Fine wine trading focus moves east

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For over three decades since Christie's established a wine department in 1966 London has been the hub of the world's fine wine trade. The fact that the world's biggest auctioneers were based in London spawned a tight-knit, if highly competitive, band of fine wine traders and brokers in and around the capital. All of them take full advantage of Britain's extensive and usefully cool, damp wine storage conditions managed by specialists such as Octavian and London City Bond. Baroness Philippine de Rothschild once told me that her own first growth, Château Mouton-Rothschild, always tastes better if it has been stored in Britain rather than Bordeaux.

But London's pre-eminence in the buoyant world of fine wine is under threat as never before. As the last century drew to a close the signs were that the wine auctioneering crown was being ceded to the United States. When the dollar was strong, the British fine wine traders pumped huge quantities of fine European wine into the American market, even if some of the actual stock remained in bonded warehouses on or under British soil.

The London-based auctioneers who had set up American outposts, often in conjunction with local merchants, especially in New York, where America's notoriously complex regulations governing the sale of alcohol are particularly prohibitive, were increasingly challenged by all-American fine wine traders. Scarsdale wine retailer Zachys was originally Christie's local partner in New York but now runs its own wine auctions with distinctly American pouzz. Like their extraordinarily energetic New York rivals Acker Merrall & Condit of wine are traded with quiet efficiency. Zachys and Acker sales are social occasions conducted over meals in top restaurants where consumption, and expenditure, are designed to be conspicuous. . Zachys wine sales are a world away from the saleerooms of London, where parcels

Dot.com fortunes, and many others, have flowed in to fine wine in the US as maintaining a cellar has increasingly been regarded as a necessary accoutrement of social and financial success. The value of wine sold in saleerooms in the US, or by American online wine auctioneers, an increasingly important phenomenon that British traders seem to have overlooked, now dwarfs sale totals in London. Acker alone claim to have sold just under $60 million worth of wine last year, more than Sotheby's and Christie's combined sales in London, and even the two major London-based auctioneers now sell more wine in the US than in the UK. Last year more than $233 million worth of fine wine went under the hammer in the US, as opposed to not much more than $35 million in the UK.

Since the weakening of the dollar, some American wine merchants have pulled back from en primeur purchases in expensive pounds and euros in favour of trading the contents of the many established cellars there, thereby spawning a new job category. Cellar managers, fine wine advisors, private wine collection consultants - call them what you will, they may not be numerous but they occupy an increasingly powerful position advising their well heeled clients what to buy and sell when. Their job specification should also, presumably, include the ability to spot the increasing number of fakes that such a dynamic market inevitably attracts, as evinced by the current hoopla at Acker.

Make no mistake about it, fine wine is still hot in the US. Master of Wine Jean-Michel Valette, chairman of Vinfolio, a California-based online cellar management company whose sales are equally split between new releases and older wines from its members' cellars, reports that despite the weak dollar, demand continues to grow. "We don't see the impact of the strong euro on demand for top wines. Maybe we'd be growing even faster without the euro problem but our average per bottle price is $150."

In recent years the UK fine wine traders, whose combined annual sales are currently estimated at around £200 million thanks largely to increased Asian demand, have seen their sales to the US slump over recent years, but most have filled the gap in their annual accounts with particularly buoyant sales of red bordeaux, the staple of the fine wine business to... Bordeaux. The Bordeaux merchants have recently been capitalising enthusiastically on the fall of the pound against the euro. At least one of them is rumoured not to have sold a single bottle of wine in 2008 that was not sourced in either the UK or Switzerland (another fine wine source that has long been regarded as particularly reliable). Many in the wine buyer who places an order with a Bordeaux merchant, thinking this is most likely to secure them wine straight from the château, the most direct source, only to find that it has in fact come from Britain.

But this is just one sign of the increasingly global market for fine wine. The most obvious is the fine wine scramble currently underway in Asia, particularly in Hong Kong since the ad valorem wine duty of 40% was scrapped at the end of February. As Hong Kong-based wine educator Debra Meiburg describes the current frenetic situation, "It's the Wild West out East!"

British fine wine traders and merchants, just like their counterparts in the US, have watched the proportion of their sales to Asian buyers rise steeply in recent years. Farr Vintners, the London fine wine trader which was the first European wine outfit to establish a base in Hong Kong as long ago as 1997 (followed by Berry Bros & Rudd two years later), report that today Hong Kong represents between 30 and 40% of their sales. More recently both Farr's rivals Bordeaux Index and London fine wine merchants Goedhuis have begun trading in Hong Kong, while another London fine wine merchant Armit is planning joint ventures in both Hong Kong and Shanghai.

Hong Kong is viewed as the gateway to the quantitatively all-important market, mainland China, which still imposes heavy import duties (almost 50% all in) on wine. Having recently detained the American head of China's leading wine importer ASC for four weeks for allegedly underpaying these duties, the Chinese authorities show little sign of following Hong Kong's wine-friendly example.

Of course there are historic links between the UK and its former colony, but even the American trade, which has so far been slow to expand outside its giant domestic market, perhaps partly because it is so complex, is taking an interest in the booming Asian fine wine market. Steve Bachmann, founder of Vinfolio, realised what potential there was when they saw that their second biggest customer last year was Asian. Hong Kong's duty cut merely confirmed the wisdom of his decision to set up a base there by the end of the year, arguing, "what we are really witnessing is the globalization of the fine wine business". One of the most obvious symptoms of this is what has happened to the prices of Château Lafite, and even its second wine Carruades de Lafite, fuelled simply by demand from China, where Lafite is a magic name.

Meanwhile Acker of New York will be conducting the biggest wine auction so far seen in Asia in Hong Kong on 31 May, shipping $6 million worth of wine to the ex-colony. They must have been cheered by the results of London auctioneers Bonhams' much smaller and less glitzy auction last month at which buyers from both Hong Kong and the Chinese mainland happily paid top whack at a $1.5 million sale held in the Clubroom of Crown Wine Cellars. Most significantly perhaps, bidders were prepared to pay just as much and sometimes more for wines carrying American strip labels, showing that they had already crossed the Atlantic at least once. (London traders Farr and Bordeaux Index have traditionally avoided such stock, which may now come flooding on to the Hong Kong market, not least because American auctioneers offer such handsome incentives to vendors.)

Wine storage conditions in Hong Kong

are of course crucial and give Crown Wine Cellars a key role in the rapidly developing Asian fine wine market. In 2001 Jim Thompson of the logistics company Crown Worldwide and South African Gregory De'ab transformed a series of abandoned World War Two bunkers boned into The Peak into a small but perfectly formed fine wine store with top quality security and constant temperatures at 13 deg C and 65-75% humidity. Crown already had other storage facilities for less fine wine close to the border with the mainland but since the duty announcement will open two more dedicated wine warehouses in Hong Kong, investing in temperature and humidity controls for ground and first floor sites in high-rise buildings, and have already opened up a wine store in Beijing.

The popular perception of wine connoisseurship in China is of Pétrus being diluted by Coke but as Gregory De'eb points out, "people don't understand how quickly the mainland wine market is changing. We have lots of members who are retiring to China and spreading the fine wine word." Certainly on the evening I spent at a fine wine dinner at Crown, I met several very serious wine lovers who commuted between the US, Hong Kong and China without a blink. It seems likely that many a wine collection will be moved from the US or UK to Hong Kong now that no duty is payable.

The government is certainly keen to establish Hong Kong as a fine wine hub, hoping to capture a sizeable proportion of the millions of dollars currently spent by the many Asian customers of London's fine wine brokers. (Macau, rumoured to have been toying with abandoning wine duty too, may already have missed the boat.) With typically Cantonese energy it has appointed a special Heritage Commission to look into how suitable sites might be converted into fine wine storage facilities, is already working on a certification system for wine storage, and has recently announced that the first Hong Kong International Wine Expo will be held in August. (The sort of air conditioning failure that has dogged Vinexpo in Bordeaux would be disastrous.)

For the moment Farr Vintners, like Bordeaux Index and other London merchants, advise their Asian customers to keep their stock in the UK, charging $HK100 a litre to airfreight wine from Octavian's cellars in Wiltshire to Hong Kong, advising them that by keeping wine in the UK they will find it easier to sell it on later. Just how long that argument will apply, as more Asians go into the wine trade and Chinese acumen is applied to a growing number of Asian wine investment funds, is debatable.