

# WINE UNDER THE HAMMER

As huge volumes of money pass into the secondary market, there are no more bargains to be found, says Felicity Carter. But the sheer weight of money moving through the system means the future looks bright for the auction houses.



**Stephen Mould, Sotheby's European wine department head, ready for action.**

This year, the financial press has been full of stories about rare wines auctioned at dizzying prices: \$10.35m of wine sold at Auction Napa Valley in June; \$8.2m sold by Acker Merrall & Condit in Hong Kong; a lot of Domaine de la Romanee Conti sold for \$487,485 in April. Worldwide, wine auctions generate an estimated \$500-600m annually, as fund managers in London recommend wine as an investment, at the same time as wealthy Russians and Asian develop an insatiable thirst for top wines. All of which means the wine auction business can only get bigger, generating more money, more competition – and more counterfeit wines.

## *Shaking up the business*

Although Christie's first auctioned wine in 1766, it wasn't until they launched a specialist wine auction house in 1966 that a secondary market emerged. Sotheby's followed and London became the fine wine capital. According to the *Financial Times*, however, more than \$233m of fine wine was sold at US auctions last year, compared to just over \$35m in London. "New York has rather

overtaken London because there are many more people involved and there are huge collections of wine that have been amassed in the last 20 years," says Serena Sutcliffe MW, head of Sotheby's international wine department.

The Americans do things differently, too. Things first changed when New York merchant Zachys approached Christie's in 1994, after owner Don Zacharia had helped convince legislators to allow fine wine auctions in New York. The ensuing partnership was successful for seven years, until the merchant went solo in 2002. "One of our main goals when we went into auctions in 2002 was to bring the fun back to the auction room," says president Jeff Zacharia. "We were the first to hold auctions in a restaurant." He says it creates a fun atmosphere.

Word on the ground is that such auctions result in higher prices, because people become less inhibited and more concerned about impressing other diners. "Eating, drinking and fighting – the key to success in the auction world" said one insider, adding that the strategy had blindsided Christie's, whose New York office accounts for 40% of its \$75m turnover. Things were shaken up further when upstart John Kapon at New York's Acker, Merrall & Condit decided to cut the seller's commission. "We said that we didn't have to split the profits with anyone, so we could give it back to the seller," says Kapon. "It allowed us to create an instant supply chain."

Wine poured in to Acker, which in the past two years has churned \$60m worth of wine through its auctions, leading the other auction houses to either drop their seller's charge, or be 'flexible' about commissions, as Christie's puts it, depending on the consignment value.

While London was traditionally trade-focused and New York the place for

private buyers, those distinctions are disappearing as a global elite chase fine wine wherever it's to be found. Sutcliffe says that more of the people who buy top wines come from the financial sector and may not only have several international residences, but are also younger. The number of Asian buyers has increased in the past decade, while the Russians have more recently begun bidding. "It's totally international and more far reaching, in terms of who buys at auction," she says.

## *The move to Hong Kong*

That more Asians are drinking wine did not escape Hong Kong's government, which in February dropped wine duties. Acker, Merrall & Condit held an auction in May that realised a stupendous \$8.2m, signalling that Hong Kong is set to become a major world player. Clearly the government hopes so: it has appointed a commission to seek suitable sites for wine storage facilities.

Now, the *South China Morning Post* is reporting that more than \$30m worth of wine will be sold in Hong Kong during the last quarter of 2008, with at least 10 auctions planned for 2009. Christie's, who pulled out of Hong Kong in 2001, are planning to resume regular wine auctions, with a sale of Chateau Latour sourced directly from the vineyard's cellars planned for November; Bonhams and Zachys have auctions planned for 2009, and Acker Merrall will have at least two. Robert Parker has paid China a visit, while Jancis Robinson's website is being translated into Chinese.

"We hope to realise an annual turnover in Hong Kong of maybe HK\$40-50m in 2009," says David Elswood, international head of Christie's wine department. "It won't really reshape the market, but will give Hong Kong and other Asian bidders easier access to our

auctions." He adds that Christie's next focus may well be on mainland China, where interest in fine wine is growing.

### *What are people buying?*

The problem that all of this activity raises is where the wine itself is going to come from. One of the paradoxical results of the market becoming more global is that the market has become much narrower, with everyone chasing the same wines. "I think the market has gotten more focused on less brands," says Acker's Kapon. "France is certainly dominating the market. The New World markets are flat." He says that while there are people who love their Italian wines, the interest at auction is limited.

Kapon suggests the rapid growth in the auction market itself has contributed to the flatness of some sectors. "We were the first to accurately price California and give realistic estimates," he says, "But at the same time, supply has grown. Wines people paid \$100 for a few years ago are worth \$800 now, so even if they intended to drink them it makes sense to sell." He also says that as producers have seen their wines unsold at higher prices, they have raised their release price, leading to greater parity between the release price and the auction price. That could be a lesson for Bordeaux: if the gap between the release price and the auction price is too narrow, the wine becomes less attractive for investors. "I remain bullish that the best brands and the best vintages will continue to rise," says Kapon, "but the growth has been so rapid in the past couple of years that there's bound to be a levelling sooner or later. But any levelling is a temporary thing."

As the rising Liv-ex index shows, there is no shortage of takers for first growths. But, given there is a finite number of these wines and tremendous pressure on their prices, does this offer an opening for other wines? "So far nothing has come up to challenge the classic French leadership in this field," says Sutcliffe. "There is wonderful quality in Burgundy, but it's minute in comparison, so the auctions are dominated by Bordeaux, although logically people should be looking for other things."

Elswood agrees, adding that there is limited interest in top wines from Spain, Italy and Australia, along with Vintage Port and Champagne. Andrew Caillard MW, of Australian auctioneer Langton's readily admits that the market for fine Australian wine is mostly local. However, he says "there are many poseurs in Bordeaux who have priced themselves out of the Australian market. Australians are generally quite curious and will venture out if the wines represent good value. Californian, Italian and Spanish wines often feature in our sales."

This, says Sutcliffe, is only true at the local level, but is not true at the international level. "People like to buy proven things with the ability to age. Those places haven't yet had time to prove themselves. Most Europeans who collect fine wines don't think of top Napa wines and that's largely true of Asian wine collectors. They stay with the proven."

### *Supplying the demand*

The auction houses say they have no problems keeping the auctions supplied. "If you've been in business for a long time you know where everything is. We concentrate on very good collections," says Sutcliffe. "It's your business to know where they are and you're aware of who's been building up collections."

Elswood says that Christie's works with a wide range of consigners, from the wine producer's own reserve cellars, to private collectors, to the wine trade who will sell surplus stocks that have hit a peak of desirability. "In general, a good auction house should know as much (usually more) about the history of the bottles they are offering as would a wine dealer or merchant, particularly for old or more valuable wines."

But the urgent need to feed the market has seen auction houses targeted by counterfeiters. *Wine Spectator's* Internet site ran hot with fraud stories last year, including one reporting the US Department of Justice had issued subpoenas to some of the big auction houses.

Sutcliffe says that as fakes get better, the only way to weed them out is to have years of experience to draw upon. But as counterfeiters improve, even experience

**"We will continue to monitor the current levels of activity in countries like Russia and India to determine our future sales locations."**

*David Elswood,  
international head  
of Christie's  
wine department*



may not be enough. "We do things like cut the capsules and taste from cellars," says Kapon. "We reject a lot of wine on a yearly basis."

Yet at Acker Merrall & Condit's April 2008 auction, 22 lots of fake red Burgundy posing as wines from Domaine Ponsot were withdrawn from sale, mid-auction.

Elswood says what makes the issue so difficult is that the people who have bought fake bottles will often not admit it, either because they're embarrassed, or because they're not aware they've been duped. He says Christie's are often asked to give their opinion on wines. "The wines never belong to us, so it would then be up to the owner to decide on their future course of action."

Unfortunately, says Kapon, even "some of the greatest collectors are prone to having these counterfeit wines in their cellars. We're trying to set up a system of communication with the chateaux and domaines."

Sutcliffe says that counterfeiting is growing and set to plague the industry further. But perhaps what's more urgent, given that so many collectors are from the rarefied world of finance, is the credit crunch. "I've just had an email from a top financier in the States who thinks there's worse to come," says Sutcliffe. But she sounds sanguine. "We're probably only beginning to see the fine wine movement take off. India's middle class is bigger than all of us put together and that's a number to conjure with." ■