

## Abstract

Welcoming my first child in February gave me the opportunity to step back from my daily routine. I have transformed my maternity leave into a 6-month sabbatical allowing me to focus on two of my passions: Wine & Sustainability.

The former because my grandmother was a winemaker in Touraine-Mesland and I grew up in a family, where happy moments often resonated with the gentle sound of a bottle being uncorked. As a young adult, I developed an irrepressible desire to understand exactly what I was drinking.

The latter because it represents the greatest challenge of our time and I have chosen to devote my professional career to it. I am Sustainability Advisory Director at ABN Amro Bank N.V., where I help our corporate and institutional clients to improve their environmental, social and governance (ESG) performances using financing products and services.

This thesis accordingly results from combining my two areas of expertise.

Although wine production is only a small part of agriculture, it holds a key position in guiding consumers and other sub-agricultural sectors to assume greater responsibility for sustainability. Consumer interest and awareness, when choosing a bottle of wine, is higher than for other agricultural products. They consider the origin, composition, production method, wine classification (*appellation*), labelling and, for 34% of consumers, the wine's sustainable features. By being transparent about the environmental and societal impact of a bottle, the wine sector is enabling consumers to be responsible and to create a model for their selection of other agricultural products.

The objective of my thesis is to analyse the various factors that drive the wine industry to integrate sustainability as one of its main strategic elements for durability and value creation. I will then discuss how ESG elements are being and could be integrated.

As my chosen subject is a relatively new one, I have based my work on books, research, trade press, podcasts and articles, as well as interviews with wine professionals but also with ESG experts from outside the wine industry, in order to gain a broader perspective and consider possible future developments.

In the first section, I analyse why the wine industry is, and should be, embracing the Sustainability Transition Shift. I have identified four reasons.

The absolute need to maintain sufficient quantity and quality at production level, in a context of climate change and loss of biodiversity. Heat waves, wild fires and frost, together with variable rainfall patterns make sustainable profitability more difficult for wine producers to achieve.

The growing demand of customers for higher quality and healthier wines (less alcohol, less calories, organic wines), as well as their concern for responsible corporate behaviour. This presents new business opportunities, but it also poses an economic threat and a serious reputational risk to wine companies.

The impact of Sustainability on the financing and valuation of an estate. Sustainable production mitigates both climatic and social risks, making an estate more resilient and less

risky from a financing perspective. This in turn makes an estate more attractive to lenders and results in lower financing costs.

The current and future implications of Sustainability regulations increasing across all continents. In addition to obliging lenders and investors to take them into account, they should compel stakeholders in the wine industry to report and disclose the environmental and social impacts of their activities. This would require an enormous amount of data collection that would lead to increased societal scrutiny and a serious reputational risk for those estates that fail to implement an adequate Sustainability improvement plan.

In the second section, I discuss how the Sustainability Transition shift is being, and could be, embraced by the wine industry. This section is divided into three parts: Environmental, Social and Governance.

There are countless initiatives a wine producer can take both in the vineyard and the winery to reduce the environmental footprint of an estate. These range from vineyard location to the choice of more resistant grape varieties, rootstocks, lower planting density, alternative soil management techniques, polyculture and agroforestry, vine training, wine-growing equipment, frost prevention, water use, alternative winemaking options, reuse of carbon dioxide, better waste and energy management, packaging and transportation.

Social solutions to integrate sustainability can be found by improving relationships with stakeholders. First, by respecting, protecting and involving local communities and second by following responsible employment practices for both permanent and seasonal staff (diversity, fair wages, staff training, good housing facilities, improved sick and maternity leave, charity and philanthropy).

An appropriate governance structure is critical to the success of environmental and social solutions. Reporting, disclosure and transparency create a sustainable corporate governance framework that prioritizes stakeholders in the estate's decision-making process. The choice of reporting methodology is key. Unfortunately, a major lack of consistency and clarity at the international level prevents the market from embracing the concept of Sustainability.

In conclusion, a company that understands the business case for Sustainability and adopts responsible practices as a result creates a virtuous circle that enhances its resilience and success for decades to come: attracting and retaining employees, reducing operational costs, strengthening the supply chain, increasing customer loyalty, and meeting its social commitments while respecting the planet.

The journey towards Sustainability is no doubt long and challenging. So much remains to be done, across very different but interrelated fields. It can be overwhelming and even daunting for those in the wine industry who do not have the time, financial resources, or sustainability knowledge to embark on this path. Yet, it is of the utmost importance to be inclusive in order to enable all parties to improve their ESG performance (especially the underperformers, since their actions may have the greatest impact).

The burning question that remains is the sustainable economy: how can small players afford to build an environmentally friendly business, while also implementing supportive social policies and a governance framework? A re-pricing of sustainable wines seems inevitable. Clear communication about the benefits of Sustainability is essential to empower consumers to recognize, appreciate and reward sustainable wines and become ambassadors for this transition.