

ACREAGE UPDATE

Spring 2014

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 is a winegrape marketing cooperative with over 600 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.



Released and Analyzed... **State Acreage Report**

We have holed up in our offices here at AGG again combing through the recently released *2013 Grape Acreage Report* published by the California Ag Statistics Service. As we have done over the years, we analyzed every corner of the report, identifying missing acres and creating a better understanding of the true winegrape acreage planted in the state, by district and variety. Since the report is voluntary, we know data will be missing, but fortunately with the information obtained via the state's *Grape Crush Report*, combined with data gathered from AGG's proprietary nursery survey, we can fill in all of the missing holes and present a more relevant picture of supply potential for today and the future, by district and variety.

Earlier this year, prior to the report's release, AGG estimated that there were 545,000 bearing acres in the state in 2013. Upon analyzing the relevant data in the report, we officially concluded that our estimate was right on, with our report analysis showing the potential for 540,000 to 545,000 bearing acres last year. In comparison, the report shows only 469,000 bearing acres. The state, knowing that acres are missing, made an estimate of 525,000 bearing acres, which is relatively close.

ACREAGE UPDATE

An "Allied Press" Newsletter Publication

Written for the growers and customers of
Allied Grape Growers

Editor: Jeff Bitter

continued on Page 3

San Joaquin Valley Bunch Counts Indicate . . . Smaller Crop Than Last Year

Last month, Allied Grape Growers completed its annual San Joaquin Valley bunch count survey. Although most varieties show less clusters than last year, we still believe that the crop looks decent overall, and may be closer to what we would classify as an average crop. When looking at white and red varieties separately in the SJV, Chardonnay was actually the only major variety to show slightly higher counts over 2013, while all other white varieties were down from last year. Red winegrapes were basically down across the board, some as much as one-third off of last year's counts. Many of the major varieties, albeit down, were only down slightly and really not showing any significant sign of a short crop.

The real wildcard will be the lack of water from the natural and political drought. As we speak to most onlookers, and in our own estimation, the red winegrape crop today looks about average; very few people are expecting it to be another large crop. On the white side, Chardonnay

does show stronger cluster counts as you travel further into the valley, from north to south. But Lodi Chardonnay counts, on their own, are actually down from last year.

However, the crop does appear to be decent and isn't being categorized as below average.

Pinot Grigio appears to be way off, at almost one-third less in counts. Wouldn't you know that a variety we could use more of is showing low cluster counts? Muscat of Alexander is down from last year's unquestionably strong crop, so once again that may put it closer to average. A lighter Muscat crop will be a blessing to maintain balance in the marketplace.

Although red winegrapes are down almost across the board, the most obvious and significant changes are in Zinfandel counts. The Zin crop looks much lighter than last year no matter where you look in the interior regions. Every area we survey is off by double-digit percentages. We will go out on a limb here and say that it is possible that Zinfandel will experience below average yields this year, based on cluster counts. Other major varieties, Cabernet, Merlot and Syrah, are so close to last year's counts that it is hard to call either way.

One interesting note that is not summarized in the table herein is that Lodi, as a region, is down across the board (Chardonnay off 16 percent, Cabernet off 15 percent, Merlot off 7 percent and Red Zinfandel off 27 percent). With back-to-back large crops in the bag, it is no surprise that cluster counts there are down. In general, we will likely see average (or possibly below average) yields in Lodi for the four major varieties based on counts alone.

Lastly, the Thompson Seedless bunch count is smaller than last year. Our numbers show about a 12 percent decline, but other organizations that count Thompson Seedless clusters are reporting counts that are as much as 20 percent off from last year. With these counts we will be lucky to achieve an average size crop on Thompson Seedless in 2014. An analysis of historical Thompson Seedless bunch count data, combined with annual yields, points to a crop that could be anywhere between 7.5 and 10.5 tons per acre overall, but is most likely to be near 9 tons per acre.

Overall, most in the industry agree we don't need an above average crop of any grapes (except maybe Pinot Grigio). At this point it doesn't look like we have it based on bunch counts, but we do have many new acres continuing to come into production statewide and tanks that are relatively full from two record-breaking crops in a row. A lighter crop would be welcomed by all.

2014 Allied Grape Growers San Joaquin Valley Bunch Counts (With Percent Change from 2013)

VARIETY	AVERAGE	CHANGE
Chardonnay	72.9	6.1%
French Colombard	101.1	-6.5%
Muscat of Alexander	72.9	-9.9%
Pinot Grigio	66.1	-30.3%
Barbera	67.4	0.7%
Cabernet Sauvignon	100.8	0.4%
Carignane	64.5	-33.2%
Grenache	72.3	-15.2%
Merlot	79.6	-0.4%
Petite Sirah (North SJV)	47.0	-33.3%
Rubired	135.8	-15.4%
Ruby Cabernet	99.4	-7.5%
Syrah	86.3	0.5%
Zinfandel (On Wire)	68.3	-23.3%
Zinfandel (Head Trained)	44.8	-26.8%

As far as other varieties are concerned, French Colombard shows slightly down in the central and south valley, where the lion's share of the production is, but it isn't off much from last year, and last year's crop was above average in size. So at this point we will call it "close to average".

State Acreage Report *(continued)*

The problem with the state's reported and estimated acres actually lies more in the non-bearing numbers as opposed to the bearing numbers. Currently the state is reporting that there were only 25,000 acres of non-bearing winegrapes in 2013. Additionally, they have made an estimate that there are actually 45,000 acres non-bearing. In reality, via credible information obtained from AGG's annual nursery surveys, there were about 75,000 acres non-bearing in 2013. (See chart at right.)

Another confirming piece of information that AGG's data is accurate is that the Department of Pesticide Regulation shows about 620,000 total winegrape acres permitted in the state for applications. This number exactly matches that which AGG had estimated for 2013, when combining our bearing and non-bearing estimates.

The detailed analysis of the acreage report uncovers some very interesting issues. First, the coastal districts are very well reported on bearing acres. Collectively, the actual bearing acres estimated by AGG for the coast was within one percent of reported acres. This is commendable and shows how accurate, valuable and useful the state report can be when people actually participate in the process and report their acres. Good job coastal districts! Unfortunately, the same cannot be said about the interior. Actual acres in District 11 (Lodi) are almost 30 percent more than reported acres, and for the central and southern interior collectively, the actual acres are 37 percent more than reported. These present some huge challenges in really understanding what is out there for the uninformed on-looker.

Categorically, it is no surprise that the group to win the prize for the most under-reported acres is the floral category. Collectively, the floral category shows 14,392 bearing acres reported. The actual bearing acres are closer to 24,600; under-reported by over 40 percent! It's one thing to be grossly under-reported during the non-bearing phase of major acreage expansion, but these are bearing acres we are talking about. Most have been in the ground at least three years! Specific varieties/districts that are grossly under-reported are mostly tied to one large vineyard owner that doesn't report any of his acres to the state.

Falling victim to this unfortunate situation are the interior Districts of 11, 12, 13 and 14, as stated earlier. The following bearing acreage under-reportings, by variety, were almost exclusively in the interior: Chardonnay – 27

percent under-reported, French Colombard – 18 percent, Pinot Grigio – 31 percent, Rubired – 35 percent, and Zinfandel – 17 percent under-reported.

All in all, the acreage report continues to be a valuable tool, when used in conjunction with other resources. The participation of the state's nurseries in our annual nursery survey has had immeasurable value in AGG's ongoing analysis of California winegrape acreage. We take the opportunity to once again thank them for their cooperation and promise to continue to share our findings with the industry, so everyone can make more informed decisions.

For more detailed information about acreage planted by variety and/or district, please feel free to give us a call.

2013 Acreage Data Comparison

	BEARING	NON-BEARING	TOTAL
State Reported	469,062	25,131	494,193
State Estimated	525,000	45,000	570,000
DPR Permitted	N/A	N/A	620,837
AGG Estimated	545,000	75,000	620,000
2014 AGG Estimate	555,000	90,000	645,000

Don't Miss Annual Meetings

AGG's annual meetings are coming soon, so mark your calendar.

NOTE: we have changed the days on which the meetings have traditionally been held.

On **Tuesday, July 15**, we will be holding our Annual Meeting for our interior region members and guests at Pardini's Banquet Facility in Fresno.

That meeting will adjourn to our **Thursday, July 17**, Annual Meeting for the members and guests of the coastal districts at the Hilton Sonoma Wine Country in Santa Rosa.

Our short business meetings will start at 10:30 at each location. At the Fresno meeting, Bob Wynn, statewide coordinator for the Pierce's Disease Control Program, will be addressing the crowd. For our coastal members and guests, we will be celebrating the career of retiring employee Richard Schoenstein with an honorarium program. The fabulous lunch and always fun raffle of wine and other prizes will follow.

We look forward to seeing you there!

BOARD OF DIRECTORS

Chairman of the Board
Mathew Andrew, Madera

Vice Chairman
Michael Naito,
Madera/Kerman

Secretary
Jeff Cederlind, Turlock

Treasurer
Timothy Norgard, Ukiah

Directors
Steven K. Nickel, Lodi
Ray Jacobsen, Fresno
Paul Lanfranco, Kerman

Director-at-Large
Don Gordon, Napa

STAFF

President & CEO
Nat DiBuduo

Vice-President
Jeff Bitter

Controller
Irene Ybarra

Accounting Manager
Alesia Zion

Office Administration
Marcia Silva

Viticulturist
Emilio Miranda

Coastal Grower Relations
Richard Schoenstein,
Coastal Manager
Chad Clark,
Senior Grower Relations
Ryan Stapleton
Grower Relations

Interior Grower Relations
Joe Osterman,
Northern Interior
Joey Biscay
Madera Co.
Karl Lehman,
West Fresno Co.
Ed Nikssarian
East Fresno Co./South

Main Office:
(559) 276-7021

Coastal Office:
(707) 433-6525



President's Message:

It's always difficult to deliver this message because I need to reach such a diverse number of growers, vintners and, in some cases, consumers. With Allied Grape Growers representing nearly 600 growers delivering +/- 275,000 tons of grapes to over 100 different buyers making wines for diverse palates at all price points, it is very rare that any one message will be interpreted the same by all who read.

At our recent AGG District Meetings, you heard us say that, according to the annual 2013 *Gomberg Fredrikson Report*, consumers are trading up with wine shipments increasing in the \$7-10, \$10-14, \$14-25 and >\$25 wine price categories. At the same time, there were decreases in the below \$3 and \$3-7 categories. That is good news for those growers whose grapes are going into \$10 and above wines. We are seeing more positive market activity this time of year than we have seen in the past. It is a good feeling to show vineyards to multiple wineries that are not only interested in these winegrapes, but they are making bona fide offers and contracting grapes in the North Coast. We've even completed a few coastal planting contracts and are currently working on more. That's all good news for the North Coast.

We are seeing good market activity in the North Coast counties of Napa, Sonoma, Solano, Lake and Mendocino. We have seen solid pricing and extended-term contracts for many varieties. Cabernet Sauvignon is still the strongest in demand with some less-than-desirable interest in Merlot and Syrah. While this northern part of the state is good and we anticipate good demand in the Central Coast as well, the San Joaquin Valley has seen less activity.

That's not all bad news for the lower spectrum of wines, since the vast majority of wine consumed is still under \$10 per bottle. But it is a wake-up call on a number of issues and is being reflected in the 2014 winegrape market activity. The traditional SJV buyers are still counting their beans; I mean their bean counters are still evaluating the 2012 and 2013 grape crop and the resulting bulk wine available. We did have a large crop in both 2012 and 2013. However, I also like to look at wine sales at all price points and rejoice with the industry as we celebrate increased wine shipments. Not all of those wine sales are going to be filled with imported bulk wine or bottle imports. Yes, there is demand by some consumers for imported wine; let them have it and come back to American and California-produced quality wines made from locally grown quality grapes produced under the most stringent quality standards.

The effect of California's long drought is playing out on the 2014 crop and may even affect the 2015 crop as well. Yes, California growers have planted additional acreage over the past 3 to 5 years. And yes, much of that acreage is still to come into full production. We believe this will provide wineries with sufficient California grapes so they can continue producing and labeling wines as such, with little reliance on imports. We may be giving up some market share at the below-\$3 bottle of wine, but California growers cannot be expected to grow grapes at prices that would support that bottle price anyway. Growers have to receive a competitive price for their grapes, or they will continue to choose alternative uses for their agricultural property. It is not just a concern; it's a fact.

You've heard me talk about quality and quantity before and I will say it again! Growers need to produce the appropriate quality to expect an appropriate price to obtain an appropriate profit. The alternative will push growers to produce unconventional production levels at an alternative quality to maintain a profit. Wineries who push growers with low prices will either push them out of the ground or diminish their quality potential. In 2013 almond growers in the SJV grossed \$8,000-\$9,000 per acre while walnut growers saw \$10,000-\$13,000 gross per acre. Very little, if any, SJV winegrapes came anywhere near that gross per acre, while costs per acre were higher.

Whether we are looking at prices in the North or Central Coast or the SJV, growers are asking: *What am I grossing per acre; what are my costs per acre; and am I making any money?* These are fair questions that prudent businessmen should ask themselves. The current generation of agriculturalists, farmers and growers are not just wanting to survive, they want to be able to pay for their land, cultural costs and vineyard development with something left for profit. They would

continued on next page

You Get What You Pay For

Allied Grape Growers has built a reputation on serving its growers, while also being conscientious of our grape buyer's needs and desires. This "middleman" position is often very challenging, as the goal of any prudent buyer is to get the most quality for the least amount of money. Some buyers will argue that they will pay whatever it takes to get the right quality, but the reality is they will always gladly pay less.

President's Message *(continued)*

like to leave a legacy for their families that they did the right thing, asked for the right prices and terms, and were successful winegrape growers.

With that I would ask any non-AGG grower who picks up and reads this newsletter to:

- Don't sell yourself short; ask for the right price.
- Make sure you can perform and get the quality you are contracting for.
- Get the appropriate production level based on your price and quality standards (harvest dates are more than just minimum Brix levels).
- Make sure you know the terms and conditions of the contract before you agree and sign (learn from the past and, if in doubt, call us).
- If you are growing grapes in the SJV, be patient and don't rush to commit to something you may regret. Buying activity will increase as we approach harvest. They are selling wine made from grapes, not nuts!

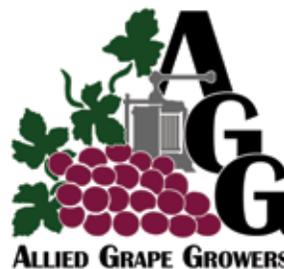
We have all chosen to be part of the California agriculture industry and, more specifically, are committed to growing grapes for wine, brandy, sparkling wine and concentrate. We are experiencing some good times, but have seen some challenges in the market place before. We have had the ability to learn from these experiences and move forward. At 63 years of age and after four decades in this business, I can say my family and I have been through a number of planting cycles, over-supply eras and new hot wines (like White Zinfandel, fighting varietals and most recently Muscato). We've experienced a flood of excess domestic supply and imports too. We have always figured it out and the industry is still standing and successful in 2014. Let's rejoice in our successes and learn from our challenges.

On the other hand, a theoretical grower's goal is to earn the most amount of return with the least amount of cost (input). Matching these two divergent positions is difficult, to say the least, but people do it every day in life, whether it is buying/selling grapes or any other transaction. The activity of merging these goals creates a marketplace, but admittedly, this marketplace is affected by much more than just the two parties' goals and desires. Supply and demand is the driving force.

In the end, with all things considered, it is often said, "You get what you pay for." Recently we have come across a number of grape buyers that blatantly want to pay something less than grapes are worth. How do we know this? By their own admission! That's right. Some buyers have become brazen enough to work with us to identify the "above average" growers based on field condition, past wine quality, grower cooperation, etc., only to offer us "below average" prices for these stars. Of course, we haven't taken them up on their offers, but it is insulting to do a good job only to have someone blatantly try to take advantage of you. We have actually had wineries specifically tell us that they want to identify our best growers and pay below district average prices for them. Evidently they have never heard of competition or grower options, such as custom crushing. Our question to them is: "Are you producing a below average wine?" Not a single one would say yes.

Where is the incentive for the grower to maintain quality under this scenario? Psychologically, if you are a grower knowingly receiving a below average price, are you going to invest in costly inputs required to grow above average grapes? We doubt it. If only opportunistic buyers surface, a grower that has confidence in the quality of grapes he/she produces should consider making wine. "Above average" wine always sells on the bulk market, and for every one buyer that offers a below average grape price, there are multiple wine buyers willing to pay the right price for above average wine. We have done this successfully for two decades here at AGG, and through many cycles in the business, not just in the recent good times.

A message to growers: Grow for quality, have confidence in your product, and don't be afraid to prove yourself by making wine, if need be.



Employee Profile:

Ryan Stapleton

North Coast Grower Relations



In the previous edition of our newsletter, we featured our retiring employee Richard Schoenstein. He announced his June retirement earlier this year, and right away the management at AGG began searching for a suitable replacement. Subsequent to that effort, it is with great pleasure that we feature our newest North Coast employee, Ryan Stapleton. Ryan will be serving the entire North Coast region in grower relations and grape marketing with Senior Grower Relations Representative, Chad Clark.

Ryan's journey into viticulture was somewhat indirect. Born and raised in Sonoma County,

Ryan's first passion was actually cooking. He attended Johnson and Wales University in Denver, Colorado, and received a B.S. in Culinary Arts, Restaurant Management and Entrepreneurship. This led him to become Executive Chef at an up-and-coming Asian Fusion restaurant. During his time there, Ryan managed the wine and spirits department, and that was all it took for him to take a serious interest in wine.

While his interest in wine grew, the temptation to come back to California did also. Soon enough, Ryan moved back to Sonoma County and pursued an associate's degree in viticulture at Santa Rosa Junior College. He eventually landed a job in the industry in 2009 as a grape sampler for Francis Coppola Winery. This position turned into a full time opportunity the following season. From there, Ryan moved into grower relations for Coppola. Ryan also worked in the tasting room of a regional winery before joining Francis Ford Coppola Winery. Ryan's excellent people skills and interest in viticulture made a grower relations career the perfect fit. "Ryan has a strong background in the industry and a passion for winegrowing, and is well-suited to work with our growers," says Nat DiBuduo.

Ryan lives in Windsor (Sonoma County) with his wife, Jamie, and their two dogs, Miller and Mazie. In his spare time, he enjoys camping, brewing beer, gardening, hiking, and trips to Tahoe.

"With his background and passion for the business, Ryan will be able to connect directly with our growers. He knows the industry completely from the vine to the table, and can readily communicate with our clients," DiBuduo states. Ryan is looking forward to representing AGG and is eager to work with new growers as well as help multiple wineries start and expand their wine programs. Join us in welcoming him to our staff (pictured at right)!

Standing (L TO R): Chad Clark, Emilio Miranda, Karl Lehman, Joey Biscay, Jeff Bitter, Nat DiBuduo, Ryan Stapleton, Richard Schoenstein, Joe Osterman, Ed Nikssarian
Seated (L TO R): Marcia Silva, Alesia Zion, Irene Ybarra

A Must-Attend!

CAWG Annual Meeting and PAC Fundraiser

To celebrate its 40th anniversary, the California Association of Winegrape Growers (CAWG) is holding a two-day event including golf, awards, speakers, a BBQ, and plenty of social time with great friends and great wines.

Please consider joining CAWG for its Annual Awards of Excellence Program and 40th Annual Business Meeting & Conference, July 23 and 24, at the Quail Lodge & Golf Club in Carmel Valley. Add in the CAWG PAC golf tournament and show your support for the PAC committee's important work on behalf of growers.

The Awards of Excellence Program, on July 23, will feature the announcement of the CAWG Grower of the Year and Leader of the Year, a dinner and networking opportunities with peers. The following day will include two discussion panels and a luncheon with speaker.

The panel on the implications of the legalization and regulation of marijuana on the beverage alcohol industry will feature Mark A.R. Kleiman, Ph.D., Professor of Public Policy, UCLA. A second panel will provide a wine market update and will feature Jon Fredrikson of the *Gomberg Fredrikson Report* and Stephen Rannekleiv of Rabobank. Stephanie Gallo of E&J Gallo Winery is the lunch keynote speaker.

Sponsorship opportunities are available for the PAC and the special program of informative and inspiring meetings.

