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England's Growing Wine Industry in Ferment Over Brexit

Weaker sterling may hamper the country's winemakers—and last week's election hasn't helped either

Vineyard Assistant James Matyear in Cottonworth vineyard in Andover, England. The fall in the pound is putting strain on the U.K. wine industry.

By Laurence Fletcher and Tapan Panchal

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England's wine industry has a Brexit hangover. The fast-growing sector has transformed itself over the past 30 years from national joke to international award winner.

The 14% drop in sterling against the euro since the Brexit vote in June 2016 might have been expected to benefit U.K. industries selling abroad. A weaker pound means exports are cheaper for foreign buyers. Foreign wares become more expensive in the U.K.

But, as for many British industries, the reality isn't straightforward. Plus, last week's U.K. election adds to uncertainty over what Brexit will look like, say winegrowers. English winemakers must buy their gear and vines from countries where winemaking is better established.

English wine is a niche product, mostly sold domestically—unlike Scottish whiskey, the global market is small. And domestic drinkers aren't readily willing to give up their beloved Champagne, even if English wine comes with a cheaper price tag.

For English winemakers, "there's no real benefit at all," from the weaker pound, says Bob Lindo, a former pilot who turned to vine-growing 27 years ago, after a mid-air collision ended his Royal Air Force career.

In many cases, the fall in the pound isn't helping sales. The long-term nature of the business means it can take six years or more for planting additional vines to result in more wine on the shelf.

At the same time, the currency move means vineyards have to absorb higher import costs. Most of the specialist equipment and raw materials for producing wine, from the vines themselves, to fermenting tanks, glass bottles and corks, can only be bought abroad and usually come from France or elsewhere in the eurozone.

"Winegrowers now have to buy at the new exchange rate," said Mr. Lindo. "It depends what stage of the cycle you're at—if you're just starting out, then you've had a 7% or 8% increase in costs."

Mr. Lindo, whose Camel Valley vineyard is based in Cornwall—a southwest region that voted to leave the European Union in last year's referendum—added that he was "disappointed" by the result of the vote.

Mark Driver, a former hedge-fund manager at London's Horseman Capital who quit to set up winery Rathfinny Estate, voted to leave the EU but says "costing will certainly increase" because of the weaker pound.

He still has to invest around £4 million ($5 million) in the winery he is building. Around half of this will be in euros and covers bottling, disgorging and riddling equipment from France and Italy and 250,000 vines from Germany and France. "Brexit could be adding 5%-to-7% to our capital investment bill over the next year," Mr. Driver said.

This could mean a bill roughly £200,000 to £280,000 higher than before the Brexit vote. However, Mr. Driver believes the weaker pound will be positive for sales as overseas buyers find it cheaper to buy English wine.

Others in an industry that mostly favored staying in the EU echoed his concerns. "It is affecting margins. It does have an impact," said Tamara Roberts, chief executive of Ridgeview Estate. Her

company, which makes sparkling wine in Sussex, south of London, is the official supplier to receptions at the U.K. prime minister’s Downing Street residence. Ms. Roberts said domestic and foreign sales had been buoyant in the first half of 2017, but it was hard to know how much of this was due to the pound’s fall.

Hattingley Valley Wines in Hampshire in the south of England. English wine is a niche product, mostly sold domestically.

She said she saw little chance that weaker sterling would help English wine displace “the power and place of Champagne” among U.K. buyers. Champagne is “almost immune to any exchange rate” moves, she said.

English wine is exactly the sort of industry U.K. politicians want to nurture, but it is also one of the sectors most affected by the massive forces unleashed by last summer’s referendum. More than most U.K. industries, English wine competes head-on with an EU rival—English Chardonnay and Pinot Noir-based sparkling wines are closely modeled on Champagne from northern France.

English winemakers grow their grapes domestically, benefiting from a similar climate to northern France. The sector is expected to double production by 2020.

Miles Beale, chief executive of The Wine and Spirit Trade Association, told the industry body’s annual conference back in September that Brexit presents “perhaps the ultimate disruption” for the U.K. wine and spirits industries. However, he told The Wall Street Journal that the weaker pound could help the English wine industry’s ambition of boosting exports 10-fold by 2020. Uncertainty remains over the future of the EU’s grants to the English wine industry, which have helped train winegrowers and build wineries. The cash, which is earmarked for rural development, is sent to the U.K. government, which part-matches the funding and decides how it is allocated.

Simon Robinson, a lawyer who owns Hattingley Valley winery and is chairman of the English Wine Producers association, said he was worried about the future of EU grants, which "have provided substantial amounts of money to the industry."

END

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