

INDUSTRY UPDATE

Winter 2017

Allied Grape Growers:
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Allied Grape Growers is a winegrape marketing cooperative with 500 grower members from major winegrape regions of California.

The association exists for the purpose of efficient and competitive marketing of its members' grapes as well as offering marketing services for non-members. Direct lines of communication are maintained year-round with growers and vintners for better understanding of market conditions and opportunities.



INDUSTRY UPDATE

An "Allied Press" Newsletter Publication

Written for the growers and customers of
Allied Grape Growers

Editor: Jeff Bitter

Embarking on a new year ...

Opportunity, Opportunity ...

Opportunity! As is the case any time we embark upon a new year, many folks ask questions about the outlook for the California wine industry. For the most part this year, the questions are asked with positive anticipation regarding our response and are underscored with the reality of a robust market for premium wines.

As has been discussed many times in recent years, the industry is bifurcated (at around \$10 per bottle) and has reverted back to the premiumization trend that the recession only temporarily speed-bumped – a time when consumers were prioritizing affordability over specialty. All of that has changed now, as many in the wine business are focused on how to capitalize on the opportunity presented by recovery rather than the damage control mandated by the recession.

Recently we were asked what the forecast was for coastal supply; specifically, "Will there be enough coastal grapes for demand in the future?" The inquirer was aware of the large 2012, 2013 and 2014 coastal crops, which provided plenty of product to sustain demand at above \$10 per bottle in the marketplace over recent years.

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QUALITY INTEGRITY STABILITY

More Opportunities Down the Line

But hidden in the question was the knowledge of a small 2015 and average 2016 coastal crop that may make it challenging to sustain supply for a segment of the market that has shown such strong growth. Is there more supply out there in the form of newly-planted vineyards that we will enjoy immediately? Can we keep up with the growth opportunity? The rate of, and interest in, coastal plantings has not really diminished much in recent years, even though total state winegrape plantings have backed off considerably since 2013's high of 35,000 acres. So our answer to these questions was "yes," but like always, there were a couple of caveats.

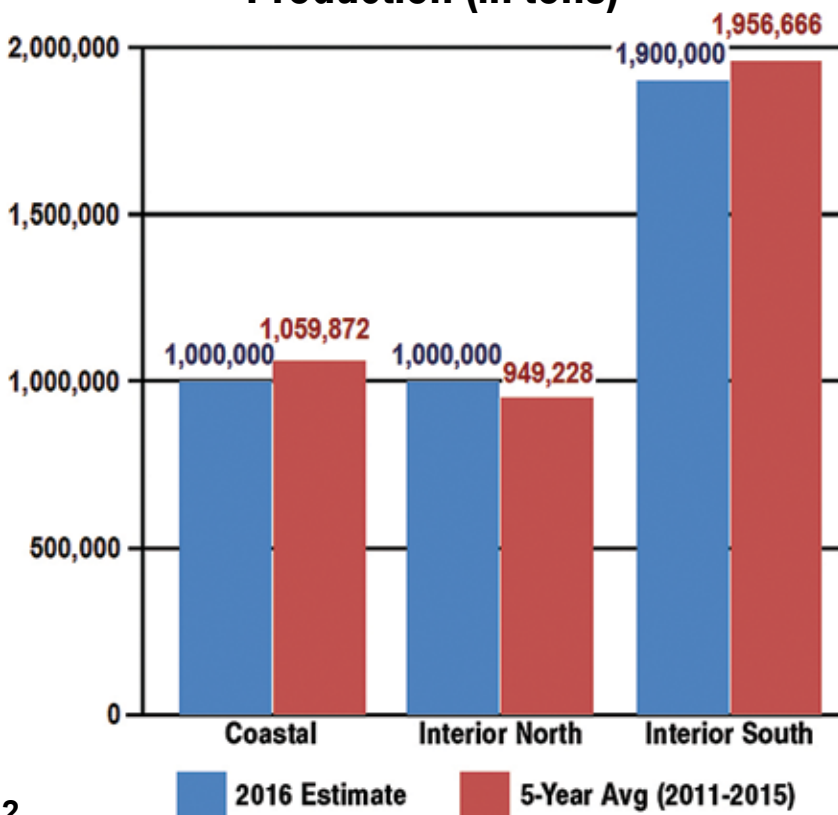
The first caveat has to do with coastal vineyard removals. At what rate will diseased and aging vineyards be removed in the coast in the near term? There are many out there that believe a significant amount of coastal acres are experiencing less than optimal production (either quality or quantity), based on virus and / or age. Their economic sustainability is suspect, but the relatively strong coastal marketplace actually provides an economic avenue for those grapes to stay in the ground longer than they probably should. If we assume many of those questionable vineyards

continue to produce, and knowing that we have plenty of acres that have been planted, we just don't see any major shortage of coastal grapes for California programs from \$10 to \$20 per bottle.

The second caveat has to do with the Northern Interior. "Wait a minute," you say, "I thought we were talking about the coast." We are. What is important to understand though is that, when talking about the \$10 to \$20 California-appellated bottle category, it is very possible for the Northern Interior to provide supply (at least in part), even for brands that have traditionally been coastal.

When looking at the total supply picture, there are about 2 million winegrape tons produced south of Lodi. The other 2 million tons that make up our 4-million-ton total California production is split just about evenly between the coast and the Northern Interior at around 1 million tons each. Our point is that there is plenty of production coming out of the Northern Interior to "supplement" coastal supply for the \$10 to \$20 category. It's just a matter of utilizing that supply and incentivizing those growers to shoot for the next quality level up.

Regional California Winegrapes Production (in tons)



In addition to any coastal supply shortage that may drive interest in Northern Interior grapes, there is also simply a cost differential. Even if buyers can find coastal grapes for their coastal programs, many are looking to "alternative" areas to keep their costs down. In many cases, the Northern Interior can provide grapes at half the price of coastal areas.

As long as we are producing around 4 million tons of winegrapes for a market that demands about 4 million tons worth of wine, this industry can figure out how to slot it internally. If there's one thing that we have heard said more than once in this business, it's that it is very fungible. Mainstream wines are easily extended and substituted with wines from alternative regions (and sometimes even other countries at the lower end of the market).

What this provides in the end is opportunity. This opportunity exists for anyone willing and able to produce winegrapes that can fit into the next category up. And as each category pulls grapes up from the category "under" it, it provides more opportunities down the line.

Vineyard Sanitation

by Allison Ferry-Abbe, UCCE Viticulture Advisor for Tulare & Kings Counties

By investing a little time for vineyard sanitation in the winter months, you can save time, and potentially pesticide sprays, during the growing season. There are a few simple steps to reduce disease, insect and weed pressure for the rest of the year:

REMOVE MUMMY CLUSTERS

The most important vineyard sanitation measure is to remove and destroy desiccated (mummy) clusters. Mummy clusters are a significant overwintering site for Botrytis and sour rot fungi, and omnivorous leaf roller larvae. Pruning will remove many mummy clusters, but all remaining clusters during or after pruning should be removed by hand and thrown into row centers. The row centers should be disked to bury mummy clusters. If significant debris and vineyard trash is present directly underneath vines, the areas between vines should also be cultivated or brushed clean. Special care needs to be taken when using this equipment to ensure vines are not damaged.

PROPERLY DISPOSE OF PRUNINGS AND CULL VINES

In most cases, woody debris and pruned canes can be chipped and spread back in the vineyard, and vines to be culled (such as vines infected with Pierce's Disease) can be disposed of by normal means. However, there are special circumstances in which cull material needs to be completely destroyed, particularly in vines infected with Botryosphaeria (bot) canker. Because Bot canker fruiting bodies (pycnidia) can release spores even from dead tissue, all diseased material (prunings and cull vines) must be either buried or burned. Chipping wood is not enough to adequately destroy the fruiting bodies.

WEED CONTROL FOR OMNIVOROUS LEAF ROLLER (OLR)

OLR larvae overwinter in vineyard debris and mummy clusters, but they can also overwinter in vineyard weeds. They often aren't seen until their populations have been allowed to build for several years without sanitation measures. Weeds should be controlled by herbicides or cultivation. In vineyards with cover crops and a history of OLR, the cover crop may need to be disked under for one year before resuming

cover crop cultivation the next year.

SPRAY EQUIPMENT MAINTENANCE

While not strictly part of vineyard sanitation, spray equipment maintenance is nonetheless an essential part of your pest management program, and winter is an excellent time to do it. Replace all spray nozzles and calibrate equipment. You should also consider replacing pressure regulators, which tend to lose accuracy over time, and are often overlooked. However, they are simple and inexpensive to replace, and are cheap insurance to help ensure effective pesticide application.

A few simple tips to reduce disease, insect & weed pressure.

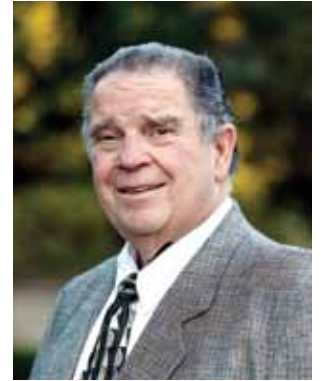
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Contact your local UCCE viticulture advisor
for more information or to subscribe.*



Berm and mummy management on a young cane-pruned winegrape vineyard ready for shredding

President's Message:



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It's January of 2017, and thankfully we have started off the new year with decent rain and snow accumulation. Yet if you look down the rivers, we are still sending significant amounts of water out to the ocean instead of saving it for our future needs. California has yet to build the infrastructure required to capture this runoff. We are actually releasing water from behind many of our dams to prevent flooding...go figure! In the meantime, many of our California growers have started pruning; others are seeking labor for pruning, while some in the San Joaquin Valley are still trying to decide what to do with their vineyards.

The California wine industry is a great and prosperous industry with a positive economic impact on the nation. As a play on Trump's slogan, Allied Grape Growers wants to *Keep the California Wine Industry Great!* We believe we are heading in the right direction with sales and demand increasing for wine and winegrapes for \$10 per bottle and above. The challenge for the Northern Interior and coastal parts of California is to continue producing the high quality grapes and wine that consumers are seeking in this segment.

Although there is great opportunity for growers from Lodi north to Lake County and west to Monterey and South to Southern California, there is a specific challenge for growers in the Central San Joaquin Valley and the wineries that buy those grapes: The need to develop a formula for both growers and wineries so they can develop a product type the consumer wants and will pay for, and that can be produced sustainably. There is a significant part of the consumer base that already buys at \$10 per bottle and under, but how do we introduce grapes and wines in this category that can be produced with economic sustainability and attract consumers to increase purchases at these price points?

Never in my 17 years as your AGG president have we had a new U.S. President with control of both houses of Congress! Regardless of your political affiliation, I thought it might be appropriate to explore some of the questions facing us upon inauguration.

Make America Great Again! What might that mean to the California winegrape and wine industry? It obviously depends on the new administration and the appointments to the heads of state and various departments. When President Trump says he's going to drain the swamp, with what is he going to fill it back up? By the time this newsletter goes to print we will know who the administration has nominated for the Director of the EPA, Secretary of Ag, Secretary of State, Secretary of the Interior, Secretary of Commerce and many others that will have an effect on regulations and even guide legislation that will affect our lives and businesses.

There are many known areas that the federal government will affect - starting with WATER! At the end of the 2016 session, Congress passed and President Obama signed the Water Resources Development Act (WRDA) - rebranded as the Water Infrastructure Improvements for the Nation Act (WIIN). WIIN is comprehensive legislation to address the needs of America's harbors, locks, dams, flood protection, and other water resource infrastructure critical to the nation's economic growth, health, and competitiveness. Elements of the natural resources title of interest to California include: Drought relief for California and the West, improving environmental conservation and management, and increasing recreational opportunities. The "wait and see" is how the new Congress and Administration expedite the implementation of this much needed infrastructure.

Other topics possibly challenging to California agriculture are:

- Tax reform may come in the form of a complete overhaul and simplification of the federal income tax program, possibly lowering federal income tax rates and accelerating depreciation rates on assets.
- Regulatory reform may come after many years of abuse by environmentalists using the Endangered Species Act to control water needed for human consumption, agriculture and jobs. The ESA needs to be reviewed because it has been interpreted and enforced beyond its original intent. We can only hope the new administration will lead this effort.

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Serving Our Growers & the Industry

Most of our readers know Allied Grape Growers' primary function is to effectively market our members' grapes throughout California. But with that being said, AGG is also involved in many peripheral activities that contribute to the overall health of the wine industry and the economic sustainability of our growers. Our staff works hard to ensure grower representation on various industry boards and committees, as well as regularly communicating reliable and accurate market information to the media and others as part of our service efforts.

President's Message

(continued)

- Repeal of the U.S. EPA and U.S. Army Corps of Engineers Waters of the United States (WOTUS) rule. This ruling must be fought and overturned as unjust taking of property rights. We ask the administration to look into Mr. John Duarte's case and see the potential negative precedence set forth that needs to be repealed.

Other critical issues are:

- 1) Immigration - The President has taken a very strong position on immigration. We all know that agriculture is dependent on immigrants so we need to work together to develop a program that secures the border, but allows a reliable, legal workforce for agriculture. Mass deportations and imposing mandatory e-verify could prove highly disruptive to California agriculture.
- 2) Trade - With trade being a big part of the California wine business, it is important to watch what the Trump administration does with his early challenge to renegotiate NAFTA and his lack of support (rejection) for the Trans Pacific Partnership (TPP). Undermining NAFTA would prove harmful with exports to Canada and others. TPP would give the U.S. opportunity to export wine to 11 fast-growing Pacific Rim nations.
- 3) The new Farm Bill, containing a variety of programs useful to California agriculture (research, pest and disease funding, crop insurance, specialty crop block grants, etc.) needs to be reshaped to get the support of Vice-President Pence through to the Administration.

There are probably other questions and concerns you have that were opened up by even mentioning these topics as briefly as I have. This message was intended solely to discuss topics that we may face with the new Administration, and not the politics associated with such.

In the coming months, AGG will provide market updates and valuable supply-side market information at numerous regional winegrape grower association meetings and industry forums statewide. For over a decade, AGG has participated on the highly regarded and anticipated *State of the Industry* panel at the annual Unified Wine and Grape Symposium in Sacramento. In addition, this year AGG will be speaking at the first ever International Bulk Wine and Spirits Show in San Francisco. AGG staff members regularly speak at events in the North Coast, Central Coast, Northern Interior and throughout the San Joaquin Valley.

AGG Staff
(Denotes years of service at AGG)



(Left to Right) Standing: Controller Irene Ybarra (30), Accounting Manager Alesia Zion (6), Northern Interior Grower Relations, Joe Osterman (29), North Coast Grower Relations, Kevin Rogers (filled new position created in 2016), President & CEO Nat DiBuduo (17), Central Valley Grower Relations, Karl Lehman (12), Viticulturist Emilio Miranda (13), North Coast Grower Relations, Matt Kerr (2), Office Administrator Marcia Silva (17).

Kneeling: Manager of North Coast Operations Chad Clark (6), Central Valley Grower Relations, Ed Nikssarian (4), Vice President Jeff Bitter (20).

AGG's service isn't limited though to speaking about the winegrape market. AGG staff members hold two board seats on the California Association of Winegrape Growers, are active on the GWSS/Pierce's Disease Control Program board and are members of the California Winegrape Inspection Advisory Board, just to name a few of the organizations with which we serve. Our staff's dedication is evidenced by the tenure of their service to AGG. Pictured in the photo is our entire staff with quite a few years of service among all of them, as noted.

Our team is dedicated to serving our growers and the California wine industry. Cheers!

Kevin Rogers Joins AGG Team

It is with great pleasure that we introduce and welcome the newest addition to our staff, Kevin Rogers. He will be handling some grower relations duties in the North Coast along with Matt Kerr, and will report directly to North Coast Operations Manager Chad Clark. Kevin's vast experience, training and interest in wine and the wine industry uniquely qualifies him in this important AGG position.



Although Kevin was born and raised in Chicago, Illinois, his passion for wine was instilled in him while he was a teenager, making wine with his Sicilian grandmother in her basement. Of course, being short of the popular vinifera varieties we utilize in California, the wine was made using Concord and other native American grapes. This didn't lead directly to the wine industry, but it certainly planted a seed.

Kevin's first career path was in the law field. He worked for six years with large Chicago law firms doing office management, then moved to Seattle to work at a law firm there, eventually doing paralegal work. While in Seattle, Kevin began making trips to Sonoma County to

learn more about grapes and wine, and realized that his passion really lay with the wine industry.

In 2000, after five years in Seattle, Kevin moved to Sonoma County to begin his career in the wine industry. He began working that year at Ferrari-Carano Vineyards & Winery in Healdsburg. His path there took him from the tasting room to the cellar and finally to the viticulture lab, where he helped cover about 1,500 planted acres over six different appellations. During this period, Kevin completed the viticulture program at Santa Rosa Junior College. He also became the lead person on Ferrari-Carano's olive oil program. By harvest of 2005, Kevin began working at Beaulieu Vineyards (BV) in Napa Valley. He began there as a harvest enologist and ended his time there as assistant winemaker.

In 2007, Kevin began working for a small Sonoma County winery/olive oil producer as its winemaker. By the end of 2009, he was working on his own wine label, Nico Wine, as well as working as a consultant in the olive oil industry. He did some custom milling,

A Look at 2016 Global Supply

World production of wine is huge. In California, we tend to become Cali-centric and forget there's a whole big world of wine out there that dwarfs our measly 4-million-ton production. The reality is that California only represents about 10 percent of the world's wine supply. Recently, Greg Livengood, president of the Ciatti Company, provided a fabulous review of the 2016 global winegrape crush at a wine industry conference. Via the graph on the next page, we have summarized the information he and the Ciatti Company provided regarding the crush size of our competitors out there in the big wine world.

As the graph shows, it is estimated by the Ciatti Company that major wine producing countries and regions crushed a total of over 33 million tons. This total for this group is lower than any of the previous three years of production (2013-2015), but it is slightly larger than any of the three years prior to that (2010-2012). The crush range over the last six years has been anywhere from just under 32 million tons on the low end (2012) to over 36 million tons on the high end (2013).

Primarily driving production down in 2016 was South America. Argentina and Chile experienced crop sizes that were significantly reduced from their potential, due mostly to unfavorable El Niño weather events during the growing season and at harvest.

What does this mean for California? Essentially, the shorter 2016 global supply helps us move toward balance at the lower end of the market, which experiences the fiercest global supply competition and has been subject to surplus since 2013. With vineyard removals continuing in the San Joaquin Valley and the global production being on the lighter side in 2016, the stage is set for a bit healthier 2017 marketplace for winegrapes grown for the below \$10-per-bottle segment.

Last year we estimated, all else being "equal," that 36,000 acres of winegrapes needed to be removed from the Central Valley to create an economically sustainable environment for growers there. We only achieved about a third to a half of those removals so far. So technically, we are still subject to a structural oversupply. Assuming pullouts continue this winter, which

Deadline Approaching for Red Blotch Assistance

The Agricultural Act of 2014 (the 2014 Farm Bill) authorized the Tree Assistance Program (TAP) to provide financial assistance to qualifying growers to replant or rehabilitate eligible trees, bushes and vines damaged by natural disasters.

Grapevine Red Blotch-associated Virus (GRBaV) has been approved as an eligible plant disease for select California counties under the TAP, but the program application period ends this month.

To be considered as an eligible loss, the vineyard must have suffered more than a 15 percent mortality in a stand (after normal mortality of 3 percent). Mortality loss on a stand of eligible vines is based on the time period as determined by the FSA for which the stand is infected. The loss must not have been preventable through reasonable and available measures. A claim of loss must be verified through polymerase chain reaction testing performed by a commercial laboratory on at

least 10 symptomatic vines per block. A visual inspection of the claimed infected plants by an FSA representative is required prior to their removal.

The first 18 percent is not covered (15 percent loss threshold plus 3 percent for normal mortality). Of the remaining 82 percent, eligible growers will receive the lesser of:

- \$4 per vine replacement (or 65 percent of their actual costs);
- \$2 per vine planting (or 65 percent of their actual costs);
- \$500 per acre site preparation (or 50 percent of their actual costs).



To learn more about program rules and regulations, including eligibility parameters as well as limitations, visit your local FSA county office or <http://disaster.fsa.usda.gov>.

Rogers Joins AGG *(continued)*

custom winemaking, and orchard and vineyard development for various clients. He continues to produce fine California wines under the Nico Wine label, and enjoys offering unique selections, including Dolcetto, Fiano and Greco, along with more traditional varieties such as Barbera and Grenache. In 2014, he returned to Ferrari-Carano as viticulturist, and then joined Allied Grape Growers to help with the 2016 harvest. It didn't take long for AGG to figure out Kevin was worth keeping around in a more substantial role for our North Coast growers, so following harvest, Kevin was offered and accepted a year round role in grower relations.

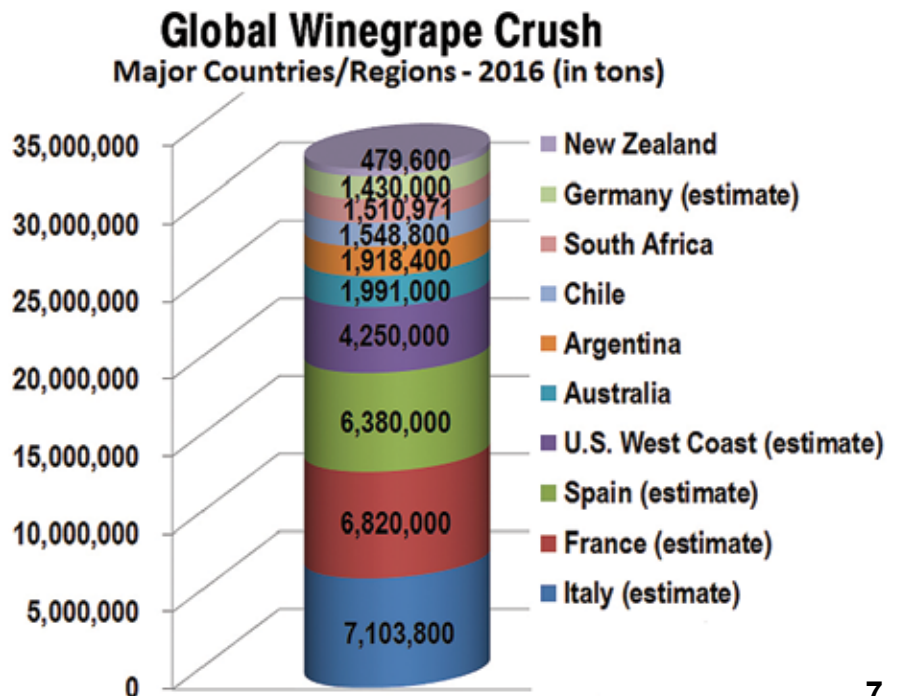
Kevin lives in Geyserville with his beloved dog, Rosa. He is a voracious reader, and enjoys hiking and spending time at the coast. Another passion is music; he is an avid record collector and concert attendee. He is also a big sports fan, and enjoys watching and playing baseball and hockey.

His experience on both the winemaking and viticulture sides give him a unique perspective. He looks forward to bringing that experience and knowledge to AGG and providing our growers with superlative service. He believes in the growth opportunities that the North Coast offers, and looks forward to helping our AGG team achieve the best for our North Coast growers.

Global Supply

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they have so far, and continue into 2018, and considering the lighter global supply, the stage may be set for economic sustainability in the Central Valley in the near future. That is unless the 2017 crop, domestically and/or globally, is a large one and sets us back once again.



Grower Profile:

Amrik Dhaliwal

Lodi, Calif.

Our Grower Profile features Amrik Dhaliwal, a long time Lodi winegrape grower who has worked against the odds to create a farming legacy in California for his family. Amrik is from northern India, having been born in Punjab. In 1983, he and his family ventured to California because of what they viewed as great opportunities in farming.



Interestingly enough, most American farmers in the early to mid-1980s were struggling to make ends meet (remember Farm Aid, plummeting export markets, double digit interest rates, etc.?). This may be an indication of how challenging agriculture was in India for the U.S. to actually look attractive at the time.

Amrik and his brothers settled in Lodi because they had other family members in the area. Initially they worked as farm laborers, doing basic on-farm tasks in local vineyards, including harvesting grapes by hand. Besides working in the vineyard, Amrik also held a job at Diamond Walnuts after they first arrived in the U.S.

Ironically, much of what they did as laborers, you can still find them doing today in the fields they own and operate. Sarbjit, one of his younger brothers, has been spotted by AGG staff tying kicker canes right alongside a labor crew in their Pinot Grigio vineyard.

By 1988, the Dhaliwal brothers acquired and began farming their own grapes. Since that time, they have methodically and systematically increased their land holdings through acquisitions and leases to expand their operation to approximately 1,000 acres. Amrik has three sons – two of whom work in the wine industry for major wineries as farm managers (Harinder and Parm), and a third who holds a job in education. Sarbjit and Jasbir, his two younger brothers involved in the business, each have a son and two daughters.

The Dhaliwals are proud that all 1,000 acres of their winegrape production are certified sustainable under the Lodi Rules program. As part of their sustainability efforts, they recently installed a solar system to power their irrigation pump on one vineyard site. They plan to install solar on more of their properties in the near future. They farm major varieties including Cabernet Sauvignon, Chardonnay, Petite Sirah, Zinfandel, Merlot, Pinot Grigio and Pinot Noir, and lesser known varieties like Alicante Bouschet, Touriga Nacional, Albarino and Malbec.

Amrik is rightfully proud of the contributions the Sikh community has made in Lodi and many other areas of the state and nation. For many years, Amrik was active in the leadership of the Stockton Sikh Temple, which, built in 1912, was the first Sikh Temple in the United States.

Amrik reminds us of the long history of Indian immigrants that helped establish local economies by working in fields, on railroads and

providing other labor to developing areas. Many Sikh-Americans have progressed up the socio-economic ladders throughout the generations to careers in the medical professions and becoming land owning and operating farmers and ranchers.

When asked what the largest challenge was that they face as winegrowers, Amrik responded that there was constant pressure to produce higher and higher quality at relatively “low” prices. In addition, he cited labor shortages and costs as major inhibitors to profitability for Lodi area winegrape growers.

We are sure that if anyone can survive the challenges of growing winegrapes in today’s highly competitive environment, it is the Dhaliwal family of Lodi. For this family, it is not only a privilege but a true blessing to be farming in California, and the United States of America!

Opportunity, Opportunity . . .

continued from page 2

We see this opportunity to “move up” all throughout the supply chain, even at the very upper end. A good number of the AVA-based wineries we talk with about supply are considering, or already are, maximizing their 15 percent TTB allowance for out-of-AVA fruit. This is mostly due to a genuine shortage of AVA labeled grapes.

We can confirm, based on our acreage and supply projections, that the above-\$20 segment (which mostly includes AVA designated wines) has not been developing new vineyards fast enough to keep up with demand in the wake of the U.S. economic recovery. So those producers are looking at alternatives to extend supply. Some are even moving away from the AVA programs because of increasing grape cost and general shortage of grapes in that segment.

This opportunity to “move up” may start at the top, but it can conceivably trickle all the way down. At each segment of the market, we can identify opportunity to sell grapes “up” as the demand for wines at \$10 and up continues to grow. This is a good thing for California growers and the California wine industry.