

RETURN TO EUROPEAN VIRTUES

Although the Swiss today drink less wine than did their fathers, the market remains buoyant at the high end. Much to the chagrin of the New World, though, Switzerland is returning to the European fold and prefers bottled wine to bulk, observes Othmar Stäheli.

Although Switzerland, with a total wine consumption of 270 to 280 million litres, is dwarfed by its European neighbours, its per capita consumption of 40 litres and total sales volume of SFr3 billion (€1.86 billion) rank it among the top wine-drinking nations. Only in Italy, France and Portugal is more wine per capita consumed, and there are few other countries in the world in which more money is spent on a bottle of wine than in Switzerland.

Admittedly, there has been a decline in consumption over the past 20 years. Only a generation ago, per capita consumption of wine was 48 litres. Although the proportion of white wine to red wine remains unchanged, the past 10 years have seen a further reduction in the total volume of wine consumed from 300 down to 270 million litres. The average Swiss continues to drink 70% red wine, only 25% of which is produced in Switzerland. The easing of import regulations has had a dramatic effect on the origin of the white wines consumed. Once almost exclusively the domaine of domestic producers, of the 82 million litres of white wine consumed in 2005, more than 30 million litres were imported.

Swiss Wines

Twenty years ago, Switzerland's total vineyard area was 15,000 hectares and yielded between 1.2 and 1.8 million hectolitres of wine, 60% of which was white. Although the area under cultivation has remained constant, varieties and yields have changed dramatically. The demand for red wine, coupled with with state-subsidised replantation programmes, has turned Switzerland into red wine country. The area planted with varieties such as Chasselas or Müller-Thurgau has been reduced or replaced either by red grape varieties or special white ones, and yields have been noticeably reduced by national restrictions and the appellation systems (AOC) installed by most of the Swiss cantons. In 2005, for example, a mere 100 million litres were produced, of which 479,000 hectolitres were white and 522,000 were red. As exports, in spite of the enormous monies spent to support the industry, have never

surpassed one percent of production, practically all of this was consumed in Switzerland.

Imported Wines

Over the past two years, the volume of wine imported has stagnated. Following the 174 million litres imported in both 2002 and 2003, this figure has now dropped to 170 million litres, and there is no sign of change since. On the contrary, only 85.5 million litres of wine were imported during the first six months of 2006, a 4% drop compared to 2005. The

most remarkable reduction has been in the volume of red wine imported in bulk and, given the static figures for bottled red wines together with only a slight increase in the volume of imported white wines, we are likely to see a further decrease to fewer than 170 million litres.


French wines have been most affected by these changes. Since 2001, imports of bulk red wines have dropped from 32 million to 25 million litres, and of bottled red wine from 14.5 million to 13 million litres. Italy and Spain have profited from these developments and, although bulk red wine shipments from Italy to Switzerland have dropped from 30 million litres to 25 million litres over the past five years, the volume of bottled red wines has increased from 15 to 21 million litres. Following years

of French domination, Italian wine producers have become the most important source of quality red wines. France has also been overtaken by Spain, with bulk red wine imports remaining at 13 to 14 million litres, but bottled volumes increasing from 11.3 million to 14.3 million litres.

The traditionally reliable observation that when bulk wine imports drop, the volume of bottled wines imported increases, was only applicable to red wines in 2005. Thus the volume of bulk red wine imports dropped by 2%, while the volume of bottled red wines increased by 500,000 litres. Imports of bottled white wines decreased compared to 2004, although 500,000 litres more were imported as bulk wine.

During the past decade, bulk red wine has gradually been replaced by bottled red wine. Since 1997, imports of bulk red

| 1 | Benchmark Data | www.ch |
|------------------------------|--------------------------------------|-----------------------|
| Inhabitants: | | 7.5 million |
| GDP: | US\$ 264.1 billion (€ 197.6 billion) | |
| Currency: | Swiss franc SFr (100 SFr = € 61.8) | |
| Per capita wine consumption: | | 40 litres |
| Total wine consumption: | | 270 million litres |
| Legal drinking age: | | 18 |
| Vineyard area: | | 15,000 hectares |
| Domestic production: | | 1 million hectolitres |



wine have dropped by 32 million litres to 74 million litres. In the same period, the volume of bottled red wines has increased from 45 million to 60 million litres. This development has been boosted by distributors such as Coop and Denner revamping their programme of bottled wine imports, as well as by traditional bulk wine bottlers discovering the financial advantages of bottled wine imports.

Alongside Italy and Spain, a number of other wine-producing countries, such as Austria, Germany and Portugal, have profited from this re-orientation. This has come not only at the expense of France, but also of countries such as the United States, Chile, Australia and South Africa, from where imports have dropped from 10 million to 7.7 million litres.

The initial figures for 2006 suggest that there is unlikely to be a reversal of this trend, either in bulk or bottled wine. There is a continued distinctive decline on the horizon, and the only exceptions to this development are Spain, Portugal, Germany, Austria and Chile, which have succeeded in exporting more bottled red wine since the middle of 2006. France, Italy, the US and South Africa have supplied conspicuously less wine than in 2005. All in all, the volume of imported bottled red wines is stable, while that of bulk red wine is precarious, with a further drop of 10% in 2006 in comparison to 2005.

Cheaper imports

The value of red wines imported in bottle over the past five years also suggests an unambiguously downward trend. Whereas the 'traditional' wine-exporting countries, Italy and France, have remained stable at a relatively high level, imports from the US and Argentina have been particularly hard hit. The average price for French red wines - ex cellars - has declined from SFr13.86 per litre to SFr12.86 (€7.98); and that of Italian red wines from SFr10.45 to SFr 9.13 (€5.67). At the same time bulk imports, already low in value, have fallen to SFr2 (€1.25) per litre.

In 2004 and 2005, slightly more than 22 million litres of white wine were imported, half of which were in bottle, and it is reasonable to assume that these figures will remain at this level. In the course of the past four years, the average value of a bottle of imported white wine has dropped from SFr8.27 per litre to SFr7.64 (€4.75), whereby in 2005 Austria (SFr13.20), France (SFr 11.31) and New Zealand commanded the highest average prices. The value of imported bulk white wines continues to fall.

The volume of foreign trade is just one indicator of the importance of an individual trading company, and it says nothing about the value of the imported wines. For this reason, the following analysis of wines imported in 2005 will attempt to put the above figures into perspective.

Official figures show that of the 1.7 million hectolitres of wine brought into the country, 1,332 importers purchased white wines in 2005 (1,296 in 2004) and 1,583 red wines (1,545 in 2004). As in previous years, the increase has been prompted by the smaller wine-importing companies. The main distributors, such as Denner or Coop, have increased

COMMENT

»» Fierce competition has improved the quality being offered. ««

René Gabriel

When the market goes through a depression, the Swiss generally do not drink less, they merely look for less expensive alternatives. We've been through that. My feeling today is that most consumers here are becoming more reasonable. They are still searching out



value for money, but that certainly does not mean cheap. Further, it is becoming ever easier to find good wines at reasonable prices. From a consumer point of view, fierce competition has improved the quality being offered - and after a couple of quiet years, I find that more and more Swiss are willing to pay top price for the finest wines. These are generally no longer the icon wines from the New World, but classical wines from traditional regions. Granted, we tend to avoid lesser vintages, and the more elegant styles of Burgundy and Barolo no longer have a strong following, but Bordeaux, the Rhône valley and Tuscany are very popular. I think that is because we prefer deep, brooding wines. On the home front, the younger generation has discovered that the white wines from the Valais are generally fresher than those of Lake Geneva - and our red wines have never been better.

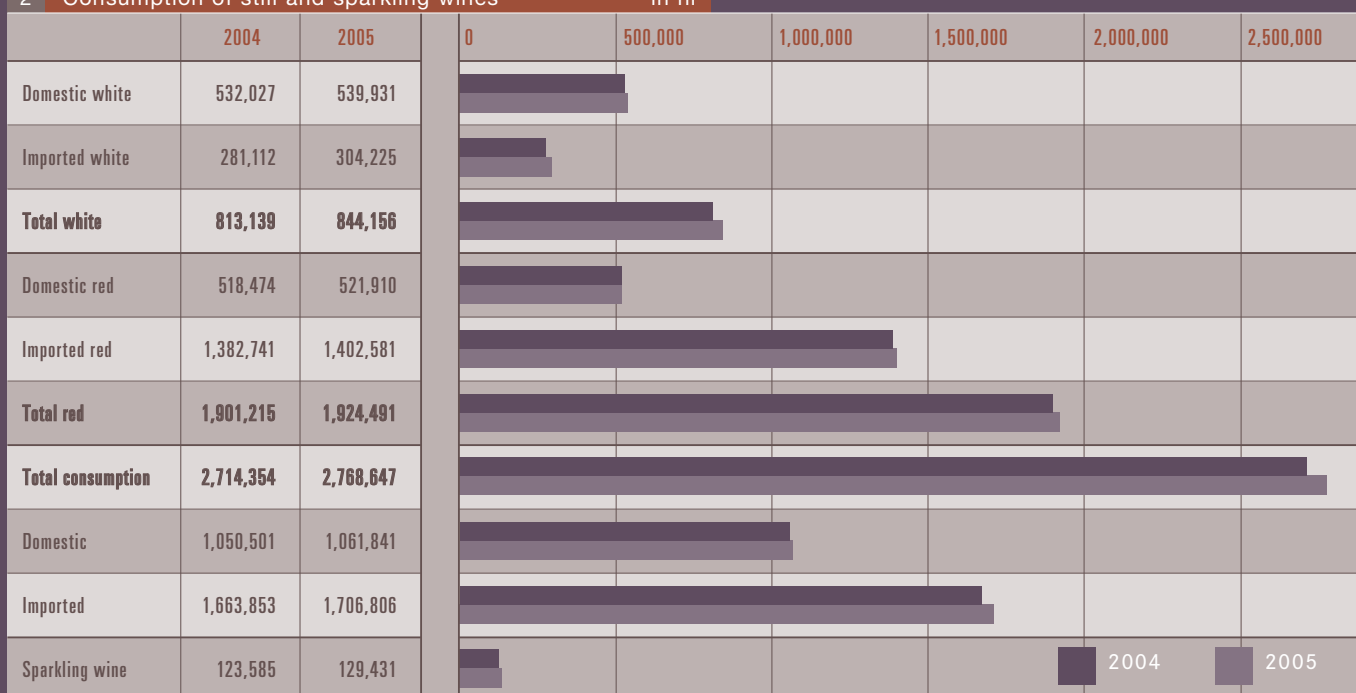
Known as one of Switzerland's leading wine journalists, René Gabriel also consults for Mövenpick, one of that Alpine country's leading wine merchants.

their share of imported red wines from 31% in 2003 to 36% in 2005, whereby Denner has profited disproportionately and at the expense of Coop. In the course of three years, Denner has succeeded in increasing its share of red wine imports from 10.4 to 17%, while Coop has seen a decrease of 1.4% to 18.8%. With white wines, both Denner and Coop experienced a decrease from 28.5% down to 22.6%, the difference being taken up by the traditional wine-importers and specialist traders.

The consolidation at the top continues. Of the 1,583 companies importing red wine, only 20 companies imported more than 500,000 litres. Eighty-three companies imported between 100,000 and 500,000 litres; 47 companies between 50,000 and 100,000 litres; and a further 226 companies were responsible for import volumes between 10,000 and 50,000 litres. Of the remaining 1,198 companies (representing 76% of all importers), each imported less than 10,000 litres.

An analysis of the volumes imported by each group illustrates the continued consolidation at the top:

2 Consumption of still and sparkling wines in hl



SOURCE: BUNDESAMT FÜR LANDWIRTSCHAFT, 2006

3 Total import of red and rosé by country in hl

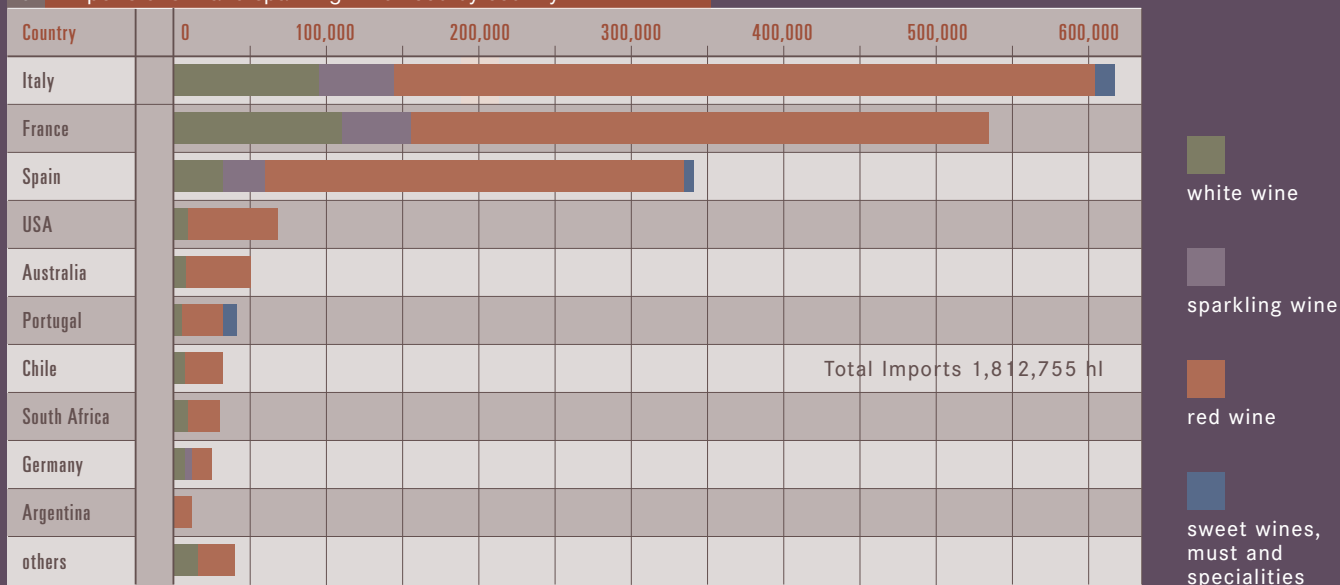
| Country | | 2000/01 | 2001/02 | 2002/03 | 2004 | 2005 |
|---------|--------------|---------|---------|---------|---------|---------|
| Italy | bulk wine | 354,809 | 312,451 | 301,195 | 260,138 | 259,871 |
| | bottled wine | 178,473 | 156,585 | 169,345 | 182,577 | 207,392 |
| France | bulk wine | 352,568 | 304,603 | 302,117 | 265,619 | 253,728 |
| | bottled wine | 187,158 | 156,377 | 157,990 | 141,657 | 130,947 |
| Spain | bulk wine | 150,909 | 126,753 | 130,879 | 134,706 | 137,453 |
| | bottled wine | 102,868 | 110,682 | 137,016 | 147,426 | 143,792 |

4 Import of red and white bulk wines in hl

| Country | 2000/01 | 2001/02 | 2002/03 | 2004 | 2005 |
|--------------|---------|---------|---------|--------|--------|
| Italy | 36,704 | 39,849 | 36,605 | 32,216 | 33,170 |
| France | 18,967 | 20,550 | 16,402 | 23,340 | 40,057 |
| Spain | 10,250 | 7,296 | 9,097 | 7,292 | 6,339 |
| South Africa | 15,270 | 10,288 | 13,100 | 7,210 | 0 |
| others | 1,069 | 1,716 | 4,055 | 2,048 | 0 |
| total | 82,260 | 79,699 | 79,260 | 72,106 | 79,566 |

SOURCE: BUNDESAMT FÜR LANDWIRTSCHAFT, 2006

5 Imports of still and sparkling wine 2005 by country in hl



SOURCE: BUNDESAMT FÜR LANDWIRTSCHAFT, 2006

- Two importers with import volumes >20 million litres of red wine (total 47.8 million litres, or 36%)
- 20 companies with import volumes >1 million litres of red wine (total 98.3 million litres, or 74%)
- 386 companies with imports >10,000 litres of red wine (total 133 million litres, or 99%)
- The remaining 1,197 companies (93%) import, in total, less than 1 million litres.

As far as white wine imports are concerned, the situation is not as clear-cut. In 2004, 1,298 companies imported 22 million litres, followed in 2005 by 22.6 million litres. Coop and Denner had a share of 23% in 2005, 20% in 2004, and 29% in 2003. Even with the traditional importers, there is no obvious trend apart from a pronounced stability of import volumes from the specialist traders.

Like red wines, the import of white wines is influenced by a concentration at the top and a fragmentation at the bottom. The four largest importers had a share of 38.5% of total imports, and the 26 companies with a volume of 100,000 litres or more had a share of 74% (16.7 million litres), leaving the remaining 1,306 importers with a share of 5.9 million litres. In other words, the top 26 companies out of the total of 1,332 imported 75% of the total volume of white wine.

Market structure

Migros' purchase of 70% of Denner earlier this year stood in all of the headlines. As Migros, sell neither alcohol or tobacco, the news had few immediate repercussions for the wine industry. The share of the 'big two', Coop and Denner, remains at 51% of total wine sales in Switzerland, considerably less significant than in neighbouring countries. Not even the efforts of other European supermarkets such as Aldi and now Lidl over the past two years have changed this picture.

Coop's and Denner's pricing strategy is concentrated on a range between SFr4 (€2.50) and SFr15 (€9.30) per bottle, whereby Denner emphasises the lower price-bracket and Coop the upper price-bracket. Approximately two-thirds (67%) of the total wine range offered by Denner is priced between SFr4 and SFr10 per bottle, while 64% of all Coop wines are at priced between SFr6 and SFr15 per bottle. Admittedly, more than 50% of all wine sales occur during sales or promotions.

The cash and carry trade, responsible for 5% of total wine sales, operates in a similar fashion. The traditional retailers sell their wines at prices 30% higher than Coop and Denner, while the specialist traders achieve prices of between SFr15 -25 per bottle, notably at wine fairs and similar venues. Their share of the market, including the on-trade, is estimated to be 25%.

The Market for Wine in Switzerland

Switzerland, with its 7.5 million inhabitants split into three distinct cultural and linguistic regions, requires a sophisticated approach towards production, imports and distribution. Matters are complicated by the fact that until the beginning of the 21st century, its own wine production was

QUOTE UNQUOTE

»» There are more small wine shops than ever before. ««

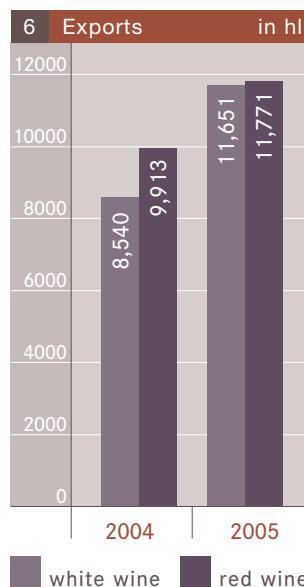
Ernest Dällenbach

Ernest Dällenbach, the president of the Swiss Wine Retailers, has followed the developments in his native Switzerland for more than a quarter of a century. Although there is always a wry smile on his lips, he is a straight talker in a country of politicians. He is particularly worried that Switzerland will levy an excise tax on wine and ban advertisements.



protected by import quotas and tariffs. This restricted normal growth, in particular of the market for white wines. The market for red wines was different, thanks to a relatively generous import quota for red wines over the past 20 years. In contrast to their white brethren, Swiss red wine producers were forced years ago to adapt to international competition. Although the tariffs based on gross weight still somewhat distort the picture by biasing the importation of bottled red wines, it is true to say that less and less wine, both white and red, is imported in tank into Switzerland.

The reason why the Swiss wine market is of such interest to foreign suppliers remains the buying power of its inhabitants coupled with the high demands for quality made by a significant proportion of the population. In spite of the unfavourable development in consumption over the past few years, Switzerland remains an extremely attractive market, particularly for those wines at the middle-to-premium end of the price range. ■



7 Swiss Vintages

| Year | TP in hl ¹⁾ | TVA in ha ²⁾ |
|------|------------------------|-------------------------|
| 1980 | 846,799 | 13,605 |
| 1985 | 1,250,128 | 14,031 |
| 1990 | 1,333,813 | 14,823 |
| 1995 | 1,181,395 | 14,871 |
| 2000 | 1,275,673 | 15,043 |
| 2001 | 1,173,889 | 15,084 |
| 2002 | 1,110,458 | 15,010 |
| 2003 | 966,492 | 14,919 |
| 2004 | 1,158,790 | 14,935 |
| 2005 | 1,000,999 | 14,903 |
| 2006 | 1,011,122 | 14,907 |

Table 5: Vintages from 1980-2006

¹⁾ Total production ²⁾ Total vineyard area