



GLOBAL SPARKLING WINE PRODUCTION

Most sparkling wine was originally produced to slake only local thirst. In two enormous markets, Germany and Russia, it still is, but in the wake of Champagne's global success, producers the world over now eye exports as a way to improve their bottom lines. Spanish Cava and Italian Prosecco kickstarted a trend that other countries now hope to follow.

Sparkling wine is produced almost everywhere in the world today, from Devonshire to Tierra del Fuego, but little of it is shipped outside its region of production, let alone beyond the border. Even Cava, the greatest success story of recent years, was little more than a local bubble a generation ago.

In the wake of Champagne's current global success, almost all producers now eye export markets in the hopes of improving their margins. Often, though, they discover that buyers are looking only for bargain basement bubbles. The premium market is squeezed in a small window below inexpensive Champagne. The bubble makers want to see retail prices considerably over €5 per bottle, but few are able to crack the €10 ceiling.

Although there are many unknowns, and even unknowable unknowns, total global production is estimated to be

about 2.15bn bottles, which would give Champagne slightly over 15% of the world's sparkling wine market.

Beyond the classical producing countries that we examine on the following pages, Russia's meteoric ascent - using its 'continuous method' - to 288m bottles in 2007 is nothing less than phenomenal. That volume is three times what was produced in 2000, almost exclusively to slake domestic thirst, and still growing fast. Demand in the US has driven local production to 84m bottles, of which

less than 10% is exported. Australia, on the other hand, which ships 31.4% of its sparkling production offshore, now turns wine into bubbles in 71m bottles.

1 Sparkling wine production in central europe

Country	in '000 bottles	Export in %
France	550.3	37.1
Champagne	338.7	44.6
Other mousseux	161.6	32.9
Germany	359.6	7.1
Italy	299.1	48.8
Spain	224.9	56.3

Although Central Europe was the birthplace of sparkling wine, Russia alone now produces almost 290m bottles a year. The other major players are the United States with 84m and Australia with 71m bottles.

SEKT, GERMANY'S CELEBRATION WINE

Although hardly known abroad for its bubbles, Germany boasts three of the world's five largest sparkling wine producers, writes Joel B. Payne. That is not surprising in a country that consumes more sparkling wine than any other.



Although sales have fallen so dramatically since the peak in consumption shortly after German reunification that stagnation is often celebrated as a victory, no other country in the world consumes as much sparkling wine as Germany. In 2007, that was 3.8 litres per head, but down from over five in the early 1990s. Of that, 80% is produced domestically, a figure that has remained constant over the past generation.

In 2007, total domestic sales of all sparkling wine fell by 2% to 413m bottles, just over 335m of which were 'made in Germany'. Add to that the slightly more than 24m bottles that were exported and total German production stood at 360m bottles, down considerably from the record year 1994, which saw the wine in just over 500m bottles turned into bubbles.

Sekt, as sparkling wine is called in Germany, has long been seen as an economic barometer. Positive signals from the stock market have generally bolstered sales, but there has been little to celebrate of late.

Beyond falling sales, the major problem for the industry is that the average price of each bottle sold remains quite low. Discount outlets regularly promote brands like Nymphenburg for as little as €1.95 (\$2.95). That price includes both 19% value added tax and the €1.02 German sparkling wine tax, bringing the 'true' shelf price down to only €0.62 per bottle. When you consider that this includes all packaging and transport, it becomes clear that margins are low and not much investment in wine quality is possible.

On top of that, it is very difficult to convince consumers, who have been faithful to their brand at a given price, to try anything new. Despite that, sales of rosé have doubled over the past two years. Were it not for this fad, the sector would have constricted even more.

Three of five

Although hardly known abroad for its bubbles, Germany boasts three of the world's five largest sparkling wine producers: Henkell & Söhnlein, Rotkäppchen-Mumm and Schloss Wachenheim. The two other are LVMH and Freixenet.

In total, there are estimated to be about 2,000 sparkling wine producers in Germany, from the three behemoths down to small estates that still riddle their own bottles. Some 75 of the biggest are members of the German Sparkling Wine Producers Association, which controls 93% of total production. The single largest brand is Rotkäppchen, with sales of 71.4m bottles per year. Other strong labels include Söhnlein Brilliant (27m), Faber (17.2m) and Henkell (15.8m).

Traditionally, German producers have had little incentive to push their brands beyond the border, or at most into neighbouring Germanic regions, but as the German sparkling wine industry stagnates, the three largest players are beginning to turn their attention abroad.

Henkell & Söhnlein acquired Ukrainskoye in Kiev in 2007 and Mionetto in Italy earlier this year, which will bring company turnover to €600m (\$879m), making it the second largest sparkling wine producer in the world after LVMH.

More surprising is the story of Rotkäppchen, the East German sparkling wine that has taken the West German market by storm since reunification, swallowing Mumm from Seagrams and Geldermann from Deutz along the way. In 2007, it reported a turnover of €371.5m. Now that is has added the domestic spirits from Eckes to its empire, analysts predict the company might crack the €1bn ceiling this year.

Schloss Wachenheim, based in Trier, grew volume by 10m bottles to 255.6m in 2007, supporting its claim to be the world's largest producer of sparkling wine in volume. That said, total value was only €404m, putting the average price of a bottle at only €1.58. Managing director Nick Reh has already indicated that he will raise that by as much as €0.33 this year, which may put dampeners on further growth. At that price point, there is not a great deal of margin to manoeuvre.

Sekt's little secret

That fact hints at the skeleton in the closet. Most Sekt is made with cheap foreign base wines. The German 'part' of a traditional Sekt blend is seldom more than 10%, according to Dr Hermann Pilz from the *Weinwirtschaft*, the country's leading trade publication*. Ralf Peter Müller from the

2 Sparkling wine in Germany (in bottles)			
Year	German Production	German consumption	Litres per head
1978	250.3m	303.9m	3.7
1984	266.3m	335.0m	4.1
1990	423.8m	470.1m	5.0
1994	500.2m	558.5m	5.2
1999	431.2m	543.8m	4.9
2000	374.1m	551.6m	4.1
2007	359.6m	413.1m	3.8

SOURCE: DEUTSCHER SEKTVERBAND

