

October 7, 2003

## Wine Without Barrels? Sacré Bleu!

By JOHN TAGLIABUE

In the future, will wine still be put in oak, or will the oak be put into the wine?

That is no idle question here in Saint-Romain, population 300, in the heart of Burgundy wine country. For the town is also the headquarters of Tonnellerie François Frères, one of the world's biggest suppliers of fine oak barrels to wineries in Europe, the Americas and Australia.

Not surprisingly, France is home to some of the biggest makers of oak barrels. Yet while wineries here in Burgundy and elsewhere in France use oak casks to age some wine, winemakers outside Europe have increasingly used oak chips to save money. To the horror of many in Europe, where the practice is banned, the foreigners sprinkle the chips into stainless steel vats, or stand oak staves in the vats, to give the wine a hint of oak flavor.

If used judiciously, experts say, the result can be remarkably evocative of barrel-aged wine. If overdone, chips can make a good chardonnay taste like, well, hardwood flooring.

Europe's wineries are deeply divided. For the barrel makers, the question cuts closer to home. Demand for barrels from makers of fine wines, costing more than \$10 a bottle, is booming. But competition is fierce, and now oak chips threaten the business.

Some cooperages scoff at the idea. "It's like making a tea or infusion with wood chips," sniffed Noëlle François, whose family controls Tonnellerie François Frères. "It doesn't give good results." Yet she acknowledged that François Frères markets chips through its Hungarian and North American subsidiaries.

Others are less dismissive. "We have expertise in woods, we know the primary ingredients," said Nicolas Serpette, spokesman for Oeneo, the leader of the global wine barrel market. "We have to adapt to new modes of working."

For the barrel makers, much is at stake. Only about 5 percent of the world's wine production is aged in oak barrels. Industry leaders like François Frères, whose annual 170,000-barrel production makes it No.2 after Oeneo, have positioned oak barrels, which cost up to \$650 apiece, to burnish the image of fine wines as luxury goods. "We make a luxury product for a luxury product," said Mrs. François, who runs François Frères with her husband, Jean, and son, Jérôme.

In the United States, where the Bureau of Alcohol, Tobacco and Firearms regulates the industry, there are bans on using food coloring to perfect a wine's hue or adding artificial flavoring, like blackberry. What is allowed is the use of oak chips and staves, either raw or charred, which can impart flavors that evoke vanilla, coffee or even coconut.

In Europe, producers of inexpensive wines, notably in France, are under assault from "new world" wineries in Australia, California, South Africa and South America. To regain lost market share, they are pressing for changes in the rules to allow oak chips. In Languedoc, famous for its table wines, experiments are under way with chips to decide whether to allow their use. But makers of fine wines, like the chateaus of the Bordeaux region, say no. "We consider this process as adding artificial aroma to the wine, which is opposed to the French tradition of aging in barrels and to its authentic image," Jacques Gautier of the Institut National des Appellations d'Origine recently told Le Figaro.

Some barrel makers see a silver lining. A growing taste for woody wines, they suggest, drives vintners to order barrels. "Using the chips brings some wineries to us," said Jean François, 61, whose grandfather founded François Frères early in the last century.

Still, the chip trend comes at a difficult time for the barrel trade. The price of oak, which accounts for 70 percent of the cost of a barrel, rises continuously, and competition from American giants, like World Cooperage, a unit of the Independent Stave Company of Lebanon, Mo., is fierce. The weak dollar has made French oak barrels more expensive for American winemakers, who generate roughly a third of the revenue

at François Frères. Moreover, the industry faces a drop in French wine production this year of up to 40 percent, because Europe's heat wave shrank the grape crop.

At François Frères, tight cost controls helped maintain a 25 percent profit margin last year, despite a drop in revenue of more than 7 percent, to 75.6 million euros. Though the share price has shed more than 9 percent of its value since January, some analysts, like Sixte de Gastines of Société Générale, maintain a buy recommendation. "The fundamentals are very solid," he said.

By contrast, the companies that now form Oeneo, which is based in Paris, overstretched in the heady 1990's, acquiring smaller competitors, yet neglected to contain costs.

Oeneo, formed in 2001 when two big barrel makers that had merged two years earlier joined with Sabaté, a French cork maker, posted a 28 million euro (\$32 million) net loss last year, on a 13 percent drop in revenue, to 202 million euros. Crushed by a 140 million euro pile of debt, Oeneo was bailed out by its creditor banks. Its shares, which traded yesterday at 2.68 euros, have plummeted almost 44 percent since January.

Now, Oeneo is undergoing a reorganization, and some investors remain bullish. A 14.5 million euro offering of additional stock in July was 128 percent oversubscribed.

If the barrel makers are hesitant about joining the chips revolution, others are jumping in to fill the gap. In 1996, Patrick Ducournau, 43, from Maumusson, in southwest France, started a company called Boisé France, which last year sold about 300 tons of oak chips, mainly in South America, Australia and the United States. His list of flavors reads like a Starbucks menu: standard blend, seasoned untoasted, single and double chauffe.

Wines from naturally warm regions, he argued in a phone conversation, like South Africa and California, better meet the sweet taste of contemporary consumers than do those from moderate climates, like France. "It's the wines that most need it that decided not to use it," he said of chip flavoring.

"Today, if you see French wines losing market share, it's because our products are less well adapted," he said. "The lack of this instrument punishes them."

He is not optimistic that Europe, and France, will change the rules. Chips, he said, "haven't had a good press, and image counts." He added: "Barrels form part of the image."

Jean-Louis Dreyer agreed. His company, Arôbois, begun in 1997, also ships chips abroad. The makers of better wines "are ferociously opposed," Mr. Dreyer, 50, said by phone. "They say it's not in our tradition. But for all the others, the bulk wine producers are demanding it, they need it."

In the meantime, the American competition is watching. "The Europeans tend to be very cautious, especially about protecting a major industry," said Jason Stout, managing director of Tonnellerie du Monde, a unit of World Cooperage, in Bordeaux.

His company, he said by phone, offers toasted oak powder, chips and staves. Yet he acknowledged that he sells only small amounts, given that their use is allowed only experimentally.

He shuns dogmatism. "We try to be involved in every aspect of the industry," he said. "We follow the demands of the market itself."

As for Europe's winemakers, he said, "Ultimately, everyone has to deal with the consequences of their decision."