

Gascon gold

Armagnac producers are eyeing the future with optimism, as Humphrey Serjeantson reports

In tough economic times one might expect the producers of a premium artisanal spirit to be feeling the pinch. Consumers have been tightening their belts around the world in recent years and the signs of recovery as yet are few. But in Gascony, in south-west France, the makers of Armagnac – France's oldest eau-de-vie – are looking to the future with a high degree of optimism. What is more, they are backing up this optimism with investment, convinced that demand for Armagnac is set to continue to grow around the world in the years to come.

Armagnac is produced by around 200 companies, generally on a small scale. There are few brands that are widely known to consumers around the world, and there is little involvement on the part of multinationals at present. What there is in abundance is tradition, heritage, commitment to quality, and an increasing effort at collaboration on the part of the producers – largely under the aegis of the Bureau National Interprofessionnel de l'Armagnac or BNIA – to bring this artisanal product to more consumers around the world.

Following Cognac's lead

Producers are not afraid to define Armagnac by what it is not: it is not Cognac. The region, the volumes, the scale of producers, the production process (in most cases) and most notably the share of production that goes to exports are all different. However, the success of Cognac is a useful tool for Armagnac. Where Cognac has opened the door, Armagnac can follow.

Romain Dumeau, Europe area manager at Armadis, producers of the Chabot, Clés des Ducs and Puysegur brands, says of one of the key growth regions for Armagnac: "If Chabot can do well in Asia, it is because Cognac has already prepared the ground."

Denis Lesgorgues of Laubade is "not afraid to say that Cognac is a reference for me". Asian consumers have well and truly taken to Cognac as a status symbol quite apart from its inherent quality, and some of the lustre of Cognac is rubbing off onto its smaller cousin.

A major difference between Armagnac and Cognac is the share that goes to exports. In 2012, 97.5% of all Cognac produced was exported; for Armagnac, the figure was just 45.6%. This is changing rapidly as the French domestic market has remained broadly stable in recent years, while demand continues to grow elsewhere. According to Sébastien Lacroix, director of the BNIA, the number of exporters over the past five years has remained stable while the turnover of leading producers is increasing steadily: "Diversity of ownership is still



Armagnac at a glance

- France's oldest eau-de-vie
- Produced between Bordeaux and Toulouse in south-west France
- Three production areas: Bas-Armagnac, Armagnac Ténarèze and Haut-Armagnac
- Four main grapes: Ugni-Blanc, Baco, Folle Blanche, Colombard
- Produced mainly by single (continuous) distillation using an Armagnacais alembic
- Armagnac shipments 2012: 320,000 nine-litre cases
- Cognac shipments 2012: 13.07m nine-litre cases

high, but five years ago only four houses exceeded €1m (\$1.3m) in turnover. Last year it was 10." Alongside the small scale of the producers, another reason why the percentage of Armagnac exported is so much lower than

Cognac is that the region is that much further away from ports and transport facilities. Thomas Guasch of Bordeneuve, who is in talks with a major distributor in Australia, points out that while actual shipping costs are relatively low – less than €1 (\$1.30) per bottle to China, for example – "Customs, taxes, road transport from here to the port, FOB at the port... all of these cost a lot."

Domestic hope

The long-term decline in the French market is due to changing consumption habits and a fall in digestifs in general, not to mention the challenging economic environment. According to Philippe Coste of Compagnie de Guyenne, owner of the Marquis de Caussade brand, there is another factor in play: "an unfair taxation regime compared to French rums, for example, or even wines".

Is there hope for the French domestic market? Guasch thinks there might be. "[French] people could drink more Armagnac and less whisk(e)y... I don't think it's a question of taste, because

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when people taste it they like it. Other products have more marketing strength. People in France believed what they were told by whisk(e)y makers – that they were buying a rare and genuine product.”

Marc Darroze, who runs the family firm which his father started in 1974, also voices hope for the French market. “I was in Monaco, Cannes and Nice recently, seeing people who said we have more demand for Armagnac in the domestic market.” Spirits overall declined by 3.6% in France in 2012, so Armagnac is not alone.

The picture in export markets is much brighter, particularly further from home. Western Europe features some established markets for Armagnac – notably the UK, Spain, Germany and Italy. Lesgorgues at Laubade says the company’s sales in the UK are stable, although “taxes do not help”. Janneau, owned by Giovinetti of Italy, counts the UK as one of its top three markets alongside Russia and travel retail (where they are represented by Gebr Heinemann). The EU, excluding France, accounted for 38% of Armagnac shipments by volume in 2012, flat on 2011 as regards share; this represents a sharp drop from five years ago when the share was 60%.

Russia was the number two market in both volume and value for shipments in 2012. Russia is the number one market for Armagnac Delord, and the brand’s volumes there are stable, according to Joëlle Lamarque. But Russia’s overall share of Armagnac volume has not increased on five years ago, while its share of value has increased only slightly. For Laubade Russia is the number two export market, but Lesgorgues points out that while the Russian market is skewed towards higher-value Armagnacs, the value of the market is not as high as it could be.

The Americas’ share of exports has fallen in recent years; in 2012 the US accounted for 6% with just 1% going to the rest of the Americas. But here too there is a degree of confidence. Lacroix of the BNIA believes strongly in the US’ potential, pointing out that for every 400 bottles of Cognac sold there, just one bottle of Armagnac is sold, so the potential for growth is significant. He notes also that the three-tier system in the US “is well adapted to larger producers and therefore harder for Armagnac – you need to be present and active there”. To help with this process there are three Armagnac ambassadors based in the US – in New York, Chicago and San Francisco; their role is education, arranging tastings and promoting Armagnac in the trade.

Guasch also feels interest is growing in the US, but points out that even here there are bureaucratic obstacles which make it complicated, for instance, to send samples. Dumeau of Armadis agrees that “nowadays the growth is in the Americas, especially the US”, and thinks that, in the mid- to long-term, growth will be in South America and also Asia.

Compagnie de Guyenne, according to Coste, is also increasing its efforts in the US, while Benoit Hillion of Dartigalanguie says his new ‘Sélection de millésimes’ single cask range is shortly to be available in luxury shops in Canada, alongside France and Japan.

Asia still the key export focus

Asia remains the main focus of attention for Armagnac producers in 2013. Five years ago shipments to Asia accounted for just 15% of all Armagnac; in 2011 that figure was 28%; and in 2012 Asia accounted for a full 38% of shipments, equal to Europe (ex-France). While other markets, including Taiwan, Japan, Singapore and Malaysia, are a part of the story, it is China that is really driving growth. In 2012 a total of 22% of all export shipments went to China, with another 9% to Hong Kong – up from just 2% and 4% respectively in 2007.

Pernod Ricard, the only multinational with a presence in



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Armagnac cont'd

Armagnac – as owner of the Marquis de Montesquiou brand – is credited with driving growth in China because of the strength of its distribution network and its Cognac brand Martell. As Lacroix points out, “Pernod Ricard started it, but others are following.” Dusautoir of Janneau notes that the company found a distributor in Hong Kong in 2012 and is handled by Summergate in China as of the start of 2013. He is shortly to visit China himself for the second time this year and is firmly convinced that China will be the brand's number one market in a year or two. In June 2012 Janneau launched a range of special ‘Dragon’ vintages for the Chinese market, a successful exercise which they are planning to repeat. Lesgorgues says Laubade has seen growth in China; its focus is building the brand in fine dining and in the on-premise sector in general. More generally, he points out: “A good partner will promote your brand and will have access to high-end hotels.”

The Chinese market is not without its complications, however, and three issues are on the radar at the moment. The first is a recently introduced ban on products containing phthalates, which can get into spirits via the plastic hoses used to pump from one tank to another – thought to be a potential health risk. Laubade has recently replaced all its tubing to prevent this. Dusautoir at Janneau points out that for his firm the issue was related just to some vintages made a long time ago, and that Armagnac was not the only category affected.

The second issue is a recent clampdown by the government on gifting and consumption of alcohol at banquets, which has already affected Cognac. And the final challenge is the question of pricing: there is a perception that the availability of XO Armagnac at low prices in China is not likely to help the category in the long term. Coste de Compagnie de Guyenne comments that the firm is keeping an eye on developments in the Far East and China but that “for now these markets need a little more maturity”.

Returning to the comparison with Cognac, perhaps the major point in Armagnac's favour is that demand for Cognac outstrips supply and the scope for an increase in production of Cognac is limited. This is emphatically not the case with Armagnac and a visit to the region will confirm that investment in production and storage is taking place almost everywhere you look.

“We now use 2,000 to 2,500 hectares (ha) for Armagnac production out of a 5,000ha potential total area”, says Lacroix. One way the industry is looking to secure production to



Top: Armagnac vineyards in summer.
Above: an alembic at Tariquet

“We currently use 2,000 to 2,500 hectares for Armagnac production out of a potential area of 5,000 ha”

– Sébastien Lacroix, director, BNIA

meet the growing demand is by introducing multi-year contracts with growers; this should ensure production volumes of wine for distillation can be stabilised – at present they can fluctuate significantly. Such contracts are already the norm for Cognac and Champagne.

A part of this is ensuring that levels of stocks are high enough not just to supply product now, but also to provide for the future. Ithier Bouchard of Domaine du Tariquet says they distill more than they sell every year in order to build up stocks. “We have now the equivalent of 23 years of sales in barrels. We want to reach 25 years, knowing that our sales are increasing at the same time.”

Dumeau says Armadis has “increased [production] by easily 30% over the last three or four years” and the company is also engaged in creating contracts with its wine growers.

Perhaps the most significant vote of confidence in recent months was Janneau's announcement on 1 June that the company was to double its capacity to distill in-house. Janneau has been known for its use of Cognac-style double distillation, but its expansion will now introduce the more traditional continuous still and is set to increase volume to over 5,000 hectolitres per annum (139,000 nine-litre cases).

Bordeneuve has just installed five new vats made of Limousin oak, as well as new racks to store bottles and demijohns for ageing. In part this is in preparation for increased demand from China. “If we get orders for the next Chinese New Year [31 January 2014] they will come in at the same time as our own usual peak for Christmas orders... the kind of difficulty we like to have.” ■