS?

For more than 17 years now, Agrifrance and BNP Paribas Wealth Management have been producing an annual report providing an overview of the French rural land sector.

In 2016, the price of rural land, vineyards and forests rose. In an environment of low interest rates and timid economic growth, rural land is in great demand because it is a good way of diversifying investments. However, the slowdown in growth for farmland reflects the decline in agricultural revenue.

The market for forest land remains buoyant and demand continues to outstrip supply. Timber prices are in decline, with the exception of oak.

Despite another struggling grape harvest in 2016, viticulture (the wine and vineyard activity) has been recovering for several years. Nonetheless, the ideal volume-price mix is still difficult to achieve. Cash is tight and stock levels are falling in some regions. Only the high-end segment can absorb the sharp rises in bottle prices. Export markets are more than ever welcomed.

This year, the second part of our report focuses on the US wine industry. The US has been the world's leading wine market by value since 2013. Exports of wines and spirits to the US exceeded €8 billion in 2016 (+8.1% year-on-year) and the prospects for the sale of French wine to this market are very good.

Despite stiff competition, French products bring a number of advantages to Uncle Sam's country.

We hope you like this new report and find it interesting.

Enjoy your read.

Benoît Léchenault
Head of Agrifrance

A woman with long, dark, wavy hair is shown from the back, looking out over a vast, green field. The scene is bathed in the warm, golden light of a sunset or sunrise, with the sun low on the horizon, creating a soft glow and long shadows. The field is filled with various green plants and flowers, some in the foreground and some in the distance. The overall mood is peaceful and contemplative.

01

PANORAMA
OF THE RURAL LAND
MARKET IN 2016



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FARMLAND

2016 HARVEST

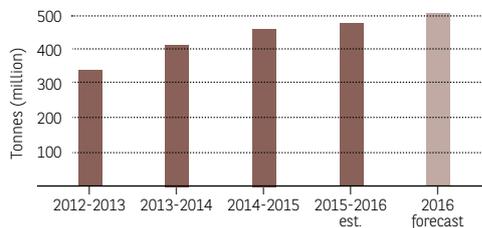
HISTORICALLY LOW YIELDS IN FRANCE AND GLOBAL PRICES IN DECLINE

2,069

MILLION TONNES OF GRAIN HARVESTED
WORLDWIDE IN 2016

The world grain harvest was abundant, unlike in France. The 2016-2017 season was a record, and global stocks continued to swell.

Global grain stocks



Sources: Les Echos, Bloomberg International, Grain Council

-16%

AGRICULTURAL INCOME DOWN

2016 will be remembered as a particularly bad year for agricultural production. For grain growers, everything that could go wrong did go wrong, thus driving down revenues. With grain yields and prices in decline, they suffered a double penalty. The only positive aspect was a fall in costs, particularly fuel (-17.2%), and fertilisers (-5.5%) for which deliveries were down by around 36%. On the investment side, sales of new agricultural equipment dropped by 16%.

Given these factors, around one third of the 467,000 farms are facing financial difficulty. The number of farms fell by 1.3% in 2015, while the average land area per farm continues to grow: from 54.2 hectares in 2014 to 54.7 hectares in 2015. Working capital requirements are increasing and farmers are starting to consider new ways of financing land and working capital, such as crowdfunding and funding by external investors.

55.1

MILLION TONNES
OF CEREALS HARVESTED
IN FRANCE IN 2016

Adverse weather conditions hampered French grain production, which was at its lowest level since 2003, at 55.1 million tonnes, and a year-on-year decline of 24%.

SOFT WHEAT

LOWEST YIELD SINCE THE EARLY 1980S



Source: Agreste - Annual agriculture statistics 1970-2015

Global production reached a new record in 2016: 744 million tonnes, up from 735 million in 2015. French production, however, was only 28 million tonnes, compared with 41 million in 2015. The French harvest was down 32% on 2015, and 24% below the 2011-2015 average. France's soft wheat yield was the lowest for more than 30 years, at an average of 53.6 quintals per hectare, compared with 79.4 q/ha in 2015! Wheat was particularly affected by the bad weather: From March to mid-May, chilly, gloomy and wet conditions hampered crop growth, particularly in the northern half of France. May and June, corresponding to the fertilisation and grain filling periods, were dire months. The grain-growing regions that traditionally show good agronomical potential and the Centre-Loire Valley region suffered the most, with yields plummeting by 48% in Ile-de-France and 38% in the Centre-Loire Valley. Owing to these difficult conditions, the quality of French wheat remains atypical, with specific weights (or grain weights, which measure grain density) down considerably.

Standard Port of Rouen soft wheat prices (in €/tonne)



Source: Terre Net

Despite a sharp increase in demand, global stocks at the end of the harvest reached very high levels, at 248 million tonnes. Global production is characterised by an abundance of wheat fodder, rather than high-quality wheat, resulting in a significant degree of market segmentation and relative pressure on prices. Average prices have barely increased, and stood at €169/tonne in January 2017.



-32%
DECLINE IN THE FRENCH HARVEST VS. 2015





WEATHER IN 2016

A YEAR OF EXTREMES

Although average temperatures and rainfall were almost normal, 2016 saw some exceptional weather events.

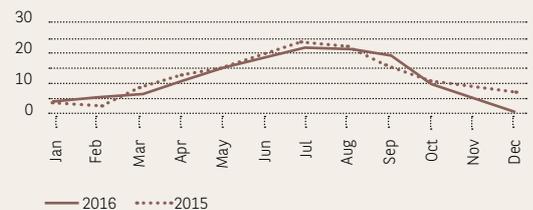
The average temperature in 2016 was close to normal, at 12.7°C, an increase of more than 0.5°C compared with the average for the last five years.

At around 739 mm, rainfall was just below the normal average of around 769 mm, in other words, nothing exceptional.

However, 2016 was certainly not a standard year for farmers and winemakers, as the rainfall distribution was particularly unfavourable.

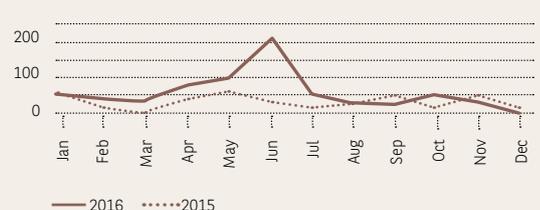
At the end of the first six months of the year, around 75% of a normal year's rainfall had already been recorded. After that, it barely rained. There were heatwaves in July and August; September was very hot and the autumn very dry, which benefited the grape harvest. Finally, the end of 2016 beat the record for sunshine. December had 28 sunny days, which is exceptional.

Monthly temperatures (°C) 2015-2016



Sources: Météo France and Météo Alsace

Monthly rainfall (mm) 2015-2016



Sources: Météo France and Météo Alsace

RUSSIA, THE WORLD'S BIGGEST WHEAT PRODUCER

A relative newcomer to the global market, Russia is now the world's biggest exporter of wheat, ahead of the US and Europe. It has a growing area of more than 40 million hectares and produces in excess of 100 million tonnes per year.

The 2016 harvest was the largest in 40 years. The rouble's depreciation has made Russian wheat very competitive on international markets. The country's medium-term target is to reach 130 million tonnes by raising its productivity.

Global demand is growing, and a number of emerging countries in Africa, Asia and Latin America now buy Russian wheat.



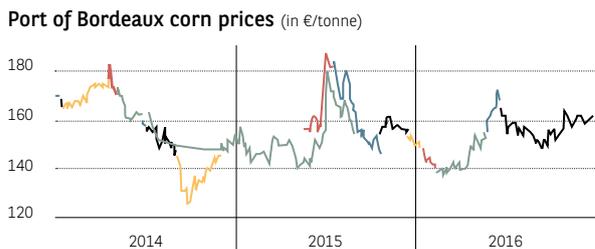
-9%
 DECLINE IN
 THE FRENCH HARVEST
 VS. 2015

CORN

PRODUCTION IN DECLINE

French production of sweetcorn diminished by 9% year-on-year in 2016, and by 20% versus the 2011-2015 average. It totalled 12.5 million tonnes, down from 13 million in 2015 and 18 million in 2014. Yields varied significantly by region. The average was broadly flat, at 82 quintals/hectare (versus 80 q/ha in 2015). For the second year in a row, a lack of summer rain led to low yields, especially on non-irrigated land.

Global production in 2016 remained substantial, however, at 1,030 million tonnes. Production growth in the US, Brazil and Argentina accounted for the increase of 70 million tonnes over the year. Global stocks (218 million tonnes) were proportionally lower than for wheat: 22% of consumption, against 32% for wheat. Average prices showed little change, and stood at €162/tonne in January 2017.



Source: Terre Net

RAPESEED

PRODUCTION DOWN

Rapeseed production fell by 13% year-on-year in 2016 to 4.6 million tonnes. The average yield was 30.6 quintals per hectare, representing a decline of 14% on 2015 and down 11% versus the 2011-2015 average. The unfavourable weather conditions in the spring had less of an impact on rapeseed than on other winter crops. However, yields tumbled in the Paris basin and in eastern France, due to low light levels, disease and insect attacks.

The trend within the EU was identical, with an average yield of 31 quintals per hectare, compared with 33 q/ha in 2015 and 36 q/ha in 2014. Despite a small increase in the growing area, overall European production was 8% lower than in previous years. The same applies globally, with total production of 67.6 million tonnes, down by 2 million and 4 million tonnes compared with 2015 and 2014 respectively.

The overall fall in supply naturally drove up prices, in the context of a general rise in prices for vegetable oils. However this was mitigated by spikes in the oil price and by record global production of oilseeds (particularly soya). After a significant improvement in 2016, average prices fell to less than €400/tonne in January 2017.



-13%
DECLINE IN
THE FRENCH HARVEST
VS. 2015

Port of Rouen rapeseed prices (in €/tonne)



Source: Terre Net

SUNFLOWERS

A SHRINKING GROWING AREA IN FRANCE

Sunflower production totalled 1.2 million tonnes in 2016, a 4.6% increase on 2015, when yields were lower due to the drought. However, the 2016 harvest was 21% smaller than the 2011-2015 average. The growing area shrunk by 16%, to 585,000 hectares. The average yield improved slightly in 2016, to 21.2 quintals per hectare (from 19.2 q/ha the previous year). The poor performance in 2015 undoubtedly stemmed from the loss of interest in sunflower crops in all regions where they are grown.

At EU level, the growing area was broadly stable at 4.16 million hectares, although in 2016 production rose year-on-year to 8.3 million tonnes (from 7.8 million tonnes in 2015; and just over 9.3 million tonnes in 2014). Worldwide, the growing area was at a record high, at 24.8 million hectares, and global production was on a strong upward trend (44 million tonnes in 2016).

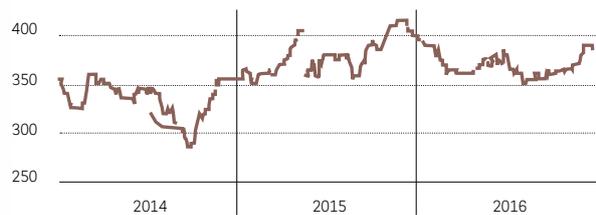
These good harvests of sunflowers, and oil seeds in general, naturally affected prices. Average prices fell compared with rapeseed, reaching €380/tonne in January 2017.



+4.6%

INCREASE IN FRENCH PRODUCTION VS. 2015

Port of Saint-Nazaire sunflower prices (in €/tonne)



Source: Terre Net



PROTEIN CROPS

PEA YIELDS DOWN

Pea yields were especially hard hit by the spring weather conditions, totalling 26-29 quintals per hectare, compared with 39 q/ha in 2015. The production in 2016 was 456,000 tonnes vs. 662,000 tonnes in 2015.

In terms of exports, India increased its international shipments in 2016 after three poorer harvests. As for prices, France's harvest ahead of Canada's allowed some shipments to fetch up to €290/tonne (Port of Rouen). Prices began falling in 2016, and the difference with the wheat price (around €70/tonne) limited further the crop's use as animal fodder. Average prices barely moved, and stood at €240/tonne in January 2017.

Port of Rouen pea prices (in €/tonne)



Source: Terre Net

FARMLAND MARKET

SLOWER GROWTH IN FARMLAND PRICES
IN 2016



€6,035

AVERAGE PRICE
PER HECTARE OF FARMLAND
IN FRANCE IN 2016

+5%

ANNUAL INCREASE OVER THE PAST
10 YEARS

Prices are still rising, although profitability of farms has been falling for three years

In 2016, the average price per hectare of farmland was €6,035, compared with €5,835 in 2015. Land prices continued to rise in 2016 (+3.4% versus 2015), but at a slower pace than in the previous ten years (+5% per annum). This trend should be put into perspective in light of the drop in the price of agricultural products and revenue. Nonetheless, farmland in France is still less expensive than the European average. As such, the number of years needed to reimburse a hectare of land is lower in

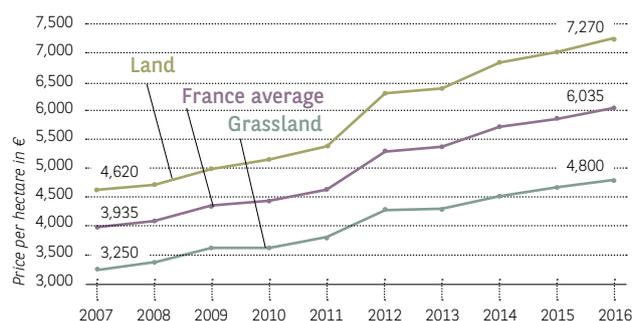
France than in other European countries. On average, it takes six years of added value to reimburse a hectare of land in France, compared with 20 in England and Wales, for example.

**GROWTH IN LAND PRICES
FREEHOLD**

	France	Land	Grassland
2016-2015	3.4%	3.6%	3.2%

Source: Valeurs vénales

Farmland prices in France 2007-2016 (freehold)



Source: Valeurs vénales

Arable land is still more expensive than grazing land

The price hierarchy between the various production systems remains unchanged: the average price paid for arable land is €7,270 per hectare, while for mixed crop-grazing areas it is €4,800 per hectare. This represents around 17% above the national average. In 2016 prices rose slightly faster for arable land (+3.6% y/y), than for grazing areas (+3.2% y/y).

At the top end, the best grain-growing areas are the most expensive, at more than €15,000, or even €20,000 per hectare. Among these are the Hauts de France region, which includes Nord Pas de Calais, Santerre, Champagne Crayeuse and Saint Quentin, and parts of southern France, such as the Crau and Durance Valley.

At the bottom end, the cheapest land fetches between €2,500 and €3,000 per hectare, for example, in Mayenne, Jura or Morvan.

Yields remain very positive in the current economic climate

GROWTH IN LEASED LAND PRICES			
	France	Farmland	Grassland
2016 vs. 2015	3.2%	3.2%	3.2%

Source: Valeurs vénales

The average price for leased land is €4,950 per hectare, around 18% less than freehold land. This represents an increase of 3.2% on 2015, for both leased farmland and grassland.

YIELDS ON LEASED LAND

	France	Farmland	Grassland
2016	3.4%	3.1%	3.9%

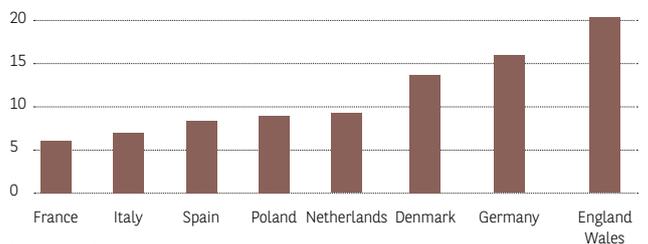
Source: Valeurs vénales

In 2016, the average farm rent was €169 per hectare. Compared with the price of leased land, the average gross rental yield was 3.4% in 2016. Depending on the region and type of land, the average gross yield fluctuated between 3.1% for arable land and 3.9% for grassland in 2016.

Although the farm rent index fell for the first time in six years, investment in farmland is still attractive in the current economic environment. Over the last ten years, rents have grown by 2.4% on average, and there are very few départements where the return on leased land is below 2.5%.

Number of years needed to reimburse a hectare of land

Land price/adjusted value added per hectare in 2014



Source: SAFER

€4,950

AVERAGE PRICE PER HECTARE OF LEASED FARMLAND IN FRANCE IN 2016

+3.2%

INCREASE VS. 2015



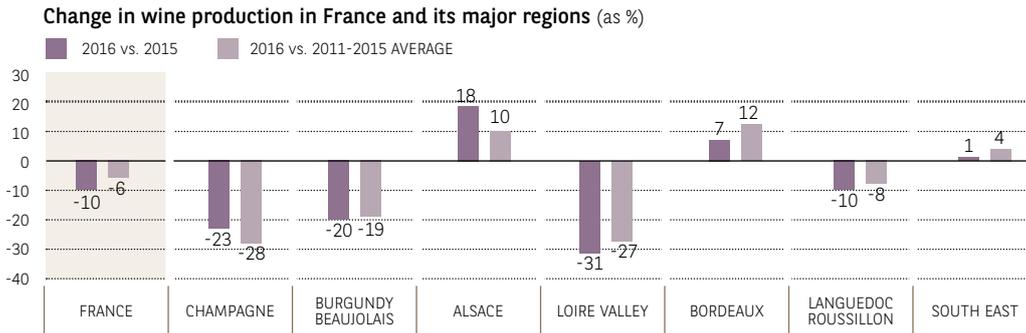


VINEYARDS

WINE

WINE PRODUCTION IS DOWN, WITH SHARP REGIONAL CONTRASTS

In 2016, the French grape harvest equated to 43.2 million hectolitres, down 10% on 2015 and 6% lower than the average for the last five years.

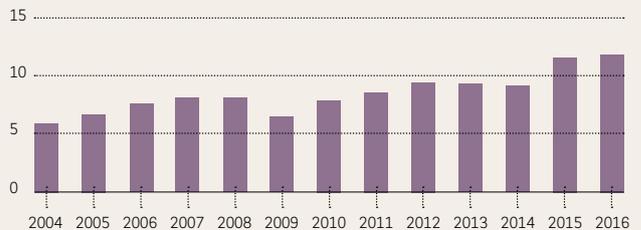


Source: Agreste

The weather conditions in 2016 also made life difficult for winemakers. The humid spring, vine diseases as well as late and night frosts hampered production in some regions. Happily, from July, dry and very hot weather halted the ripening process of grapes. The rainfall from mid-September benefited the vineyards where grape-picking had not yet started.

France still ranks the world's second-biggest wine producer. Italy remains the leading producer, and even managed to widen the gap in 2016, with 48.8 million hectolitres (-0.2%). Spain comes third in the usual trio of world producers (+1%, at 37.8 million hl). Argentina shed 35% of its harvest (8.8 million hl) and Chile lost 21% (10 million hl). In 2016, total worldwide wine production fell by 5% to 259 million hectolitres, one of the lowest levels in 20 years.

Exports of wine and spirits: change in trade balance since 2004
€ billion



Source: FEVS

2016 was a good year for exports. French wine and spirits sales were up 1.2% at €11.9 billion, consolidating the record level achieved in 2015. Thanks to a surplus of €10.5 billion, wines and spirits were the second-biggest contributor to France's positive trade balance, behind aeronautics (-16%) and ahead of the perfumes and cosmetics sector (+2%). Sales to the US, the biggest export market for French wines by value, climbed 11%. Germany was the biggest market by volume.

43.2

MILLION HECTOLITRES PRODUCED
IN FRANCE IN 2016

-10%
DECLINE VS. 2015

-6%
DECLINE VS. 5-YEAR AVERAGE

WINE

STRONG REGIONAL CONTRASTS

The situation differed considerably from one region to the next. The four regions that suffered the most were the Loire Valley, Champagne, Burgundy and Languedoc-Roussillon. On the other hand, production increased in Bordeaux, Alsace and south-eastern France.

PROVENCE & CÔTES-DU-RHÔNE REGION

+1%

INCREASE IN PRODUCTION
VS. 2015Provence
and Côtes-du-Rhône region

Production was up 1% compared with 2015. Rainfall in September and October helped to offset the initial shortfall in production.

In Côtes-du-Rhône, red wine sales were down 15%, but prices rose by 3% to €142 per hectolitre owing to the small harvest in 2015.

In Provence, the grapes were picked between three and ten days later than in 2015. Harvesting took place at very different times depending on the *département*, grape variety and parcel.

While the vines were in a very healthy condition, it was the Mistral gusting in September that provided optimum conditions for harvesting. In terms of prices, there was a trend reversal on the bulk rosé market. Sales dropped by volume and by value, for both the *vins de pays* and the Côtes de Provence appellation. Prospects for red wine remain bright, however.

Champagne region

In 2016, production collapsed by 23% compared with the previous year, due to several frosts in the spring and grapes lost to mildew. These factors also created vast differences in ripening between grape varieties, areas and parcels.

Fortunately, however, the weather conditions were particularly favourable when the grapes were picked and enabled a late harvest of Chardonnay grapes. This meant that bunches were heavier than expected.

CHAMPAGNE REGION

-23%

DECLINE IN PRODUCTION
VS. 2015

Burgundy and Beaujolais region

Total Burgundy and Beaujolais production declined by 20% in 2016 compared with the previous year.

In Burgundy, production was down 34%! This was due to a frost at the end of April that affected 10,000 hectares of vineyards to varying degrees, followed by several hailstorms in May, which caused terrible damage.

In Beaujolais, to the south, despite severe hailstorms affecting 50% of 2,200 hectares of vines, the 2016 harvest was bigger than in the previous year, also outstripping the average for the last five years (+40%).

BURGUNDY & BEAUJOLAIS REGION

-20%

DECLINE IN PRODUCTION
VS. 2015

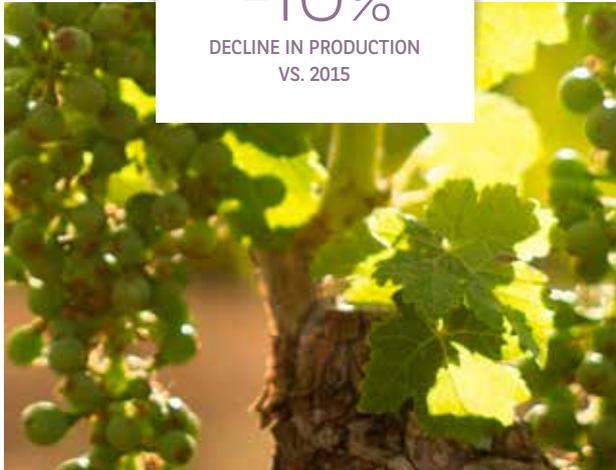


As for sales, exports of Burgundy wines continued to grow steadily (+2.8% by volume and +6.4% by value in the first nine months of 2016). Exports to the US, Canada, Japan and Hong Kong showed a further increase in value terms. The UK and Switzerland also expanded their imports considerably.

LANGUEDOC-ROUSSILLON REGION

-10%

DECLINE IN PRODUCTION
VS. 2015



Languedoc-Roussillon region

Production was down by 10% year-on-year due to the particularly dry spring and summer, especially in Roussillon. Rainfall in mid-September benefited the later harvests, especially in Gard and Aude, partially offsetting the decline in volumes.

Centre-Loire Valley region

In the vineyards of the Centre-Loire Valley region, before the grape-picking had finished at the end of October, production was down by 31% on 2015. The vines were affected by some early outbreaks of grey botrytis* and a frost at the end of April, with between 10% and 50% of the grapes lost, depending on the area. However, this decline was mitigated, to a certain degree, by the rainfall at the end of the summer.

CENTRE-LOIRE VALLEY REGION

-31%

DECLINE IN PRODUCTION
VS. 2015



Bordeaux region

The harvests took place in excellent weather conditions. Rainfall at the end of the summer helped to guarantee sufficient volumes, despite the water stress that had affected the vineyards.

2016 production in the Bordeaux region was close to 5.7 million hectolitres, the best year since 2009. This represented a 7% increase on 2015, and was 12% higher than the 2011-2015 average. For the Bordeaux appellation, sales rose by 7% and the average price was €138 per hectolitre.

Elsewhere in south-western France, conditions were very healthy for the harvests. Production estimates for 2016 were revised up slightly after the initial estimates thanks to the rain at the end of the summer, putting 2016 production in line with 2015 levels.

BORDEAUX REGION

+7%

INCREASE IN PRODUCTION
VS. 2015



**Grey mould (botrytis) is a fungal disease that attacks vines. This disease has dreadful effects on the quality of grapes and wines.*

VINEYARDS

WITH THE FRENCH VINEYARD SECTOR IN BETTER FINANCIAL HEALTH, BARELY ANY APPELLATIONS SAW A FALL IN THE PRICE OF LAND IN 2016.



€140,000

AVERAGE PRICE PER HECTARE OF VINE IN FRANCE IN 2015

+6.7%

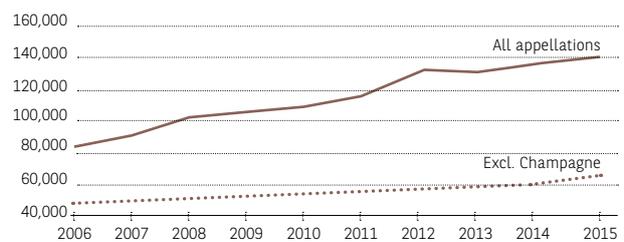
ANNUAL INCREASE OVER THE PAST 10 YEARS

Although land prices are broadly flat at the entry level, average prices have been rising for the best part of ten years. This increase is chiefly thanks to the Champagne appellation, but also to other regions such as Bordeaux (the leading market by value), Burgundy, the Rhône Valley and Provence. Over the last ten years, prices for all appellations have progressed by 6.7% per year, or excluding Champagne, by 3.8% on average.

As is the case in agriculture, almost one in three hectares is sold with a tenant in situ, and transactions represent less than 2% of the total vineyard area. The average price of vine is around €140,000 per hectare, but this varies considerably between region and appellation.

Vine prices in France since 2006

Price per hectare in €



Sources: Agreste, SAFER

Bordeaux region

The market for vineyards is particularly buoyant in Bordeaux. Around 2% of its 115,000 hectares of vineyard is sold each year, amounting to some 2,500 hectares. There is a wide range, accessible to all types of buyer: from €15,000/ha in the Bordeaux appellation to more than €3.3 million/ha for Pomerol. Prices are on the rise in the most prestigious appellations. At €1.5 million/ha, the price for Saint Emilion shot up by 21.3% compared with 2015. Pomerol, which holds the record for

the most expensive land, rose by 15.6% year-on-year. For Saint Estèphe, prices climbed by 10%, to €732,000/ha, from €663,000/ha a year earlier. Margaux and Saint Julien are valued at more than €1.5 million/ha. Pauillac no longer holds the price record, but still fetches €2.75 million/ha.

At the bottom end, prices are rising less rapidly. Prices for Bordeaux and Fronsac are now picking up, posting a 5% increase in 2016, having fallen by more than 50% over the previous 20 years.

Burgundy region

Vineyards in Burgundy are rare on the market and very diverse, with 101 appellations and 1,247 "climates" recognised by UNESCO. Major past transactions have created an ever-growing enthusiasm. In the "Village" appellation, vineyards cost between €0.8 million and €1.3 million per hectare, while the best "Premier Cru" appellations fetch between €2 million and €3 million per hectare and prices for the very rare "Grands Crus" are rocketing. This tension at the top end is having repercussions across the whole region, and Côte-d'Or winemakers look out for less expensive vineyards, at between €20,000 and €100,000 per hectare, in Saône-et-Loire and Beaujolais. Demand is growing, boosted by a shortage of grape supply.

Loire Valley region

Demand is mainly local. External investors do not show much interest in this region, which nonetheless offers a number of advantages. Vineyard prices have barely risen in the last ten years. They currently stand at €18,500 per hectare in Anjou, and at €64,700/ha for Saumur-Champigny.

Côtes du Rhône region

In the north of the region, the market is very limited, and prices in Côte-Rôtie and Hermitage can rapidly top €1.2 million per hectare. Prices in the Hermitage appellation went up 5% in 2016 to €1.27 million/ha, while in Côte-Rôtie, the year-on-year increase was 4.5%, to €1,23 million/ha.

In the southern Côtes du Rhône area, the Côtes du Rhône appellation commands a price of €15-25,000/ha, while Côtes du Rhône Village costs €25-30,000/ha. Prices for the region's Cru vineyards are high and continue to gain momentum. Châteauneuf du Pape edged up by 2.5% in 2016, and remains the sector's most expensive appellation at €433,000/ha.

Provence region

Provence rosé is growing in popularity, including at the international level. Entrepreneurs in the wine business in Champagne, Bordeaux, Burgundy and Côtes du Rhône are looking to add Provence rosés to their range. Prices for the Cassis appellation, especially Bandol, continue to show steady growth. In 2016, prices in Bandol rose by 2.5% to €162,500 per hectare, compared with €144,500/ha in Cassis.

In Coteaux d'Aix-en-Provence, the price was broadly stable at €45,260/ha, while Côtes de Provence vineyards cost €50-60,000/ha. Prices for Côtes de Provence in coastal areas are on the increase, and currently fetch €120-150,000/ha at the most.

Champagne region

This market is the leader in value terms. It is boosted by the sale of small surface areas averaging around 15 "ares" (1 are = 100m²). This makes them accessible to a large number of buyers, who are mostly established winemakers. The average price per hectare of vine in the Champagne appellation is approximately €1.2 million. After reaching a high in 2014, it fell in 2015, but edged up by 1.8% in 2016. Despite everything, the price of vines in Champagne has grown by 3.3% per annum over the last ten years.

In the highly prized Côte des Blancs area, prices fluctuate between an average of €2 million/ha and a maximum of €2.2 million/ha.

BORDEAUX

Bordeaux Red:
€24,750/ha

St Émilion:
€1,559,250/ha

St Estèphe:
€732,000/ha

Pauillac:
€2,751,000/ha

Margaux / Saint Julien:
€1,596,000/ha

Pomerol:
€3,360,000/ha

CÔTES DU RHÔNE

Hermitage:
€1,275,000 /ha

Côte-Rôtie:
€1,230,000/ha

Chateauneuf du Pape:
€433,220/ha

Gigondas:
€98,210/ha

Vacqueyras:
€122,640/ha

Côtes du Rhône Villages:
€32,000/ha

Côtes du Rhône:
€25,000/ha

BURGUNDY

Grands Crus:
> €15,000,000/ha

Premiers Crus:
€1,500,000 to
€3,000,000/ha

Villages:
€800,000 to
€1,300,000/ha

BEAUJOLAIS

Beaujolais:
€15,000/ha

Crus du Beaujolais:
€70,000/ha to
€100,000/ha

PROVENCE

Côte de Provence:
€60,000/ha

Bandol:
€162,500/ha

Cassis:
€150,000/ha

LOIRE VALLEY

€18,500 to €64,700/ha

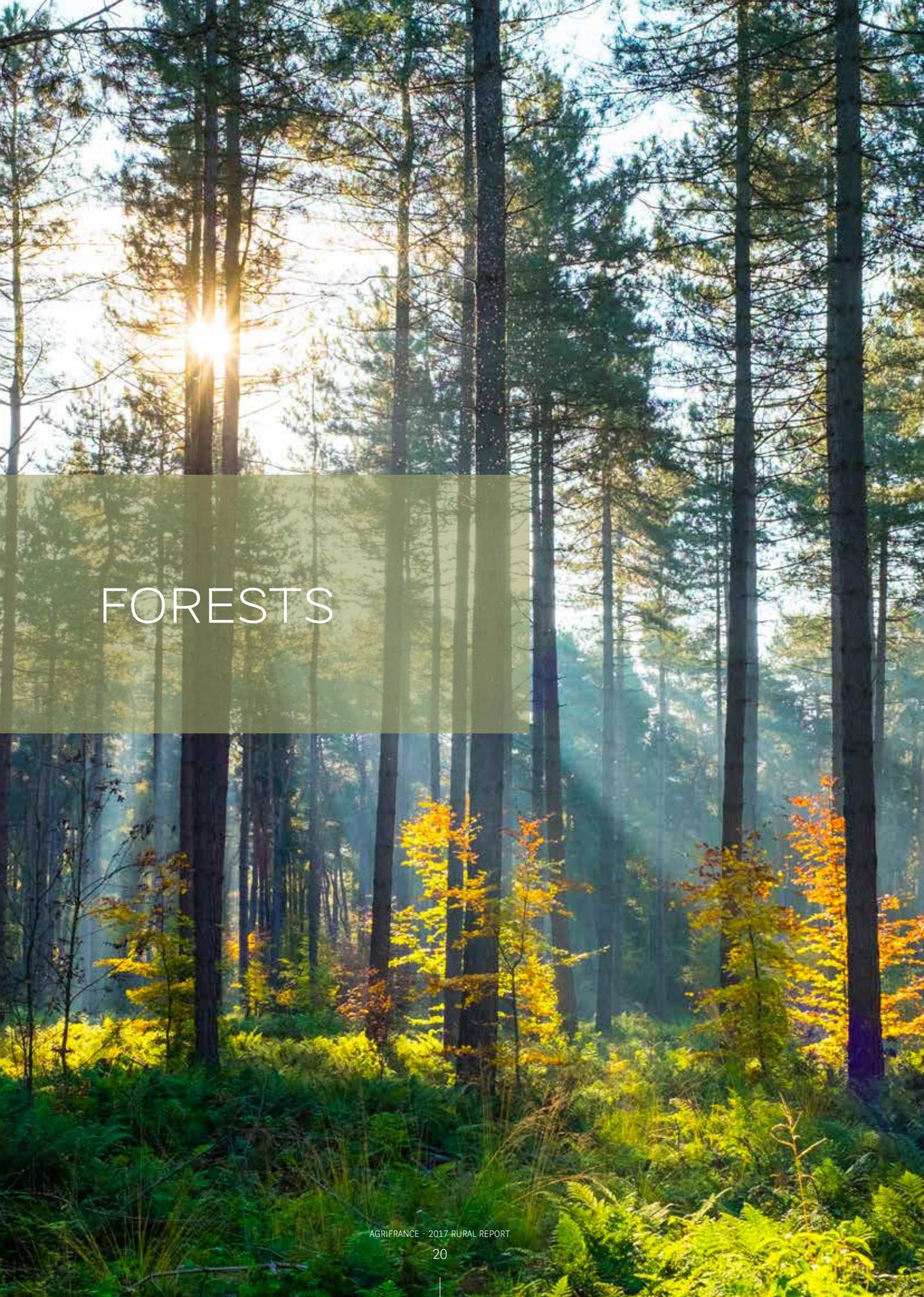
CHAMPAGNE

€1,200,000/ha



2016 maximum prices

Source: Valeurs Vénales 2017



FORESTS

THE TIMBER MARKET

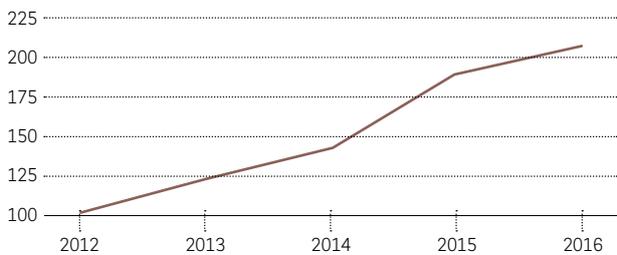
SLUGGISH YET VOLATILE MARKETS



Oak: the lone champion in a struggling market

After continuing to rise by almost 5% per annum over the last five years, prices reached a new high in 2016, overtaking levels seen before the 2007-2008 crisis. Good quality supply is rare, and prices are rocketing. The last annual rise exceeded 10%. Prices for wood used to make barrels, furniture and veneer can reach €300-400 per m³ of standing timber. For average quality wood, the price is around €200 per m³ of standing timber. Internationally, the US dollar's appreciation is making eurozone products more attractive and boosting exports to Asia, while Chinese demand is picking up.

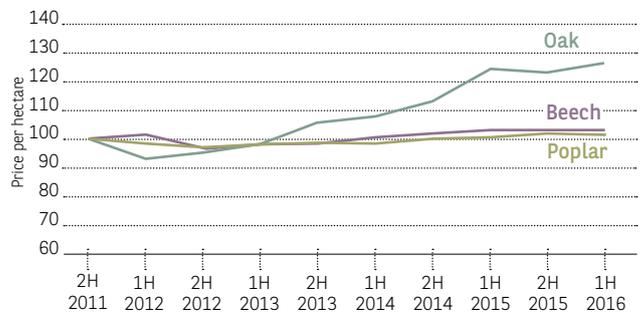
ONF Beaune (Côte-d'Or) auction prices at current euro price/m³ for standing timber



Source: ONF

Hardwood varieties

Standing timber price for hardwoods (base 100: 2H 2011)



Source: Agreste

In the other hardwood varieties, the market for beech is pretty stagnant. Prices have been stable since 2011, and barely fluctuate within the range of €45-60 per m³ on average for roadside timber. Ash is suffering from a drop in demand from Asia. Stock levels are at all-time highs, as forest owners felled a vast number of trees affected by ash dieback* in 2015. As a result prices plummeted by 15% in a year. The market for poplar wood is not very buoyant, edging up a mere 0.9% in 2016.

* a fungal disease affecting ash trees.



At the end of 2016, in the context of an economic slowdown, the crisis in the construction sector caught up with the market for forest roundwood. Prices for nearly all conifer varieties stagnated or fell. Standing timber is trading at €40-80 per m³. Meanwhile, the price for large-diameter timber is no longer appreciating. Spruce pine was the hardest hit, with prices down 4.9% on the previous year.

The last auctions in spring 2016 saw another rise in unsold volumes. These factors are making forest owners cautious about their marketing policy. Even wood for construction, a segment deemed to be reasonably dynamic, has not been resilient: since 2012 the number of timber-frame houses has fallen by a third! The number of new housing starts has stagnated and permits have declined by 4.5%. Falling prices in oil and other commodities are benefiting mainly concrete, steel and collective housing, rather than timber, and individual houses. At the top end, most sawmill owners are seeing reductions of 2.5% to 5% on wood for house construction. In the secondary categories, prices for wooden boxes/packaging and pine pallets are barely growing. The market is very volatile and sawmill owners are having to navigate as best they can.

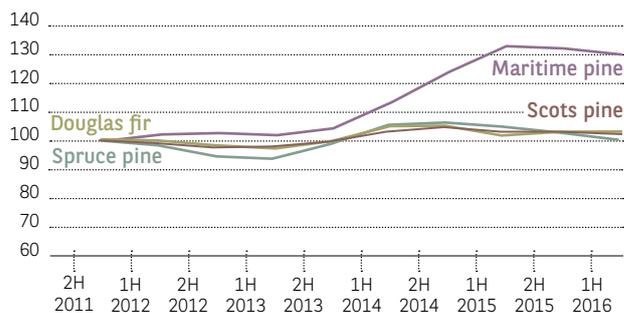
Prices have decreased for woodchip and related products

Sawmill-related products are also in a difficult period. While woodchip prices seem to have stabilised, in the last year sawdust prices fell from €55 to €33 per green tonne. This situation is due to the dwindling demand for fuelwood, particularly pellets. The collapse in the crude oil price (from \$110 for Brent in mid-2014 to \$57 at end-2016) and a mild winter reduced the consumption of wood for heating, thus squeezing prices.

Maritime pine prices on the way down

Resilient until now, maritime pine prices have risen by 6% per annum over the last five years, a bigger increase than for oak. However, maritime pine is no longer immune from the price pressure affecting other products. A slight dip in prices was observed for wood pulp products at the end of 2015. In light of the dampened demand, prices (in value terms) slipped by 2.3% in 2016.

Standing timber prices for softwoods (base 100: 2H 2011)



Source: Agreste

A BATTLE IN THE FORESTS

A MAJOR QUESTION MARK OVER VALUE CREATION IN THE TIMBER INDUSTRY

Although the French timber sector ranks second in Europe for forestry resources, in 2015 it showed a €5.7 billion export deficit.

Over 15 years, the proportion of exported raw logs* went up sixfold, representing in 2015 a volume of 600,000m³, which mostly went to Asia. In the same year, 30% of the harvested oak was exported. Since 2007, the sharp rise in raw log exports has been partly behind the disappearance of 600 sawmills specialising in hardwoods. There are now 400 sawmills left. Part of the added value from sawing and processing wood is generated outside France, for example in China or Vietnam, where production costs are very low. Manufactured products such as furniture and flooring then return to the French market at more competitive prices than products processed in France.

To combat this, the National Wood Federation (FNB) lobbied for a "Processed in the EU" label, which was adopted on 12 September 2015, by decree. As a result, buyers at public auction must have the "Processed in the EU" label, stating that the raw wood is an oak variety that has been processed in the European Union. At present, 300 sawmills in France meet the label's criteria. In 2016, the adoption of this label led to a reduction of nearly 30% in the volume of wood exported to China.

However, the creation of this label intensified a battle between the FNB and the timber industry union (SFB). The SFB criticised the "Processed in the EU" label as being contrary to the principle of international trade. Given the reduction in exports, the industry fears a fall in market prices could harm operators, woodcutters and transporters.

In the knowledge that 400,000 jobs in the timber industry could be at stake, the Minister for Agriculture, Agrifood and Forestry, Stéphane Le Foll, has made an appeal for projects to support the reorganisation of the industry.

* Raw log: a tree trunk that has been felled but not processed



€5.7bn

EXPORT DEFICIT
IN THE FRENCH TIMBER
INDUSTRY

THE FOREST LAND MARKET

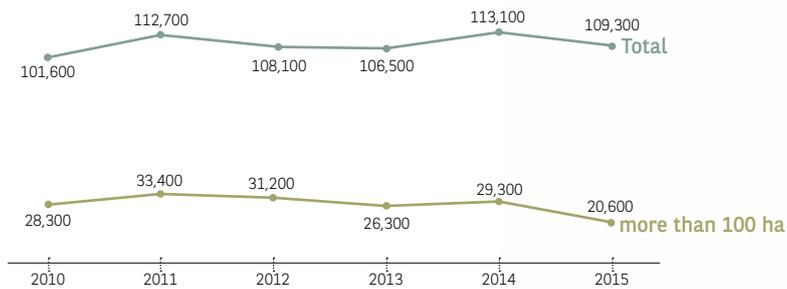
THE VALUE OF FOREST LAND REMAINS UNCORRELATED TO GROSS YIELDS

In a low interest rate environment, forests are still considered a safe haven investment and a good source of diversification.

The amount of forest land sold is falling across all segments

The amount of forest land sold is falling in the small segment. But this is also true in the large segment (> 100 hectares) as supply is increasingly scarce.

Forest land sold (in hectares)



Source: SAFER



€4,000
 AVERAGE HECTARE PRICE OF FOREST
 LAND IN FRANCE IN 2015

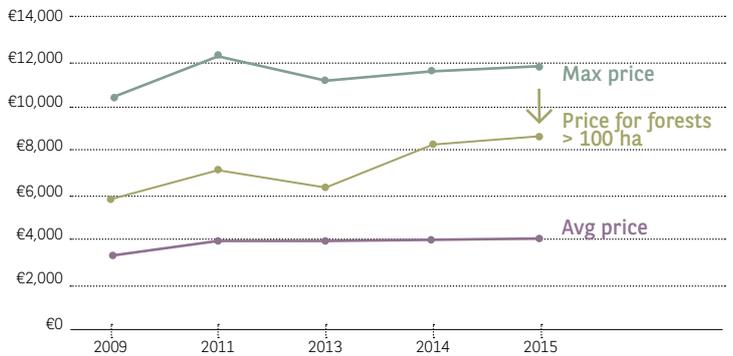
+6.4%
 ANNUAL INCREASE
 OVER THE PAST 10 YEARS

Price varies according to segment

In 2015 the market for forests greater than 100 hectares represented 110 transactions for a total land area of 20,600 hectares, i.e. around 18.8% of sold land and less than 0.5% of the total forest land area.

Prices varied considerably, reflecting a large diversity in the land sold and costing between €650/ha and more than €11,500/ha. The price of forests is influenced by several factors (quality of wood, land, location, ease of access). The most expensive forests are located in the Paris Basin (€10,000/ha or more), western France (€5,000/ha) and eastern France (€4,500/ha). The cheapest forest areas are located in the south of France.

Price of forest land (per hectare)



Source: SAFER

The highest quality and largest forests continue to command a premium in a scarce market, while the average price for forest land is rising by 3% per year on average. Prices for forests larger than 100 hectares continue to the upside: over the last ten years, the price per hectare has increased by more than 5% per year.





02

THE US WINE MARKET A NEW ELDORADO FOR FRENCH WINE?

| P. 28 SURFACE AREA & PRODUCTION

| P. 30 CONSUMPTION

| P. 34 US IMPORTS



In France, wine consumption has fallen by two-thirds over the past 50 years, while it has been flat or declining in Europe as a whole.

Given the increasing gap between supply and demand, European producers must adapt their production and distribution in order to appeal to other consumer countries. According to an ISWR-Vinexpo report, growth in the international wine market is set to accelerate. After expanding by 2.7% between 2009 and 2013, the wine market is set to accelerate and reach 3.5% by 2018.

The world's two largest economies, the US and China, offer new highly-attractive prospects for the wine industry. The US is the main driver of this growth, with an increase in both volumes and prices.

For this reason, we decided to focus this year on the buoyant US market over the past two decades.



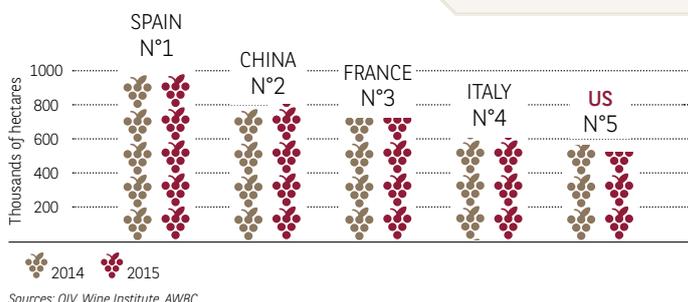
FOCUS

SURFACE AREA & PRODUCTION



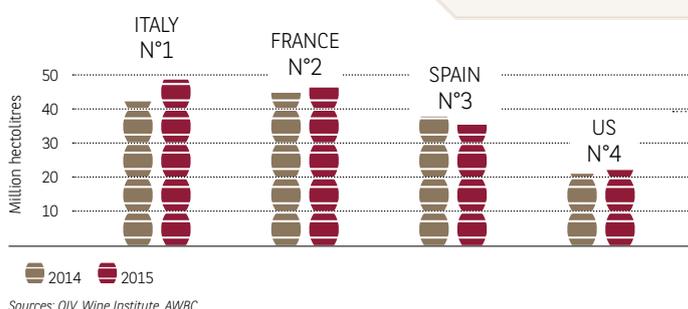
The US is a market for both wine producers and consumers. With **419,000 hectares**, it boasts the world's fifth-largest vineyard area. With **22 million hectolitres**, it is the fourth-biggest market by volume, after Italy, France and Spain.

SURFACE AREA



5th largest vineyard area worldwide
 419,000 hectares
 6% of the world's vineyard area

PRODUCTION



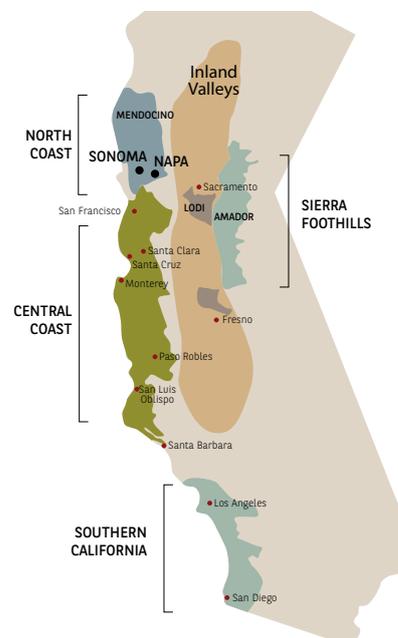
4th largest wine producer worldwide
 22.1 million hectolitres
 8% of world production

WITH 246,000 HECTARES OF VINE, CALIFORNIA ACCOUNTS FOR THE LION'S SHARE (90%) OF WINE PRODUCED IN THE US

Central Valley: This vast area is the most important, accounting for more than 90% of wine produced in California. Located in the centre of the State of California, 160 km from the coast, this area is where most US table wine is produced. Irrigation is an extremely significant factor, in view of the extreme temperatures. The wine produced here is not very good quality.

In the 1960s, the **Napa Valley** became the new standard bearer for good quality US viticulture, spurred on by Robert Mondavi and a few other visionary **wine growers**. In this valley, located to the north of **San Francisco**, the most prestigious wineries produce red wines, principally from cabernet sauvignon or merlot grapes as well as white wines from chardonnay grapes. Today it is the best known **American Viticultural Area (AVA)**. It is separated from the Sonoma Valley to the south by another AVA, Los Carneros.

Located between the Pacific Ocean and the Napa Valley, **Sonoma** is the rising star of Californian winemaking. The region is cooler and hillier than the neighbouring Napa Valley, and winegrowers have shown the potential of certain high-altitude *terroirs*.



OTHER MAJOR PRODUCING STATES

Washington State is the second-biggest producer of wine in the US after California, with more than 900 wineries and a vine surface area of more than 20,200 hectares.

New York State has more than 15,000 hectares.

Oregon has more than 10,000 hectares of vineyards which are used for growing essentially pinot noir and pinot gris grapes.

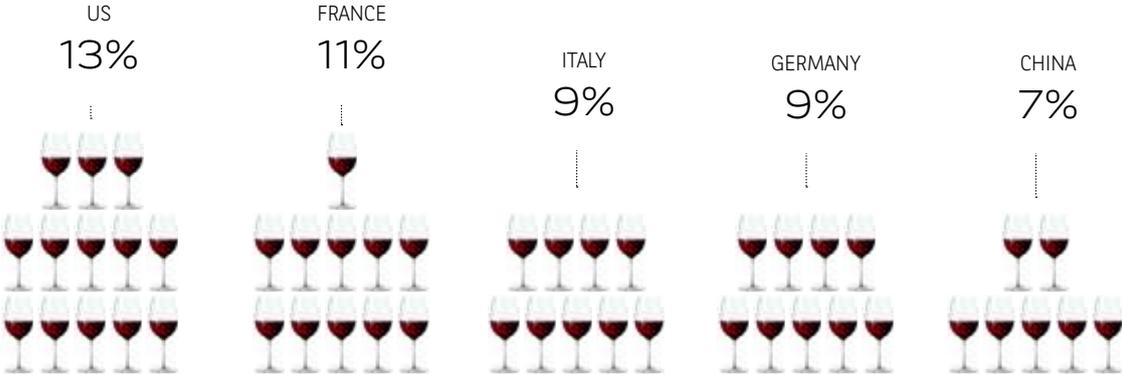
FOCUS

CONSUMPTION



STRONG DOMESTIC DEMAND HAS BEEN ON THE RISE FOR 25 YEARS

Breakdown in world consumption of wine produced by the top 5 countries



Source: International Vine and Wine Organisation (OIV)

The US has been the world's top market for wine consumption since 2013. Sales reached 31 million hectolitres in 2015, the equivalent of 13% of world consumption.

Around 80% of US wine production is consumed on home ground. By comparison, other countries (Australia, New Zealand, Chile) export more than 60% of their production.

Even though beer still represents 50% of alcohol consumed in the US, the country is the largest consumer of wine in the world, with 30 million hectolitres, ahead of France.

In the 25 years to 2015, average consumption per capita increased by more than 2% per annum to 10 litres (+2.7% p.a. since 1990).

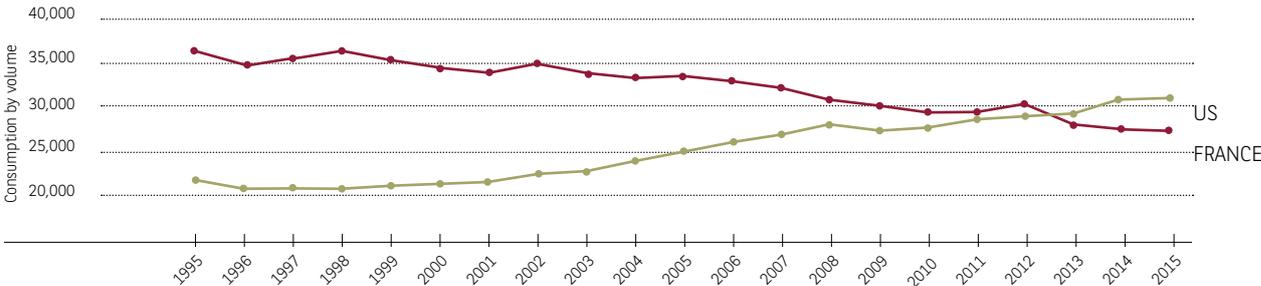
Growth prospects for the wine market remain extremely favourable, especially at the top end.

Breakdown of alcohol consumption in the US



Source: International Vine and Wine Organisation (OIV)

Consumption trend (1,000 HL)



Source: International Vine and Wine Organisation (OIV)



THE US WINE MARKET IS SEGMENTED BY BOTTLE PRICE

Category	Price range (750 ml)
ULTRA PREMIUM	\$15 or more
SUPER PREMIUM	\$10 - \$14.99
PREMIUM	\$8 - \$9.99
POPULAR PREMIUM	\$6 - \$7.99
FIGHTING VARIETALS	\$3 - \$5.99
VALUE	less than \$2.99

In marketing, the term “value” refers to the cheapest wines, which are also known more colloquially as “jug wines”, as they are often sold in the magnum (1.5 litres) format or even in 5-litre boxes. The “fighting varietal” category, another neologism marketing term, refers to popular wines made from one grape variety (*vin de cépage*). Lastly, the premium segments refer to the most expensive wines, which may be intended for ageing in cellars.

Market segmentation by price

Source: Ernst & Young

TOP-END WINES ARE INCREASINGLY POPULAR WITH US CONSUMERS

While California has long been associated with 3- or 4-litre boxes, the situation changed during the 1990s. By 1994, most of the baby boomers had reached the age of 35, the start of a period of 20 years when people are often prepared to buy more expensive goods.

In 2006, the “value” and “fighting varieties” segments (i.e. costing less than 6 dollars per bottle) accounted for 66% of wine sales in the US. The “super premium” and “ultra premium” segments together represented only 9% of sales.

Nowadays bottles of wine costing more than \$10 make up 30% of volume sales (vs. 10-15% in the early 2000s) and 50% of value sales. The average price per bottle has increased from \$5 in 2000 to more than \$10 dollars today.

In the top-end segment (“premium” and “ultra premium”) and in rosé wines, France is the undisputed leader in the US, even though French vineyards are losing ground to New World producers, and French viticulturists continue to face many challenges.



PROVENCE ROSÉ IN THE US



Exports of Provence rosé wines to the US shot up by 57% in 2015.

Rosé was the only French wine to enjoy sales increases in the years following the financial crisis. Today, a Californian rosé is worth \$5-6 per bottle while a bottle of French rosé sells for \$20. French producers are benefiting from a real appetite for drier wines with more terroir character than the sweeter Californian rosés.

The US is Provence’s biggest customer, purchasing 36% of its wine exports in 2015.



FOCUS

US IMPORTS



THE TOP 4 IMPORTING COUNTRIES ACCOUNTED FOR MORE THAN 50% OF GLOBAL WINE SALES IN 2015, ESTIMATED AT MORE THAN €27.7 BILLION.



Sources: Global Trade Atlas & FranceAgriMer

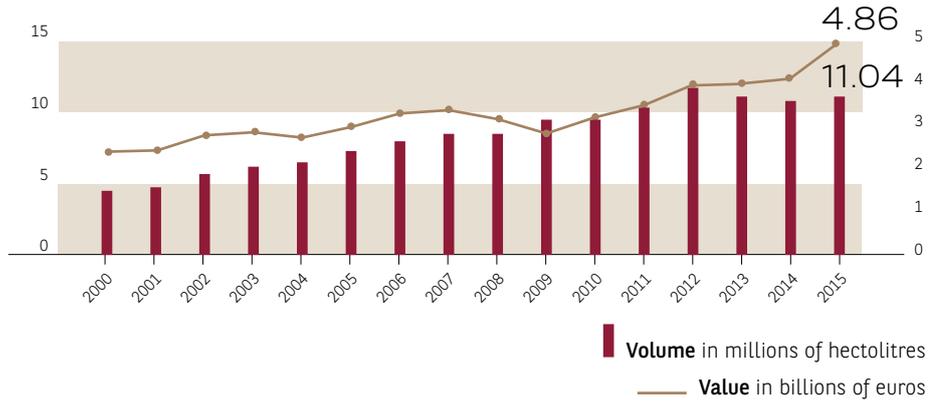
Globally, one in four bottles of wine is consumed outside its country of origin. Out of the 102 million hectolitres exported in 2015, four major importers accounted for more than 50% of world sales, representing more than €27.7 billion.

As the third-largest market by volume, with 11 million hectolitres (10% of export volumes worldwide), the US was a major driver of global wine sales in 2015. However, the US is the biggest market in terms of value, with €4.86 billion in sales (17.5% of global wine sales).

US WINE IMPORTS

CHANGE	VOLUME	VALUE
2000 > 2015	11.73%	6%
2009 > 2015	5.43%	9%

Source: Global Trade Atlas



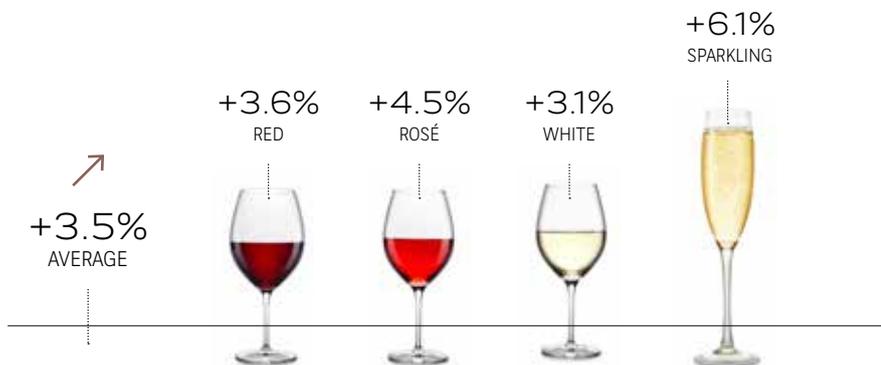
Source: Global Trade Atlas



Over the past seven years, the market has grown more rapidly by value than by volume, in line with growth forecasts.

Sparkling wines continue to grow in popularity all over the world. This is the fastest-growing category, both in value and volume terms. In the US, sparkling wine sales are soaring twice as fast as still wines. The US market is now the biggest importer in value terms. In 2000, the US imported 400,000 hectolitres of sparkling wine; 15 years later that figure had risen to almost 1 million hectolitres, of which 28% came from France. Italian Prosecco has become extremely popular thanks to its very competitive prices: €4.85 per litre on average, compared with €21/litre for French fizz (Champagne and sparkling wines) and €30/litre for Champagne alone.

Estimated consumption for wine in 2013-2018 in the US



Source: Vinexpo/WSR

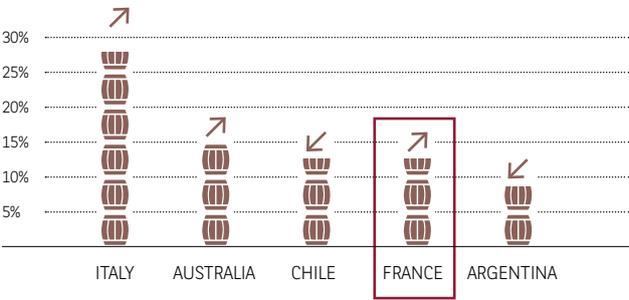
FRENCH WINE HAS AN EXCELLENT REPUTATION IN THE US

French wines continue to enjoy a reputation for quality and therefore fetch good prices. Although Italy remains the top supplier of wine to the US, accounting for 28% by volume and 31% by value, French wine is still a reference at the top end of the market, particularly for serving at special occasions. With only 11.6% of volume sales, France ranks just behind Italy in second place, with a 29% market share by value.

In the wake of the financial crisis of 2007-08, US consumers began to seek out more affordable wines. As a result, wines from Australia, Canada and Chile became a huge success on the bulk market, with more than 2 million hectolitres imported by the US. However, this trend began to flatten out in 2012.

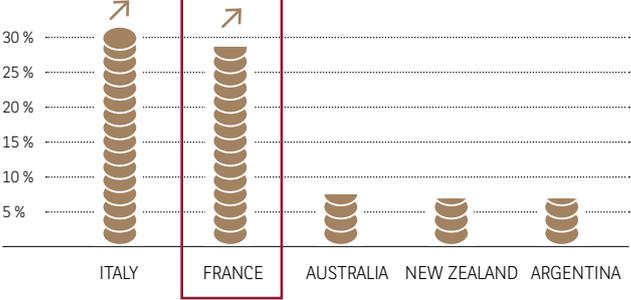


Market share of the 5 biggest supplier countries (by volume)



Source: OIV

Market share of the 5 biggest supplier countries (by value)



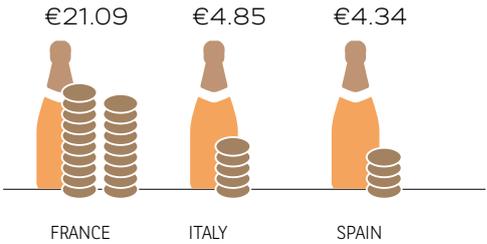
Source: OIV

Average price of imports of still wine to the US in 2015 (per litre)



Source: Global Trade Atlas

Average price of imports of sparkling wine to the US in 2015 (per litre)



Source: Global Trade Atlas

THE US IS IN THE DNA OF OUR COMPANY



With your father and sister, you manage one of the top 10 family-owned Champagne houses. Can you tell us about the history of your company?

— The history of our group is relatively recent. In 1932 my great-grandfather, Pierre Taittinger, purchased a few hectares of vines in the Champagne region and the Château de la Marquetterie. But it was after the Second World War that we really started to grow. In the 1950s, our company was established in Reims, in the cellars of the Abbey of Saint-Nicaise. You must have heard of the sale of our family group to the US private investment firm Starwood Capital in 2005. In addition to the wine business, this group included (via its subsidiary La Société du Louvre) a number of luxury hotels including the Crillon, Lutetia and Martinez. At the end of May 2006, my grandfather and his children succeeded in buying back the estate and the Champagne business. Today, three family members work for the company: my father, my sister and me. In the Champagne region, our company owns almost 300 hectares of vines. We employ 200 people and produce and sell around 6 million bottles of wine a year. We make €140 million in revenues and we are one of the main purchasers of Côte des Blancs grapes. Our products range from €40 to €200 a bottle.

How has the Champagne market changed over the last five years? What are the main trends?

— The market is robust and growing. Sales are driven by the leading Champagne houses, and a good **inter-professional organisation** helps us to anticipate our production and quality. In recent years, production has fallen somewhat. For example in 2007, around 330 million bottles were sold but now shipment volumes total around 312 million bottles. Although Champagne remains a niche segment, it represents barely 10% of the global sparkling wine market. In my view, there is room for all wines, including Italian Prosecco and Spanish Cava, which do not have the same target market as Champagne.

Nowadays, consumers are more interested in the product than its marketing. They want to experience new emotions, so we need to adapt.

How important are exports for a leading Champagne house like yours?

— Although France still accounts for 50% of the Champagne market, exports are booming and still have growth potential. Exports

represent 75% of our sales. Indeed, sales within Europe (including France) total 65%, while exports to North America (US, Canada and Mexico) and Asia-Pacific account for 15% each. The remainder (5%) is sold in other regions (South America and Africa). We benefit significantly from our international footprint because we sell our products in 150 countries. Personally, I spend around 180 days a year travelling.

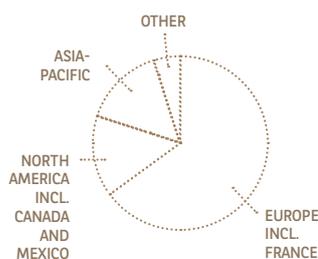
Our core business is grape-growing, wine-making, ageing, bottling and selling a high-end product. Our business model is rather unusual in that 75% of our sales are distributed by 150 agents/merchants under a single brand. We have no subsidiaries and we don't get involved in distribution. However, we do provide support to our distributors and our brand has a very strong family identity.

What is your presence in the US?

— The US is in the DNA of our company. In 1945, the US became our biggest customer in terms of exports. In fact, it was a US company, the Kobrand group, that helped us to grow our sales in the US. We owe a lot to the Americans, and there are strong ties between Champagne and the American market. We shouldn't forget that American soldiers fought in the Champagne region during the First World War. Some of them died on our battlefields, and American donations, notably from the Rockefeller family, helped to rebuild Reims. In terms of winemaking, a number of Champagne houses – Moët & Chandon, Taittinger, Mumm and Roederer – are established in North America.

What is your view of the wine market in the US?

— It is a growing market. With close to 315 million potential consumers, it has been the world's top market since 2013. Over the past five years, despite an unfavourable euro-dollar exchange rate for



Source: The Taittinger group

most of the period, consumption has risen. On average, Americans drink only 10 litres of wine per year per person. They are also very thirsty for information and want to know more about wine. France epitomises a completely different culture of luxury goods, wine included. The American population is very diverse and made up of minorities from different cultures and roots. As such, a marketing strategy cannot be targeted. Instead, authenticity is key and it is important for us to tell a true story about our product.

— Could you tell us about your strategy for your estate in California – Château Carneros in the Napa Valley?

In the 1980s, we designed and built Domaine Carneros, an architectural replica of the Château de la Marquetterie in Champagne. Our strategy was to bet on the expansion of the US market, even though winemaking was not very developed at the time. The US (driven by California) remains the world's leading economic power; it is politically stable, and disposable income is high. Although a shortage of water may be a significant constraint, the soil has good geological potential for the production of good quality wines. California, including the Napa Valley region, is a popular tourist destination. Our decision to invest in this region represents a good diversification of assets, although investing in a vineyard in California is not considered to be such a safe asset as in France over the long term. A hectare of vine costs between \$250,000 and \$400,000.

From approximately 160 hectares of pinot noir and chardonnay, Domaine Carneros produces 900,000 bottles of sparkling wine that sell for around 25 dollars each. We also produce a small amount of red wine. At the end of 2016, we purchased 15 hectares of additional land.

Agrifrance would like to thank Mr. Clovis Taittinger and the TAITTINGER group for giving us an interview.

SOURCES

Doc'Eco, Group Information Centre / BNP Paribas Group

INAO: Institut National des Appellations d'Origine, the body that shapes French policy on wines from the *appellations d'origine contrôlées* (AOC) and *indications géographiques protégées* (IGP) areas

ASFFOR: an association of forestry groups set up by banks and insurance companies to act on their own account or on behalf of their individual or institutional clients. Its main role is to promote forestry investments.

SFCDC: Société Forestière de la Caisse des Dépôts et Consignations

UNIP: National Association for Protein-Rich Plants

ARVALIS: Plant Institute

OIV: International Vine and Wine Organisation. The wine market, development and trends - May 2014

FRANCEAGRIMER: National Association for agricultural and sea produce

INSEE: National Institute of Statistics and Economic Studies

Vinexpo: set up in 1981 by the Bordeaux Chamber of Commerce and Industry, this body organises a trade fair that has become the most important worldwide event in the wine and spirits sector.

IWSR: an organisation that provides analysis and advice to the wine and spirits sector. Over the last 40 years, this organisation has built up the world's largest database on wines and spirits. The IWSR is the world's most reliable wine and spirits information source.

French Ministry of Agriculture, Agrifood and Forestry – Roumegoux report, December 2008 – Strategic plan for the French viti-viniculture industry to 2020

Bloomberg International Grand Council

BRGM: The French Geological Survey

Chambers of Agriculture

Doc'Eco, Group Information Centre / BNP Paribas Group

Eurobaromètre CEE

EFF: French Forestry Experts

FEVS: Fédération des Exportateurs de Vins & Spiritueux de France

Forêt de France

Global Trade Atlas

Guide des forêts de France (G. Plaisance)

La France Agricole

La Nouvelle République

La Revue des Vins de France

La Vigne

Les Douanes Françaises

Les Échos

Les terrains boisés. Leur mise en valeur. (édition IDF)

Météo Alsace

Météo France

ONF: Office National des Forêts

SAFER

Terre Net

Valeurs Vénales

XE.com

XERFI / INSEE 2013 study

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