

PORTUGAL UNFORTIFIED

The home of fortified wines, Portugal is undergoing a table wine renaissance. But despite the accolades and a treasure trove of indigenous varieties, Portugal still struggles to project its identity, find Dr Luis Antunes and Charles Metcalfe.

Recognition for the quality of the top Portuguese wines has never been higher. Portugal has benefited from European funds since it joined the EC (as it then was) in 1986. This programme of investment has subsidised the planting of new vineyards and the building of new wineries and motorways. These in turn have opened Portugal to the rest of Europe and brought many producers to a technical level that can compete with other European wine nations. The way has been led by Portugal's large wine producer-exporters, typically those current and past members of G7, a group of producers who banded together in 1992 to promote the image of Portugal's wines. These were Aliança, Avelada, Bacalhôa, Finagra (makers of Esporão wines), José Maria da Fonseca and Messias. Sogrape, best-known for its Mateus Rosé brand, was among the founders, but left in February 2007. And since Portugal's accession to the EU, there has been a huge growth in estate bottlers. In many cases these are the makers of the wines that are earning plaudits around the world.

The new stars on the block are wines from the Douro, Dão, Alentejo, Estremadura and other regions, but it should not be forgotten that Portugal has one of the world's most famous fortified wines, Port. Against current trends in fashion and health, Port has continued to perform strongly compared with other fortified wine styles. If there is a sector that has lagged behind it is that of the large wine co-ops. Many dating from the 1950s, these have struggled to modernise their equipment and incentivise their members to deliver good quality grapes. There are a few smaller co-ops that have been quicker on their feet, and have risen to the challenges of the late-twentieth and twenty-first centuries, but many co-ops are facing gloomy prospects.

A snapshot of Portugal

Portugal has been producing wine for centuries, ever since the Phoenicians introduced vines in the seventh century BC. According to recent archaeological findings, *vitis vinifera* has been growing in Portugal for 50m years.

Today, about 370,000 vine-growers tend almost 240,000 hectares of vineyards. The biggest regions are Trás-os-Montes,

including the Douro and Porto Denominação de Origem Controlada, Minho, including Vinho Verde DOC, and Beiras, including the DOCs of Bairrada, Dão, Beira Interior and Távora-Varosa. Alentejo, although an up-and-coming region in terms of fame and sales, still has a comparably small acreage. Estremadura (which may shortly be renamed 'Lisboa') and Ribatejo are actually shrinking in production terms.

The Douro DOC unfortified wines are hottest on international markets at present. Whether this is because they have a head

start with their long history of fortified wine (Port) production, or that they have promoted themselves more effectively than others is open to question. If there has been more effective promotion, it is more down to the efforts of five producers, the self-named 'Douro Boys', than because of the generic efforts of the Instituto dos Vinhos do Douro e do Porto (IVDP), which handles Douro and Port promotion separately from the rest of the industry.

In the Minho, wines are light and low in alcohol, perfect for summer drinking. But quality standards have only risen recently, and too much of the region's production comes from co-ops that struggle to sort ripe, good-quality grapes from the mass delivered by vineyard owners whose vines come second-best to full-time jobs and other commitments. There are good wines, though,

from vineyards with modern trellising and immaculate stainless-steel wineries.

The Beiras is the unsung hero region of Portuguese wine. There are two famous DOC regions, Bairrada and Dão, but both have had difficult periods in recent years. Bairrada's historic red grape, the Baga, ripens really well only about four years in 10, and then it can make wonderful wine. The other six years it had become a liability. So the DOC rules were changed in 2003, to allow in a much wider range of grapes, including incomers such as Cabernet Sauvignon, Merlot and other familiar 'international' grapes. The result is pandemonium, where there are more good red wines, but the word 'Bairrada' on a label can imply anything from an under-ripe Baga to a blend of Syrah and Pinot Noir. Bairrada whites are under-rated, and a lot of sparkling wine is produced,

1	Benchmark Data	www.pt
	Population:	10.6m
	GDP:	€146b (\$232b)
	Currency:	€ (€1 = \$1.60)
	Per head wine consumption:	48 litres
	Area under production:	240,000 hectares
	Production:	750m litres
	Legal drinking age:	16



REGIONAL ANALYSIS

perfect for washing down the local speciality, roast suckling pig. Dão is less confusing, but not really understood outside its granite heartland. The combination of comparatively high altitudes and granite soils give even the biggest reds a freshness that is welcome in these days of high-alcohol monsters. Touriga Nacional is one of the first choices when vineyards are replanted, and partners the softer Alfrocheiro and Jaen grapes to create blends of elegant fragrance. White Dão runs the gamut from crisp and neutral to barrel-fermented creaminess, the best probably made from the local Encruzado grape.

The Alentejo is the hot south, as far as the rest of Portugal is concerned. As often, this is an over-simplification, neglecting the granite soils and high altitudes around Portalegre in the north-east of the region. But much of the Alentejo is very hot in summer, and reds have a correspondingly generous, warm-fruited character. It is difficult to make really convincing whites in these temperatures, but some producers manage.

Arguably Portugal's unique selling point is its dazzling array of native (or autonomously evolved imported) grapes – 341 according to recent listings. Historical and cultural reasons have contributed to this diversity, as well as to the tradition of blending those varieties together to build up a final blend. Traditionally, this would have started off in the vineyard.

Production

For the last 15 years, wine production has been stable, with very little variation except for climatically challenging years such as 1993 and 1998. In normal years, Portugal produces on average just above 750m litres of wine, making it the tenth largest wine producer in the world, just behind South Africa and Germany.

The fastest growing region is the Alentejo, thanks to a very positive image and strong consumption in the domestic market. Not far off that growth rate comes Trás-os-Montes,

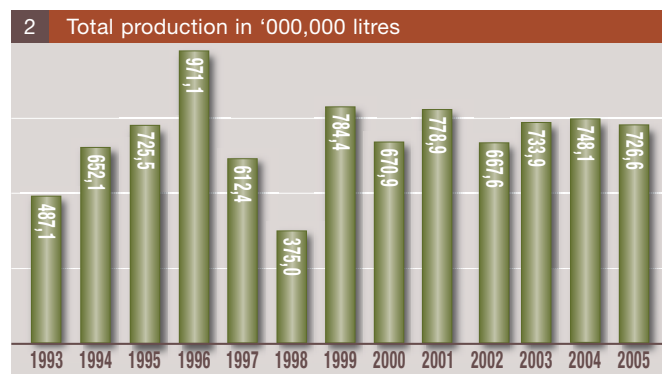
followed by the Beiras. Estremadura and Ribatejo are slowly reducing overall production, as mass production taken into co-ops is being replaced in favour of higher quality wines. The Minho is also decreasing production, as vineyards are restructured to embrace more mechanisation and modern training methods, and low-alcohol, lightly sparkling Vinhos Verdes are proving harder to sell.

Portugal has 31 DOCs and 11 VRs (Vinho Regional). These roughly mirror the rules for France's AOC and Vin de Pays, with more flexible rules for use of grape varieties in the VRs. The result is that more and more producers are turning to VR status for wines intended for export. All other wines must be classified as Vinho de Mesa (table wine). Although rosés represent a tiny proportion of the total at present, this is increasing as producers respond to the growing international demand for rosé wines.

The domestic market

According to the OIV, the consumption of wine in Portugal has been declining, and has stabilised around 48 litres per person. This gives Portugal the fourth highest consumption of wine per head in the world, after Luxembourg, France and Italy. Domestic consumption in Portugal seems to be able to absorb about 70% of production, roughly in line with figures from other European countries.

Using data from AC Nielsen, various observations about the domestic market are possible. (Nielsen estimates that it measures 55% of total wine sales, and that 45% of sales are unquantified, made direct from producers, through mail-order or by Internet.) Between 1984 and 2002, there was a steady increase in the number of bars, restaurants and cafés. From 2003 onwards, the number dropped, particularly of restaurants. At the same time, there has been consolidation in the retail sector, with the total number of grocery shops, supermarkets and hypermarkets half what it was in 1971, and total



3 Value to volume: table wines vs fortifieds

Year	'000,000 €	% fortified	'000 hl	% fortified	per litre	per litre fort.
1996	425	68	1,976	49	2.22	3.21
2001	504	71	1,672	52	3.01	4.14
2006	563	62	2,926	28	1.92	4.21

2 Value to volume

Year	m litres	m €	Year	m litres	m €	€/litre
1995			2005			
Angola	18.8	11	Angola	44.7	32	0.72
UK	8.2	12	France	37.5	19	0.51
Denmark	6.2	9	Germany	11.2	12	1.07
France	5.8	8	UK	10.2	21	2.06
Germany	5.6	9	Italy	9.3	6	0.63
USA	5.0	9	Spain	8.4	5	0.59
Belgium	4.2	7	Mozambique	6.5	4	0.62
Cabo Verde	4.1	3	USA	6.3	15	2.32
Brazil	3.5	6	Belgium	5.2	11	2.12
Italy	3.4	7	Brazil	4.5	10	2.19

volume per store growing exponentially. This is not uniform throughout the retail sector. Since 1995, hypermarkets, which had about 40% of the off-trade market at that point, have been losing ground to supermarkets, particularly medium-sized neighbourhood supermarkets. Nielsen predicts that the next decade will see the growth of neighbourhood discounters, forecast to have over 30% of the off-trade market in 2015. This is because the two most important considerations for Portuguese shoppers are the ability to shop locally and value for money.

Between 2002 and 2005, the volume of wine sold in bottles of 75cl or less in the on-trade decreased from 8.1% of the market to 6.8%. The biggest drink in the on-trade is beer, with over 40% of total sales volume, but the most dynamic product has been bottled water, with steady growth over the last six years to reach 27% in 2006. In terms of value, on-trade wine sales were actually up 2%, compared with a decrease of 4% for beer in the same period.

Taking off- and on-trade sales together, the volume of wine sold in 75cl bottles (or smaller) has grown from 45% to nearly 50% of the total market. But that increase has been nothing compared with growth of bag-in-box, up from less than 1% to over 16% over the same period, with growth of 36% in the last 12 months alone. The big loser has been the traditional 5 litre demijohn, down from over 25% of the market in 2002 to 13% in 2007. The biggest user of bag-in-box is basic table wine at 70% of all bag-in-box sales, followed by the Douro and Trás-os-Montes region with 20% and the Alentejo with 6%. Off-trade sales are almost three times on-trade, at 41% and 14% of the total market respectively. Adding on- and off-trade sales together shows volume has grown steadily over the 10 years to 2007, though there has been little value increase since 2003. What has grown over the last 10 years is the proportion of off-trade sales (74% by volume and 52% by value in 2007). Average wine prices in the on-trade are now almost three times those in retail.

The only sector to show any growth in sales of 75cl bottles (or smaller) over the last five years is supermarkets, with a compound annual growth of 5%, taking them to 44.6% of the market. By region, respectable gains in market share over the last five years have come from the Douro, Alentejo, Minho and Terras do Sado, at the expense of the Beiras and basic table wine. The Alentejo leads with 37.3% of the market, followed by the Minho (18.2%) and table wines (15.7%). In terms of the split between DOC, VR and table wines in the on- and off-trade sectors, DOC wines have the largest share of the on-trade, as might be expected, but have also overtaken VR wines in the off-trade in the last couple of years. However, broken down by colour as well as official hierarchy, the most dynamic sector is red VR wines, which beats red DOC wines into second place in both on-and off-trade.

Export market

The wine authorities in Portugal are slow to make the latest figures available, but exports have grown steadily over the last 12 years to 2006. Most apparent is the growth in overall value,

which has risen every year but one, even though volume has not always increased. However, when fortified wines are removed from the equation, the picture is less rosy. Although volumes of unfortified wine have increased, their value has dropped steadily, to less than in 1995. Contrast that with the average price of fortified wine, which has inched up almost constantly over the same period. And the volume of fortified wine over the period has been stable, about 840,000 hl exported annually. So the increase in the overall value of Portuguese wine exports has been supported by the fortified wine sector. The value per litre of fortified wine has increased by a full euro over the decade, while at the same time the price per litre of non-fortified wines has fallen - despite suggestions in the trade that Port is 'in crisis'. At the same time, the volume of non-fortified wine exports has increased, but the overall value has been growing far slower, and there has been a significant decrease in the price per litre, now below €2.

As for who is buying the wines, Angola and Mozambique import significant volumes, but at low prices, while countries such as Italy, Spain, Brazil, Canada and the US import good volumes and at good prices. The average price per litre that makes it into the top ten has risen steeply over the last few years, which contrasts with the overall decrease of this price for exports as a whole. The explanation for this could be in better marketing and distribution for these top-performing markets, or a self-reinforcing effect: those who buy better wines want to find out more and buy even better ones. Angola and the UK, for all the volume they import, are noticeably absent from the lists of the top ten payers per litre throughout the period.

The way forward

The top three potential export markets were identified in the 2006 Michael Porter Report as the US, the UK and Germany. The growing US market has been particularly successful for Portugal for the 12 months to 31 October 2007, with a 35% increase in exports in terms of value (and 11% in volume). This growth easily outstrips any other country among the top 10 wine exporters to the US. Jack Couto, President of Massachusetts' Grape Moments, was at the recent 'Essência do Vinho' consumer wine show in Porto. He spoke positively about the prospects for Portuguese wines in the US, and emphasised the importance of selling outside the Portuguese diaspora. "We sell 80% of our wine to non-Portuguese markets, in 34 states," he explained, and commended ViniPortugal, the Portuguese wine industry's promotional body, on their work with the press, resulting in many positive articles in the US.

Danny Cameron, of UK Portuguese specialist wine importer Raymond Reynolds, argues that Portugal needs to do more to establish its cultural identity. "We need more successful brands out of Portugal," he explains, citing Mateus Rosé and the recently-created Tagus Creek as the only two wine brands with any significant level of awareness outside Portugal. "But most of all we need a key to unlock the door to Brand Portugal. Something to raise Portugal's cultural profile, and that's not necessarily a wine-led process." ■