Riesling leads German wine renaissance

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After years in the doldrums, the German wine industry has completed a remarkable transformation, led by its trump card - the Riesling grape. However, rising bulk wine prices might pose a threat to that recovery, while the country's efforts to build a reputation for its red wines abroad will be helped by changing consumer trends, but hampered by a lack of recognition.

A Riesling-inspired makeover

Until recently, the image of German wine in key export markets like the UK could hardly have been worse. The halcyon days of high volumes in the 1980s created an industry that was far too reliant on low-margin, cheap white wines, of which liebfraumilch was the most notorious example.

Germany's rehabilitation has taken time, but international markets have now finally embraced the country's often enervating, food-friendly wine styles, encapsulated by its finest grape variety - Riesling.

According to Deutsches Weininstitut (DWI) figures (1 November 2006 to 31 October 2007), exports have grown 18% in value and 13% in volume over the past 12 months in all major markets except Japan, recording double-digit increases. Average prices have reached EUR200/hl, nearly double the figure of 14 years ago.

Emerging markets like Russia and the Nordic countries are expanding in both value and volume, but in the biggest export destination - the UK - volume is still declining slightly (down 2% to October), while value has increased 10% over the same period. Similarly, the US market has edged forward 7% in volume, but nearly 18% in value.

Steffen Schindler of the DWI is happy that Germany is no longer the cheapest wine importer to the UK, but realistic about the long-term prospects there. â€œOur importance in the British market was always a lot bigger than our production levels,â€• he says. â€œI don't see a future market share of 10-15%, but if we can have 4-5% of the market with very good prices, then that's fine.â€•

Much of Germany's recent success in the US has been built on Riesling, thanks to changing consumer trends, with fresher, more aromatic styles of white wine becoming increasingly popular. â€œRiesling is the fastest-growing white grape variety in the US,â€• points out Schindler, adding that the establishment of the International Riesling Foundation in November 2007 â€“ a body aimed at promoting wider knowledge of the grape â€“ has helped the momentum.

Norwegian consumers are also clamouring for Riesling, with the DWI pinpointing a 34% hike in export values on the back of increased sales of high-priced wines from the Mosel and Rheingau. Again, consumers here are increasingly turning their backs on fuller, more oaky styles of white in favour of Riesling's aromatic intensity and acidity.

However, success comes at a price. The consequent surge in demand has sent grape and bulk wine prices rocketing, particularly after the small 2005 and 2006 harvests.

Relief came with a bigger crop in 2007, but bulk prices remain worryingly high for brand owners. â€œWhite wine prices have gone up, particularly for Riesling, and the weakness of the dollar and the British pound against the euro present an interesting challenge this year,â€• says Nik Schritz, Managing Director of Reh Kendermann, producer of Kendermanns and Black Tower.

Armin Wagner, of Blue Nun producer FW Langguth, agrees. â€œThe increase in Riesling bulk prices is a challenge â€“ and another good reason why we cannot only rely on this grape variety,â€• he argues.

Rising prices and the economic downturn, especially in the US, pose a threat to growth and, as Wagner says, strengthen the argument that Germany should expand sales of other wine styles to spread the risk.Germany sees red

Nearly 40% of Germany's wine production is red, with large plantings of SpÃ¤tburgunder (Pinot Noir) and Dornfelder over the past 15-20 years designed to meet the domestic consumer's love of red wine. But there is a growing feeling that German producers should endeavour to sell more red wine â€“ and rosÃ© â€“ abroad.

The big producers are backing this initiative, with Langguth now producing Blue Nun German red and rosÃ© wines, as well

as Pinot Noir, Dornfelder Barrique and Dornfelder rosÃ© bottles in its Erben range. Meanwhile, Kendermann launched Black Tower Dornfelder Pinot Noir in 2007, markets a Kendermanns Dornfelder internationally and is poised to add a Kendermanns Special Edition Pinot Noir to the range in 2008.

These wines have the virtue of tapping into the developing consumer preference for lighter, fruitier and less alcoholic red wines, but do people readily associate Germany with red wine in the first place?

Schritz believes the reassurance of an established brand like Black Tower or Kendermanns will help to smooth the way for these wines to be accepted. Meanwhile, Wagner points out that emerging markets like Russia and China do not have a problem accepting German red wine â€“ simply because they have no preconceptions about it in the first place.

However, producers tacitly accept that in more mature markets for German wine â€“ including the US and the UK â€“ they will have their work cut out to convince sceptical consumers who see Germany as predominantly a white wine country.

The DWI's Schindler points out that Germany is perfectly positioned to capitalise on the current boom in Pinot Noir sales since it is the world's third biggest producer of the varietal, behind France and California. But Dornfelder, he accepts, will be a harder sell. â€œI think it does appeal to a lot to foreigners when we have them taste it,â€• he says. â€œThe problem with Dornfelder is that it's completely unknown. With Pinot Noir, they know it from France, Australia, New Zealand.â€•White's right for German producers

Germany's red wines have the virtue of majoring on two particularly consumer-friendly qualities in 2008 â€“ they are light and fruity, and many are made from Pinot Noir â€“ but outside emerging markets, producers will find it harder to gain acceptance from consumers raised on liebfraumilch and hock, and only recently converted to Riesling.

Meanwhile, rising prices for Riesling, coupled with the macroeconomic downturn, especially in the US, look set to slow export growth over the next 12 months at least. However, growers are currently laying the foundation for future growth in supply, with 875 hectares of Riesling vineyards planted in 2005/6, making it the country's most planted varietal for the first time in many years.

That should help Germany recover from short-term supply problems and price rises, safeguarding the medium to long-term health of the industry. So does this buoyant period make German wine companies good candidates for acquisition?

There has to be some doubt here; major producers like FW Langguth and Reh Kendermann are well-positioned for growth in emerging markets like Russia and China, but they remain reliant on low-margin, low-priced wine sales for the bulk of their business, with volumes to protect in sections of the market which are in long-term, if unspectacular, decline.

Meanwhile, the industry top end is dominated by boutique players which lack the scale to make themselves an attractive international acquisition opportunity. The good times may be back for Germany's wine industry, but its companies remain a questionable investment opportunity for the time being.

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