

# Wine speculators heading for a bust

by Philip Ulanowsky

A well-informed source in the international wine trade has told this news service that wine prices will fall drastically "in about a year." In his view, some prices could drop to a tenth of their present level.

Since the early 1980s, especially since the 1982 "super vintage," wine has joined other commodities as a target for investment speculators, driving prices through the roof, especially prices for the finest and rarest wines. In recent years, however, a drop in American wine consumption, and increases in production and availability, have created a glut. The same winds that blew over the card-houses of real estate and leveraged buy-outs are now blowing around the relatively smaller speculative markets. However, evidence indicates engineering by some of the power-brokers of the market.

Fine wines have always been purchased young by connoisseurs and dealers, since many can improve with age, in some cases over decades, making them increasingly rare and expensive items. In the 1980s, however, futures in wine took off in earnest, with yuppies buying cellarsfull of wine and bigger investors taking up to six- and even seven-figure plunges into the market, in hopes of selling the wine at a significant profit a few years later.

Why predict a decline? "It's already happening. We see that in Port [wine] and others," said the source. "The [top] chateaus are in good shape; it's the wines around them" that will suffer the most, he said, referring to second-level, primarily French wines, now priced typically in the range of \$18-35. Many of these wines will become available for a dime on the dollar (wholesale), this source predicts.

## Collapse is overdue

"It should have happened three years ago. Historically, it happens about 18 months behind the real estate market. Look at what happened in the '70s," said the source. During that decade of financial assaults, only a couple of major vintages (years when the wines of a given country or region are exceptionally good, due to unusually good growing seasons) were recognized. According to this source, the price drop of the '72 vintage (followed by two weak years) was led by wines such as Chateaus Talbot and Gruaud LaRose,

two of the powerful Cordier interest's Bordeaux wines which, in the last decade, have more than tripled in price.

In the 1980s, under the Reagan "boom," the wines from a majority of years were glorified, each new one being hyped as the latest "vintage of the century," P.T. Barnum-style. Prices for top wines soared, pulling the market as a whole along.

The profile of the wine industry also changed. In Bordeaux, Burgundy, and other traditional wine regions, where producers often represented a third- or fifth-generation ownership of the property, even legendary wines houses are now owned by Japanese or multinational interests. "Diversification" led more than a few corporations into similar positions in the wine market, while European wine interests formed joint ventures for prime vineyards in the United States.

A sober view of the 1980s successes must include recognition that significant advances in wine-making technology and practices permit better wines to be made in lesser years than was generally possible a decade prior. The more ordinary wines have benefited the most, thus narrowing the quality gap between, for instance, many "jug" wines and their cousins costing twice or thrice as much. As this change impresses itself on the palate of discerning wine drinkers, they are likely to toast the prosperity around the increasingly distant corner with less costly fare.

<b>LAROUCHE</b>	
YOU MAY LOVE HIM	
YOU MAY HATE HIM	
<b>BUT</b>	
YOU'D BETTER	
KNOW WHAT	
HE HAS TO SAY	
<b>The Power of Reason: 1988</b>	
An Autobiography by Lyndon H. LaRouche, Jr.	
Published by Executive Intelligence Review	
Order from Ben Franklin Booksellers, 107 South King St., Leesburg, VA 22075. \$10 plus shipping (\$3.50 first book, \$.50 each additional). Bulk rates available.	

## The trade war dimension

It is usually safe to presume that when a warning of this kind surfaces on matters involving international trade, powerful forces have already determined an intended outcome.

Given the rumblings against the United States in European policy circles, the faltering negotiations around the General Agreement on Tariffs and Trade (GATT) and the European Community's Maastricht Treaty, and similar trade impasses, which recently included U.S. threats of trade war against French wine, it were hardly a guess that this development is no exception. In fact, the source reports, significant lots (hundreds of cases) of "second-tier" wines—some unavailable for years—are suddenly appearing, in the already depressed London as well as New York and other wholesale markets, at prices that haven't been seen for over a decade.

At the same time, the grand mogul of the U.S. market, the Bronfman-owned Seagrams' Chateau and Estates importers, is dumping large quantities of wine on the Belgian and German markets.

If wine prices do drop significantly, this can only hurt California growers, who are already ripping out tens of thousands of acres of vines in prime wine country, due to the unchecked spread of a voracious new type of the dreaded root louse *phylloxera*. Given the \$10,000-per-acre cost of replanting on resistant root stocks—and new vines don't even produce fruit for three years—the cost is already estimated in the billions for the known infestation. If it should spread further, the figure could soar. There is no doubt, given the credit crunch at banks and the financial indebtedness of many growers, that hundreds of wineries will go out of business.

## A new Prohibition?

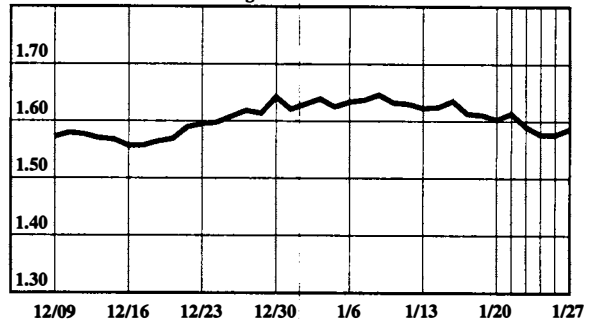
Other factors may also come into play over the coming years. The neo-Prohibitionist movement, which already has a significant voice in federal alcohol regulatory and enforcement agencies, as well as among millions of fundamentalist Christians, may well grow. The last round of Prohibition was no accident, but rather a well-orchestrated boost for the Bronfman-Lansky organized crime rings. The hands and feet of the Bronfman interests should again be closely watched as matters progress.

In the 1990s, our source predicts that only about two more major vintages will be declared (after 1990): one, mid-decade; the other, 1999. Meanwhile, many of those who made major investments recently in wine futures will "take a bath." Wineries and vineyards will be hit hard by collapsed revenues. Major dealers and other players with multimillion-dollar funds assembled between now and then to purchase large volumes of wine at the lower prices, will clean up. The prices of the wines will come back, he said; "they always do," but with a hiatus of about five years before prices recover.

# Currency Rates

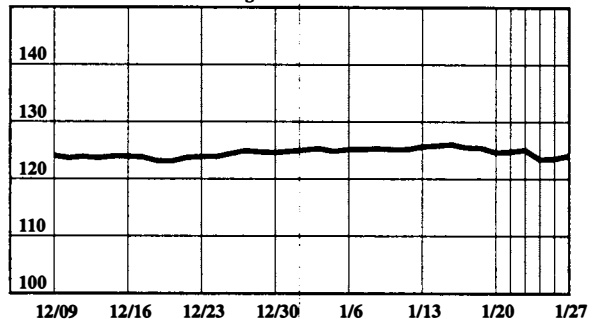
## The dollar in deutschemarks

New York late afternoon fixing



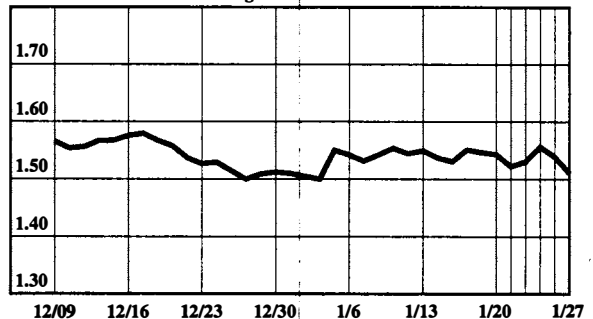
## The dollar in yen

New York late afternoon fixing



## The British pound in dollars

New York late afternoon fixing



## The dollar in Swiss francs

New York late afternoon fixing

