Summer Report - 2020

Main Office:
(559) 276-7021

Coastal Office:
(707) 433-6525

Vineyard Removals Still Needed?

As most of our readers remember, in our *Winter Report* from January (and subsequently at the Unified Wine & Grape Symposium later that month), Allied Grape Growers (AGG) presented data to the industry regarding the need to reduce California's bearing winegrape acreage base by at least 30,000 acres. This cry for supply adjustment was predicated on a growing oversupply due to an increasing acreage base that was not correspondingly supported by expanding wine shipments.

Needless to say, since that time, A LOT has happened. The new (and constantly evolving) environment we now operate in has specific implications on wine shipments, wine sales and grape and wine inventory. It's been very well established that in the wake of shelter-in-place orders and shutdowns or restrictions of almost every conceivable place where wine would be consumed on-premise, there has been a fundamental shift in how, where and at what price people will consume wine.

This change in consumer behavior, regardless if it's "voluntary" or not, has created sudden and unexpected opportunity through mainstream off-premise trade channels, and has caused great despair in the on-premise sector of the business. These changing consumption dynamics were immediately manifested in the grape market; it only took about six to eight weeks of government mandates on the way Americans live their lives to be reflected in winery grape buying behavior. This will be discussed in more detail later in this report.

Everyone has more questions than answers in this environment, but one of the questions being asked now is whether or not we still need to adjust our acreage base, considering the change in market dynamics. The simple and direct answer is "Yes!" The more complex and detailed answer is that acreage may now need to be reduced a little more heavily in certain coastal regions, while the interior regions of California could possibly throttle back on removals.

A common question that was asked of us here at AGG, following our recommendation to remove vineyards, was, "Which variety/varieties and from where?" Our answer was that older, less productive and/or diseased vineyards should be the first to go, no matter the variety or region. That is still the case. Even though we should be careful about removing too many vineyards in the interior, it does not trump the reality that there are still undesirable varieties, quality levels and production levels that can only be addressed by vineyard removal. An uneconomical vineyard requires removal, regardless of where it is planted.

continued inside

www.alliedgrapegrowers.org contactus@alliedgrapegrowers.org

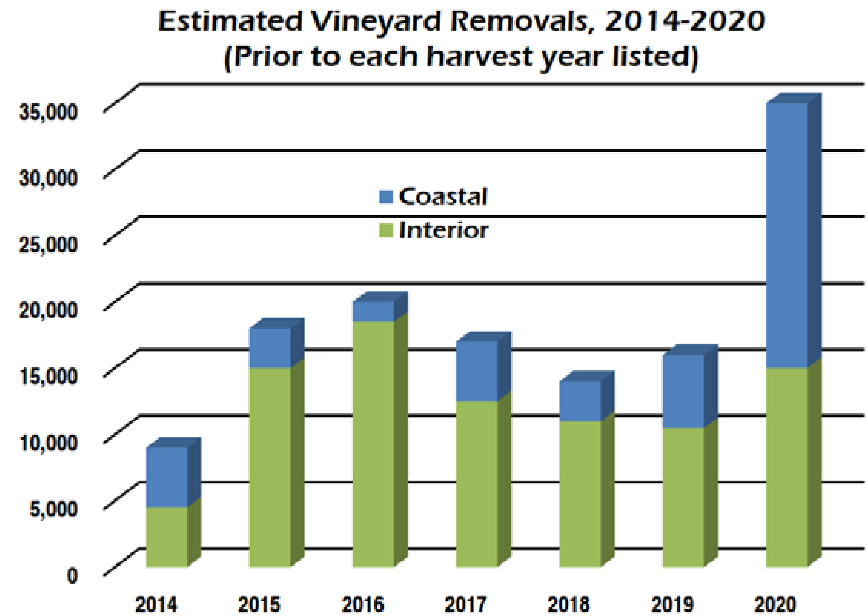
A Look at State Specifics

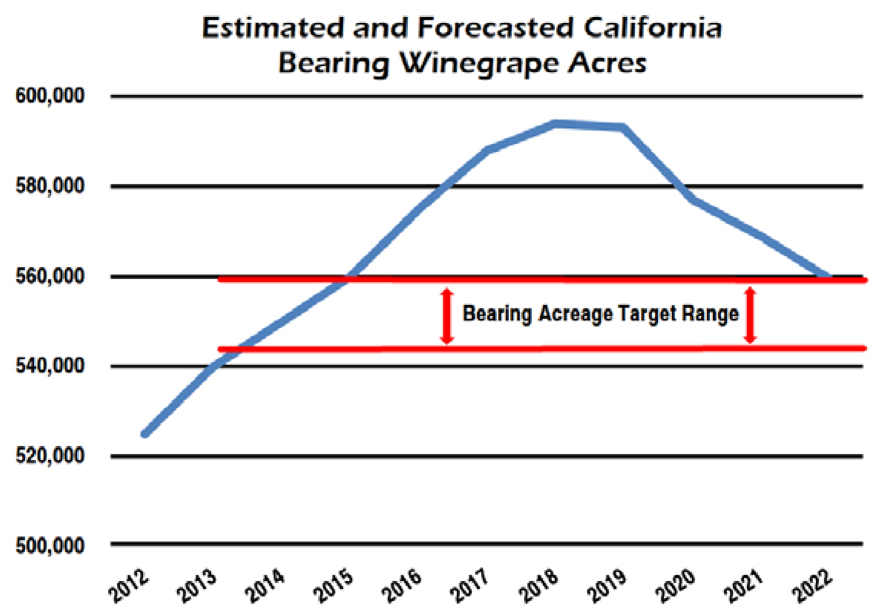
The newest data from the San Joaquin Valley Air Pollution Control District indicates that over 35,000 acres of vines were burned from San Joaquin to Kern Counties between harvest 2019 and June 2020. These removal figures include all vineyard types – table, raisin and wine. July and August will likely add another 2,000 acres to the number. In addition, there are acres that have been ground or chipped (as opposed to burned) as well as abandoned that are not accounted for. All-in-all, our estimate is that there are +/-40,000 acres that will have come out of production between 2019 and 2020 harvests in the San Joaquin Valley.

Of the 40,000 acres out of production, our estimate is 15,000 acres were winegrapes 15,000 to 20,000 acres were raisin types and the remaining were table grapes. In addition, there have been winegrape removals in all other major winegrape regions of the state, including the Delta, Central Coast and North Coast. Cumulatively, AGG is estimating as much as 35,000 acres of winegrapes will have been removed or abandoned statewide following the 2019 crop and preceding the 2020 crop. This number includes an estimated 20,000 acres from coastal regions – likely the largest amount of coastal vineyard removals in one year in decades. (Chart at top right.)

However, as impressive as this amount of removals sounds, it does not accomplish that which AGG suggested early in the year. We were calling for the removal of at least 30,000 acres from our bearing acreage base, which means net of new plantings. While it is estimated that California winegrape growers removed as much as 35,000 acres total, we are also adding almost 20,000 acres of newly bearing vines this year from 2017 plantings. That means the net loss in acreage is only 15,000 acres. This is approximately 15,000 acres short of the minimum needed to adjust our supply base to match demand.

In essence, we are only halfway there. By-and-large, growers responded to the poor market conditions of 2019 by removing vineyards, but it wasn't enough to snap the market into immediate balance. More removals are needed, and we anticipate we will see more following harvest. Ironically, the very place we have been expanding production (the coastal regions), due to increased demand in recent years, is probably the region of the state that requires the most aggressive vineyard removal effort going forward.





Crop Size Matters

In addition to the importance of understanding our bearing acreage base going into the 2020 crop, we have to consider crop size to help paint the picture for crush potential. Overall, most observers are citing an average to below-average crop statewide. Coastal areas generally look better than interior areas, perhaps, but with the interior regions of the state producing nearly three-quarters of the state's tonnage, the overall crush size will be impacted more by influences from the interior than the coast.

White winegrapes in the interior certainly look to be on the light side. Regardless if we consider Chardonnay, Pinot Grigio, Sauvignon Blanc or French Colombard, they all look to be below average in size. Interior

Crop Size Matters continued

region red winegrapes are a bit more mixed in their reviews, with Syrah and Grenache looking strong, but Cabernet Sauvignon, Zinfandel and Merlot looking average at best. Reports of smaller cluster size, heavier shatter and generally weaker berry development seem to be the norm.

The interior regions of the state experienced some fairly hot weather during July, and we observed accelerated veraison in many fields. Aligned with hot weather at veraison comes smaller berry sizes, as vines tend to restrict the energy put into berry development during periods of higher than normal heat. Our interior region bunch counts from May indicated that the white winegrape crop was on the lighter side from the beginning. Red winegrapes were mixed, with the real measure of crop size being dependent on bunch and berry development, rather than bunch count. (Table at right)

2020 AGG Interior Regions Bunch Counts Variety and Location	2020 Bunch Count	% Chg From 2019
Whites		
Chardonnay (Dist 11 & 17 - Lodi/Clarksburg)	74.0	-14.0%
Chardonnay (Dist 12 & 13 - San Joaquin Valley)	88.6	-15.1%
French Colombard (All San Joaquin Valley)	142.9	-5.3%
Muscat of Alexander - (All San Joaquin Valley)	65.4	-26.1%
Pinot Grigio - (All San Joaquin Valley, including Lodi)	91.1	-8.8%
Thompson Seedless - (All San Joaquin Valley)	25.9	-19.9%
Reds		
Barbera	86.4	-35.2%
Cabernet Sauvignon (Dist 11 - Lodi)	87.0	-13.2%
Cabernet Sauvignon (Dist 12 & 13 - San Joaquin Valley)	95.7	-8.2%
Grenache (All San Joaquin Valley)	95.7	37.1%
Merlot (Dist 11 - Lodi)	80.8	-2.4%
Merlot (Dist 12 & 13 - San Joaquin Valley)	97.5	-4.4%
Petite Sirah - (All San Joaquin Valley, including Lodi)	52.2	3.5%
Rubired (All San Joaquin Valley)	185.2	4.5%
Syrah (All San Joaquin Valley)	131.2	15.0%
Zinfandel (Dist 11 - Lodi On wire)	56.5	-4.2%
Zinfandel (Dist 11 - Lodi Head trained)	47.6	-4.8%
Zinfandel (Dist 12 & 13 - San Joaquin Valley)	90.7	11.1%

In the coastal regions, the crop size is described as closer to average, with certain varieties like Zinfandel and perhaps Sauvignon Blanc looking to be on the lighter side. Petite Sirah looks solid, but Chardonnay, Cabernet Sauvignon and Merlot are near average at best. Pinot Noir doesn't look heavy at all. Much like Chardonnay, Pinot Noir crop size looks light in certain regions of the coast, while looking okay in others.

Crop size seems a bit more sporadic in the coastal regions, as it is influenced more by the variations in regional climatic conditions than the interior, which has more uniform weather throughout. For example, heavier than usual fog in Central Sonoma County in July caused viticultural concerns (mildew) for Chardonnay. This, coupled with the fact that the Russian River Valley was affected by an early spring frost, may reduce crop size in that specific region.

Overall, if we go back to our bearing acreage assumptions for 2020, we are forecasting 577,000 acres to be producing this year. California's average winegrape yield has been about 7.2 tons per acre in recent years. If we assume this crop is slightly below average at 6.9 tons per acre, it is likely we will produce about 4,000,000 tons on the 577,000 acres. This, of course, assumes all winegrapes are crushed. That may be a dangerous assumption after what was experienced in 2019. In addition, the old adage about short crops getting shorter is more likely to hold true than any notion of an increasing crop size at this point.

While the industry may be fine with 4,000,000 tons in a "normal" year, this year has proven to be anything but normal. Besides the many issues associated with the pandemic, the industry continues to be generally long on inventory. Value-priced grapes and wine seem to be most in demand, while those grapes and wines demanding higher prices are experiencing challenges in getting any particular market attention.

Grape Market Update

With the general industry concern over the potential for grapes to go unpurchased / uncrushed again in 2020, we look to the current activity in the grape market to help gauge the possibility of that happening. In 2019, the industry experienced a record amount of grapes left to hang on the vines with no home. We estimate the number to be at least 200,000 tons statewide. But, the industry also experienced a much different grape market environment and crop size heading into the 2019 harvest. Last year, there was a complete absence of grape buying in almost all areas of the state, leading up to and into harvest.

The 2020 winegrape market in the interior regions (including Lodi / Delta) has been very active relative to last year. Pricing has not been great, or even sustainable in most cases, but there has been a measurable amount of spot market buying by various buyers. These buyers are the ones most closely associated with successful grocery store brands and private label brands sold for off-premise consumption. They are well-positioned to capitalize on the opportunity to move increased amounts of inventory through the system, given today's market dynamics.

It doesn't hurt that this year's crop looks to be less than last year's potential. Reduced volumes of grapes due to pullouts and the lighter crop have helped to spur demand a bit. While there are still some small amounts of Chardonnay available in the northern interior, it seems all Pinot Grigio and Sauvignon Blanc have been consumed by buyers. South of Lodi / Delta, there are virtually no white winegrapes to be had. Chardonnay, Sauvignon Blanc, Pinot Grigio, French Colombard and even Muscat Alexander have all found homes for this harvest. Pricing on those varieties has been respectable, but nothing to write home about.

Regarding reds in the central / southern interior, there are very few varietal reds uncontracted at this point. There remain small amounts of generic reds and perhaps a bit of Zinfandel (for white), but by-and-large, red winegrapes south of Lodi are mostly homed. One exception to this is Rubired – a red winegrape grown primarily for concentrate and color production. There are still unsold and available tons of Rubired on the market. Fortunately, Rubired is a very late-season variety, so there is plenty of time for the market to develop as needed.

In the northern interior, market activity around Cabernet Sauvignon was surprisingly strong over the last few months. While prices have not been impressive, the opportunity to sell has mostly been there for average-and-above quality vineyards. Vineyards that have been minimally farmed, or have reputation problems to begin with, remain unsold. Zinfandel continues to be a tough sell in Lodi, as the market remains in surplus for that variety. Even the highest quality Zin vineyards find themselves homeless at the current time, although we suspect the market will eventually develop for these grapes.

The market for red blenders in the North Valley has been hit-and-miss with limited sales of Petite Sirah and Syrah, and an assortment of non-mainstream varieties available for sale in smaller quantities. There continues to be a lot of what we call, "start-stop" grape buying. As we have described in previous reports, buyers tend to come into the market for small quantities and for small durations of time. They fill their needs and then go silent, only to resurface again with additional buying needs. This pattern has been common for the last few years and makes it very difficult to define the volume and liquidity of the market.

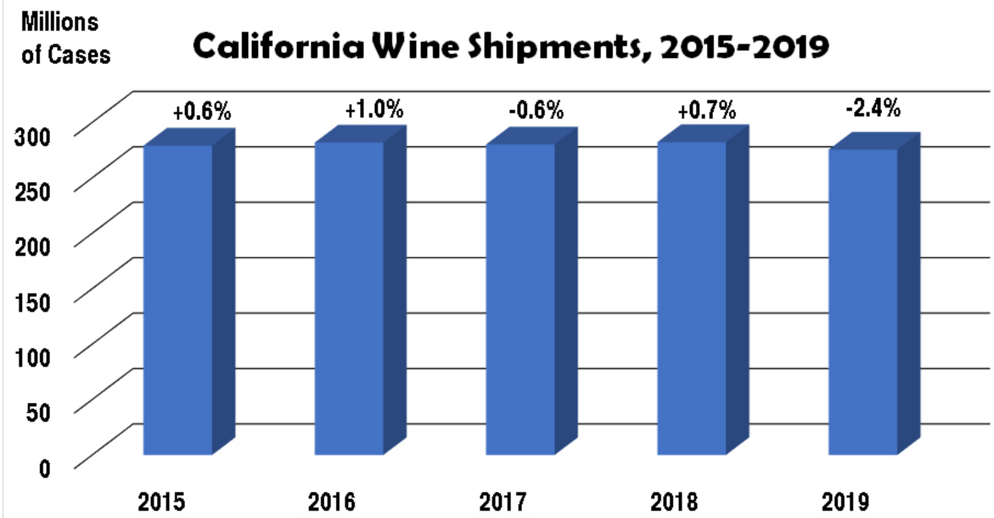
Unfortunately, we cannot report as positive an environment for the coastal areas. The coastal grape market has been very quiet, particularly when compared to the markets of 2013-2018. There are limited re-signs of various varieties happening by buyers who wish to continue specific programs, but pricing is being adjusted to reflect the market pressures of today.

There are two categories of coastal grapes that seem to be most in demand. One is the segment of the market that exchanges below $1,200 per ton. Admittedly, there aren't too many coastal grapes that regularly or sustainably fall into this category, but considering the market dynamics of today, there seems to be more movement at lower price points than higher price points. The second segment experiencing some demand is the "specialty" segment. This includes many non-traditional varieties, as well as certified organic grapes and even organically-farmed (or glyphosate-free) vineyards. While this segment is extremely limited in quantity, with most deals being only "a few tons" each, there is certainly some demand there.

To summarize the grape market, it is highly unlikely any material amount of grapes will be left to hang on the vines in the interior regions, although there are certain varieties that continue to be long in the market that are more susceptible to that possibility than others. Concerns about grapes being left to hang on the vines in the coast are valid. While there is the distinct possibility buyers will come in late in the season to purchase remaining grapes, it is likely it will be at unsustainable prices. There is also the possibility some coastal vineyards will remain homeless, or growers will decide not to pick based on prices being offered.

Additionally, making the decision to produce wine from unsold grapes continues to be a risky one. It's not so much because the market is heavily oversupplied. It's more so because the activity in the bulk wine market mirrors the activity that's present in the grape market. It's a market demanding value prices. If a coastal grower can't achieve sustainable prices in the grape market for his / her product at harvest, it's unlikely the bulk market is going to provide something substantially different after harvest. While the option of crushing may extend the marketability of the grapes, there's no guarantee it will increase the value.

It's All Because of the Pandemic – Or Is It?



It seems everyone is blaming the coronavirus for something. No matter where you turn, any unfortunate event (limited hours of operation, delayed package shipment, hair that's uncut, etc.) seems to be tied to COVID-19. In fact, the timeless standard, "the dog ate my homework" excuse, is far inferior to saying "Coronavirus did it." The characteristics of the grape market that were described herein are certainly influenced by today's national and world events. But let's be honest; the wine industry had fallen upon a difficult situation prior to March of this year.

The newest data from *Gomberg Fredrikson Report* shows that wine shipments of California wines were down over 2 percent last year, driven primarily by a combined drop of 8 million cases between two of the "big three" producers. And coastal warehouse shipments were down by 17 percent when compared to the previous year. The industry was in trouble long before COVID-19.

Imports increased by four million cases last year (up about 3 percent), and exports experienced another consecutive year of dismal performance, shrinking by 500,000 cases in volume in the face of a strong U.S. dollar. Blaming the pandemic for our problems certainly has some merit, but we had our share of challenges long before March. Admittedly, anything that consumers did pre-March is kind of "rear-view mirror stuff" now, as buying behaviors have changed so drastically. But in some ways, we need to continue to look in that rear view mirror to understand the underlying issues we have in the industry.

These issues include the reality that, generationally, we have a smaller incoming base of Gen-X replacement wine consumers than the outgoing Baby Boomer crowd. That's an immediate problem for the coming decade. The multi-decade challenge is that, seemingly, the industry hasn't been able to completely connect with or attract the Millennial generation…..yet. We still have time to accomplish that, but the sooner the better, as habits become increasingly difficult to reverse as young adults mature into their "productive" years.

As an industry, we need to be aware that these underlying demand challenges still exist, regardless if people are buying wine in grocery stores or in restaurants, in lock-down or in freedom. We are still serving the same consumer base, so we can't take our eye off the ball just because we are playing in a different park. The additional challenge now is finding them where they are at and appealing to them in the new environment, under alternative purchase situations and opportunities. It was hard enough to appeal to them before, when we knew where they were. With everything so discombobulated, it makes it that much more challenging.

Wine Shipments Changing or Not?

There have been a lot of questions in the industry about whether or not total wine shipments will continue as flat, decline or actually rise in the wake of the pandemic. We can support any of the three answers with some valid industry analytics. But the truth is, we don't really know. It's still too early to accurately forecast what the next year will eventually tell us.

It's certainly agreed upon that wine sales (i.e.: dollar value) will be down. That's a direct function of the reality that more expensive wines are sold on-premise – the very segment of the business that is being affected most negatively by government shut-downs and restrictions on operations. But, is the overall volume of wine consumed going to change over the course of this year? Will people simply bring their previous on-premise wine purchase habits on-line or to the grocery store? That remains to be seen. Some shipment data suggests that the off-premise gain has more than offset the on-premise loss, but even if it has, the dollar value of those sales in total are definitely less.

There is one thing for sure……wherever consumers bring their purchase behavior, it

continued on next page

Wine Shipments Changing or Not? continued

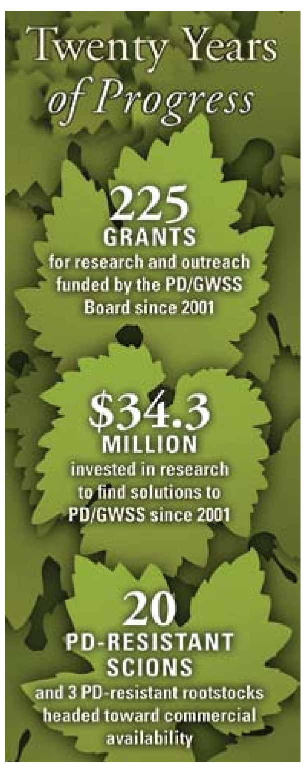
is likely to be at a lower price and involve serious considerations of cost and value when making the decision. This will drive value pricing, as competition heats up for that consumer's attention at "affordable" levels. The translation is that we will probably see more of what was described earlier in the grape market – more attention to (and interest in) lower price points as opposed to higher price points. It's been well established that we have plenty of overall supply to fill demand. The question is, "How much higher-end supply has to be cascaded down into lower-priced programs in order to find a home in the marketplace?"

PD/GWSS Assessment

At its July board meeting, the PD/GWSS board approved this year's assessment rate for California winegrape growers. This rate is unchanged from the 2019 season. The 2020 PD/GWSS Assessment will be one dollar per thousand-dollar value, following recent confirmation of program continuation.

In a referendum recently conducted by the California Department of Food and Agriculture, California winegrape growers voted in favor of continuing the collection of the Pierce's Disease assessment for five more years. Nearly 50 percent of all California winegrape growers participated in the referendum, with 78 percent voting in favor of the continuation of the program. The growers voting in favor of continuing the program represented almost 85 percent of the assessment paid in 2019.

Via this recent vote, the program is extended to be in place through March 1, 2026. Program dollars support research and other activities directed at Pierce's Disease and its vectors. Grower assessments also support research and outreach programs related to other designated pests and diseases identified as threats to California's winegrape acreage.



The Global Battle

Turning back for a second to the negative import / export situation that was discussed earlier, there's been a lot of wine industry attention given to the tariffs the Trump administration placed on select European wines in late 2019. By-and-large, the domestic wine industry does not support tariffs on European wines. This may seem counter-intuitive at first consideration, but the reality is that there are an incredible number of producers (wineries), distributors and retailers that are involved in the import side of the business right alongside the domestic side. They all have an interest in mutually protecting each others' global business profiles.

As growers, we have no obligation to go along with this position, even though our affiliates in the wine industry expect us to. We generally don't have direct interests in foreign wines or the businesses associated with importing and selling them for profit. In fact, this activity is generally at our expense. The argument from their side is if they can't import profitably, it may cause them to go out of business, which will hurt other stakeholders in the industry, including growers. Frankly, the connection from the grower to the retailer simply isn't strong enough to have that kind of influence. The reality is that, as imports flood into this nation at cheap prices, it does nothing but hurt our domestic growers.

Maybe the best way to address the situation is to ask these same folks that are benefiting from imported wine to start supporting our causes as growers, to help keep us in business "for their good." We could start with them doing something about the fact that our labor cost will rise by well over 50 percent in the few short years between 2016 and 2021. That sounds like a permanent tariff to me. How about analyzing the exponentially increasing cost of water and the costs associated with regulations around its use? Sounds like another legislatively-imposed "tariff" that we have no control over. The list goes on, but the soapbox will be spared for the time-being.

An anti-tariff, popular wine blogger and industry journalist recently concluded that, while he was not in favor of tariffs, the notion that these tariffs will do irreparable damage throughout the industry is exaggerated. In his closing comments of a piece written on the subject, he says, "Americans will still buy wine; it will just be different wine." We couldn't agree more. And hopefully it will be California wine.

No grower organization should be bullied or strong-armed into saying that tariffs on imports are a bad thing. While most people agree that tit-for-tat trade policy isn't the most productive way to address market imbalances or general disputes between countries or regions, the reality is that tariffs on imported wines are good for us, as California growers. There should be no shame in saying that out loud.

AGG Viticulturist Emilio Miranda, Retires after 44 Years in the Industry

Emilio Miranda, viticulturist and Central Valley grower relations representative for Allied Grape Growers (AGG), retired on June 30, after four decades in the wine industry.

Miranda started with AGG in 2004 after working for Constellation Brands from 1997 to 2004 and Paul Masson Vineyards from 1977 to 1997. For AGG members, he provided support, kept them informed about effective viticultural practices and handled harvest scheduling in the Central Valley.

Throughout his career, Miranda served on numerous industry boards and committees, including the California Winegrape Inspection Advisory Board, California Sustainable Winegrowing Alliance, California Association of Winegrape Growers, Central California Winegrowers (now San Joaquin Valley Winegrowers Association), American Vineyard Foundation, National Grape & Wine Initiative (now National Grape Research Alliance) and Fresno State Vineyard Evaluation Team. He attended Fresno State from 1973 to 1978, majoring in plant science.

"I have experienced and appreciated the wine industry from numerous job positions, including vineyard supervisor, cellar supervisor, harvest manager, viticulturist and fieldman. Above all, my most cherished time of year was harvest and bringing in the crop," Miranda said. "AGG's strength is helping to keep grape growers economically sustainable, and I was proud to be a part of a successful and hard-working team for the past 16 years."

AGG President Jeff Bitter said, "Emilio's wealth of knowledge accumulated over 44 years in this ever-changing business has been invaluable to AGG. He brought great and diverse perspective that will be greatly missed, as all of his prior experience was on the winery side of the business. As our viticulturist, he served our growers well. More importantly, he was a friend to all of us."

AGG Board Seats Confirmed for 2020-2021 Fiscal Year

As a result of recent member elections, board members Paul Lanfranco (AGG District 1) and Tim Norgard (AGG District 4) were elected to serve additional three-year terms on the board of Allied Grape Growers. Both directors ran as unopposed incumbents for their seats.

The board of AGG is made up of seven grower-members, pictured at right. An organizational meeting will be held in August for the directors to confirm their selections for chairman, vice-chairman, treasurer and secretary for the current fiscal year.

Left to right:
Tim Norgard (Ukiah), Treasurer
Michael Naito (Madera), Chairman
Jeff Cederlind (Turlock), Secretary
Roland Hatterle (Lodi), Director
Brian Capp (Napa/Solano), Director
Paul Lanfranco (Kerman), Vice-Chairman
Ralph Olson (Fresno), Director

Summer Report - 2020

Allied Grape Growers:
7030 N. Fruit Ave., Suite 115
Fresno, CA 93711

FIRST-CLASS
U S POSTAGE
PAID
FRESNO, CA 93706
PERMIT #2029

ALLIED GRAPE GROWERS

Written for the growers and customers of Allied Grape Growers

Allied Grape Growers (AGG) is a 500-member grower-owned winegrape marketing association. We exist for the purpose of effectively selling our members' winegrapes to grape buyers of all kinds throughout California. AGG is the leader in understanding supply-side dynamics in the California winegrape sector and uses that expertise to maximize results for its member-growers as well as to work with our buyers to properly plan for their growing supply needs. AGG has been in existence since 1951, with decades of proven leadership and value in the California wine industry.

QUALITY INTEGRITY STABILITY

Inside This Issue