

Bordeaux Brouhaha: What You Need to Know About The Business of Bordeaux

By Barney Lehrer and Jesse Nash

Bordeaux: the word evokes the taste and aroma of rich, refined red wine—"cashmere tannins," "elegant fruit," "chocolate, tobacco or cedar chests." We hear about ancient wine families, "first growths," the "terroir." But many wine lovers, especially those who don't have Rothchildian trust funds, also have other associations, such as "Why is a bottle of '05 Petrus worth about \$4700? Is it that much better than the \$8 Chilean plonk I get at Joe's Wine and Liquor on the corner? What forces determine the price of a Bordeaux Grand Cru? How do they get away with it?"

We set out to answer some of these questions on a recent visit to many of the top Bordeaux winemakers. And we found some interesting information not often reported by the great wine writers, who in any case are more obsessed with discussions of the "nose," "finish," "finesse" and romance of Bordeaux's famous wines.

The French typically do not like to discuss money. It is a conversation best left to "les Anglo-Saxons," meaning generally Americans and Brits, but also including just about any other nationality. As Jean-Philippe Delmas, the winemaker at Haut Brion told us (a classified First Growth winery, incidentally that is owned by Americans), "We are not involved in commercialization." Bordeaux winemakers are artists, craftsmen, farmers, magicians. Not, God forbid, "hommes (or femmes) d'affaires." A nice sentiment. And one that a wine lover wants to believe when tasting a divine 1990 Haut Brion, the crown of Mr. Delmas' art. But is Mr. Delmas really so unconcerned with business? If he is not a canny businessman, why does a bottle of '05 Haut Brion cost \$1,325 at the wine merchant on a different corner from Joe's: i.e. the corner of Park Ave and 56th St? And will "Les Anglo-Saxons" continue paying these prices as they see their stock holdings, savings, and pension funds diminish?

We wanted to understand how Bordeaux wine prices are set and how the wines are sold. And we discovered a world of complex and ancient relationships, not still found in most other wine regions in the world.

It seems to date back to about the early 18th century. The Dutch had drained the Gironde estuary northeast of Bordeaux, resulting in a land mass now called the Medoc. Nobility from France, England and elsewhere brought up property and discovered the wine made from grapes grown on their properties tasted very good indeed. They built their chateaux, drank their wine and decided they needed a way to discreetly earn enough to pay for all this. But how? An 18th century nobleman could not consider haggling over some lower class merchant who hung out on the quays of Bordeaux, mixing wine barrels and shipping it to les Anglos. They needed an intermediary—a person who might be from a slightly higher social class but who would be willing to dirty his hands by wheeling and dealing with those negotiants. The answer was the wine "courtier," a broker specializing in wine.

As Claire Ouzoulias, a well-known negotiant from the St. Emilion area, whose family company is now celebrating 120 years in the

business, tells us, "One can say that Courtiers en Vins have been around as long as wine was traded in the Mediterranean region. The Romans called them 'Corrateri,' meaning they had to go back and forward to help sellers and buyers finding some common ground."

The Bordeaux winemakers of the 18th century adopted the concept. And when Emperor Napoleon III requested a classification system for France's best Bordeaux wines which were to be on display for visitors from around the world at the 1855 Exposition Universelle de Paris, the Bordeaux courtiers were appointed to rank the wines according to a chateau's reputation and trading price, which at the time was directly related to quality. The result was the Bordeaux Grand Crus Classes (Wine Official Classification) system of 1855, which still serves as the official classification of the top Bordeaux wines.



As with many traditions in the Old World, things change slowly, when they change at all. Three hundred years later we look at the wine trade in Bordeaux and see that much of this same system persists. The famous Grand Cru wineries are still owned for the most part, by modern nobility (either "old money" families or global corporations) and they still use their courtiers to do their business with negotiants, who in turn sell and ship Bordeaux wine to the world.

The 21st century courtier (especially in Bordeaux) performs many functions for winemakers and negotiants. They serve as the deal makers, price setters, price negotiators, consultants, mediators and therapists.

Ouzoulias continues, "The courtier is the person to whom the winemakers assign their wines for wholesale commerce. The courtiers inform the negotiants about what wines are available at what prices. A good courtier should be able to provide negotiants with whatever they need at all times" as well as give winemakers necessary advice on the direction and special circumstances in the market. "One can say that courtiers in Bordeaux control 100% of en primeur purchases for Grand Cru Classes. And they are responsible for most of the winemakers' sales as well as negotiants-to-negotiants transactions."

Corrine Conroy, the Marketing director at Second Growth Brane-Cantenac, adds another level of importance of the courtiers to Bordeaux winemakers: "we feel (the courtiers and negotiants) are making our life easier, allowing us to spend most of our time making the best possible wine, rather than spend a lot of time and energy in actually selling the wine worldwide."

The system works more or less like this: Every spring, each of the major chateaux holds what may be called a big party called "en primeur." Courtiers, negotiants, foreign wine importers, wine collectors, speculators and what might be called "wine hustlers" are among the guests. As many as three to four thousand people may show up at each Grand Cru chateau over a period of two weeks to taste a small sample of the new vintage. Strange thing is, the wine has not yet been fully blended, bottled or otherwise readied in such a way that the final product will necessarily be similar to the en primeur taste.

The process of setting an en primeur prices can be quite complex. Conroy says, "Every year it is a long and daunting decision we have to make, and we always err on the side of caution to respect our long time customers...We think that prices are made based on the market, the worldwide demand—just like blue chips and the stock market! - and the general attraction people have for certain wines of Bordeaux.

The winemakers set their prices based on factors mentioned by Ms. Conroy and negotiations with their courtiers and informal conversations with other customers down the sales stream. Sometimes these prices are lower than the eventual market price of the vintage, which may increase or decrease depending on the reputation the vintage earns later (greatly influenced by Robert Parker's tasting notes). Further haggling can take place later on, with the courtiers in the middle, negotiating with the growers and negotiants.

And then, like the long slow process of winemaking, comes yet more waiting. The wine makers continue their magic of tasting, blending, waiting and praying. The courtiers collect their 2 percent on all future deals they make. Finally, almost one year after a deal is made, the winemakers are ready to bottle the vintage. The negotiants pick it up and ship it off to their customers all over the world. And indeed it does show up almost anywhere. Most well-off wine lovers in China claim to only buy Chateau Lafite. Chateau Latour has been sighted on the shelves of Costco. The winemakers don't like this but they have no control over it. The negotiants well to whomever they wish.

When the wine is finally bottled yet another level of price setting begins. Over the year since the en primeur, speculation has occurred, particularly if Robert Parker or certain other influential wine critics have determined the vintage to be a "vintage of the century." In those cases the negotiants may have raised their prices to their clients and retailers have used Parker grades to justify higher prices. But the pricing game can be dangerous. For example, if, after bottling, Parker determines a vintage or a particular wine to be of a lower quality, the prices paid and offered by the negotiants can end up being lower than the prices they paid the winemakers and everybody in the middle loses.

Auctions run by Christies, Sotheby's and wine auction houses such as Acker Merrall and Zachy's set the market for older famous wines. Acker Merrall's Auction Director John Kapon tells us. "Auction houses are the lifeline of the older wine market. Following trends they can be very useful in seeing where the real value for wines are, where the market is willing to pay more and less. The new release market is separate in that many people who buy young wines do not buy older wines, but in the end, they are always somewhat linked. Demand is demand. The auction market is still a tiny percentage of overall wine sales, but they are sales at the top of the pyramid so to speak, so their results do trickle down and affect the rest of the marketplace.

The uncertain economic environment of 2009, everybody is worried. Unlike most people, owners of Grand Cru wine estates know they will sell their inventory in full to negotiants in spite of the economy. They just don't know how low their prices will go. And there is tremendous debate among the first and second growth producers about whether or not they should lower them to suit the economy.

Kapon says, "If the top producers of wine in the world think that they do not have to lower their prices, they are living in a dream. Prices in the auction market have dropped significantly over the last few months, anywhere from 20% to as high as 50%+ depending on the wine, and people are not going to pay more for younger wines than they can for older ones. Demand for new releases of \$100+ wines is becoming extremely selective. Buyers are just going to pass, and there will be a massive glut of young, overpriced wine that negotiants, wholesalers and retailers will not be able to buy, or even worse, buy and not be able to sell. It could compromise their ability to stay in business if they are not careful. The prices for new releases must come down."

Stay tuned....