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The booming wine market

The economy is on the rocks. House prices are falling. The stock market is nervous. Perhaps it's time to put your money in... a vintage investment

Thursday, 24 April 2008

The summer of 1811 was heaven sent for making legendary wine. The vineyards of Bordeaux were bathed in hot sunshine for week after week, followed by the sort of warm and dry autumn that winemakers pray for. Then, just as the grapes were being harvested, the night sky was illuminated by the trailing tale of Halley's Comet. Superstitious vintners took it is a sign of divine blessing and called it the "Comet Vintage".



MIKE CLARKE/AFP/GETTY IMAGES

Stephen Wickens, restaurant manager of Crown Wine Cellars in Hong Kong holds up a bottle of Chateau Margaux Bordeaux 1989 worth around 12,000 HKD(\$1,500). International auction house Bonhams is hosting Hong Kong's first wine sale in a decade as Hong Kong tries to establish itself as Asia's hub for buyers

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Startling proof that the reputation of the wines of 1811 has survived the intervening 197 years intact was offered this week when one of London's most prestigious wine merchants announced it had sold a single bottle of the celebrated Sauternes dessert wine Château d'Yquem, from the Comet Vintage, to an American client for a record price of £37,900.

Such is the continuing status of the few surviving 1811 wines among vinophiles that the American critic Robert Parker accorded the Château d'Yquem, which had been assessed and reconditioned by the producer in 1996, the rare distinction of a perfect score of 100 on his highly influential points system for fine wines. Mr Parker described it as the "favourite sweet wine of millionaires", although if such prices continue to be fetched it is more likely to become the unique preserve of billionaires.

The bottle of 1811 Château d'Yquem, made from grapes grown in Bordeaux whose sugars have been concentrated by a fungus known as "noble rot", was sold to a New York-based company that builds bespoke wine cellars for wealthy customers. The collector in this case is expected to give the 1811 bottle (which, if it is ever drunk, would be worth £6,316 a glass or about £400 a sip) pride of place as a trophy in his new underground store beneath his Manhattan home.

But while the celestial prices reached by Comet Vintage are special, they are far from unique.

At a time when more conventional investments from shares to property are heading sharply south, demand for the world's most famous wines from buyers ranging from Russian oligarchs and Chinese billionaires to pension funds and corporate traders is sending their value to record highs.

Rather like Picasso sketches and Maserati cars, such illustrious names as Cheval Blanc, Haut Brion or Romaneé-Conti are being bought urgently by connoisseurs and shell-shocked corporate victims of the crisis in the world's finance houses.

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THE BIG IDEAS OF SCIENCE EXPLAINED

EDITOR'S CHOICE

In Hong Kong, one of the epicentres of the booming market in fine wine after the government abolished 40 per cent import duties in February, the price of Château Lafite Rothschild from the much-hyped 2005 Bordeaux vintage has risen from £3,300 per case of 12 bottles two years ago to its current level of £9,600.

The Liv-ex 100, an London-based internet "wine exchange" for 180 of the world's biggest wine traders, has seen its value rise by 34 per cent in a year and its turnover increase by 62 per cent. In the same period, the FTSE 100 index of leading shares in London has fallen by 6.9 per cent and Japan's Nikkei index has dropped by 22.4 per cent.

Much of the growth is being attributed to the success of – and subsequent publicity about – the 2005 Bordeaux wines, which have attracted hyperbole similar to that of the Comet Vintage.

Mr Parker accorded four of the six claret-producing regions his "extraordinary" category of between 96 and 100 points. The remaining two merited a mere "finest" rating for 90 to 95 points. All that for wines which were "en primeur" or still in barrels and have only begun shipping to Britain this year.

Simon Davies, head of marketing for Fine and Rare Wines Limited, the Kensington-based merchants who sold the bottle of 1811 Château d'Yquem, said: "We have seen tremendous growth across the board over the past two years. There was enormous demand for the 2005 vintage which coincided with upheaval on the financial markets and drove up the prices accordingly for private buyers and investors.

"As the prices of 2005 Bordeaux increased, people started looking backwards to previous vintages to see if there were any bargains that were undervalued because there are vintages of similar quality, such as 2000, 1996, 1990, 1986 and 1982, which have the added bonus of being available now.

"What we are seeing is a large number of private wealthy people who have a great deal of experience in the financial and stock markets and are looking to move some of their money something new. You end up with a commodity that you can do something with. Either you watch its value increase or the worst thing which can happen is you end up with some really, really serious wine to drink."

The trade in fine wine is, however, nothing new. Its status in the UK as a "wasting chattel" and therefore exempt from capital gains tax has long made it a favourite alternative investment for City traders looking for a home for their bonuses.

But, despite some dramatic returns that can reach up to 40 per cent a year depending on the producer and the vintage, values can also plummet, as they did by 20 per cent in 1998 after the 1998 Asian financial crisis. There have also been scandals with small investors buying cases of Bordeaux wines from the top châteaux which turned out to be worthless counterfeits.

Senior figures in the business believe such dark days are behind them because of a new trading code followed by the top wine merchants and innovations such as Liv-ex, which provides a trading platform for about 180 wine brokers, many of them trading in bonded vintages which are exempt from duties and VAT.

Anthony Maxwell, of Liv-ex, said: "There is a lot more transparency in the industry and it has become a lot more scientific with trading systems like ours.

"As a result, there has been more money in the system in the last few months, chasing a finite supply of wine which puts upward pressure on prices. We are seeing buyers from rich Russians to South Koreans to Taiwanese. It is a truly international market."

While the buyers may come from far and wide, the star products in this very select niche of the £60bn wine trade comes from one country only – France.

The top five performers on the Liv-ex 100 this year are all elite clarets from Bordeaux, led by the 2005 Château La Mission Haut-Brion, the wine that moved the French aristocrat the Maréchal de Richelieu to say: "If God had wanted to forbid wine, why did he make one as good as this?" The wine increased by more than a third in value in a single month earlier this year to reach £5,900 a case.

This fixation on a handful of vinious "brands", which is extended beyond Bordeaux to a handful of Burgundies such as the illustrious Domaine de la Romanée-Conti as well as some champagnes and top Italian wines, is particularly acute in the emerging markets for fine wine.

Several wine merchants confirmed that demand in China for anything bearing the label Château Lafite Rothschild is insatiable. One leading broker said: "It is just pure brand recognition. It almost doesn't matter what vintage the wine is as long as it carries the all important name of Lafite. They were very canny by being the first of the big claret houses to do some marketing in China and it seems the name has stuck among



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the newly wealthy Chinese middle class."

A significant portion of the growth in sales is the dropping of prohibitive import duties in several countries including Hong Kong, where the London wine merchant Berry Bros & Rudd sold £4.6m of wine in the 36 hours after the former British colony dropped its tariffs in February. Macau and China are also expected to reduce or abolish their duties in the coming months.

Asia's thirst for top vintages is also being fed, at least in part, by a rush to sell by some collectors in the United States who are feeling the pain of the credit squeeze and emptying their cellars or bonded warehouses.

The London-based rare wine merchant Antique Wine recently sold a collection of Romanee-Conti sourced from an American client to a Chinese buyer and Sotheby's earlier this week sold an American collection of 136 bottles of Château d'Yquem with vintages ranging from 1892 to 2001 for £368,000 to a private European collector.

Amid such a frenzy of buying and selling wine at prices that are far out of reach to all but a tiny proportion of vinophiles, there are those who argue that the cost of these thoroughbreds of the world's vineyards has grossly exceeded their true worth. One leading wine buyer, who tours the world for top restaurants and merchants, said: "A wine is of course only worth what anyone is prepared to pay for it. But once you are in the sphere of paying upwards of £3,000 for a glass or a bottle of wine then it is more about kudos and bragging value than the actual taste.

"You would get a far more memorable experience with a top Rhone wine such as Côte Rotie or an Italian Brunello for just a few hundred pounds. Even something like an 1811 Château d'Yquem is probably about 100 years past its peak."

A further problem for the booming market is the fact that those who could once be relied to consume fine wines – and thus increase the rarity value of the bottles that remain – are facing a radical reduction in their rates of consumption.

City workers, who include the six bankers who famously ran up a £44,000 wine bill at Gordon Ramsay's Petrus restaurant in 2002, have been told to cut back drastically on gourmet meals.

Two of the world's largest finance houses – Deutsche Bank and Goldman Sachs – have recently issued memos to staff advising them to dine in the staff canteen or spend no more than £100 on a meal for two.

But even in the face of such a downturn, those who specialise in "investments of passion" such as wine insist the future remains bright. Andrew della Casa, a director of the Wine Investment Fund, which has more than £35m of top bottles under its control, said: "More and more people are looking at wine as an asset class, discovering it is uncorrelated to bonds and equities.

"The credit crunch may have crystallised thoughts that have been around for years, when they've been tracking the wine market. Now that they have fewer options elsewhere, they might say 'let's give it a go'."

Five of the best, by Joe Fattorini

Château Pichon-Baron £900 (UP 14.6%)

"Investment grade" wines are almost exclusively reds from France's Bordeaux region. Most, like this one, come from "left bank" villages. Like Pichon-Baron, they are long-lived, deep, dark, powerful and beautifully scented with oak.

Château Mission Haut-Brion £5,900 (UP 34.1%)

Four similar wines have Haut-Brion in their name, as well as "second" wines from the same Châteaux. Massive, dense and blackcurranty, look out for the minerally taste of the "terroir".

Château Pavie £2,600 (UP 23.8%)

American collectors can't get enough of Pavie's trademark extracted, concentrated fruit. Bemused Europeans, meanwhile, wonder how long this wine from St Emilion in Bordeaux will last.

Château Mouton Rothschild £5,500 (UP 26.4%)

This wine is familiar in new markets like Russia, China and Japan, where its ease of pronunciation adds to its popularity. From Pauillac, in Bordeaux, it has an opulent, powerful and muscular nose of cassis and cigar-box perfume.



Château Margaux £9,200 (UP 22.7%)

Its consistency and intense perfume make this a wine to go for. It takes up to 15 years to open up. That means wine speculators will trade it to ramp up the price.

Joe Fattorini writes for Decanter magazine and Harpers Wine & Spirit and is wine consultant to the American PGA Tour

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