

POST-HARVEST REPORT

Fall 2015

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.



POST-HARVEST REPORT

An "Allied Press" Newsletter Publication

Written for the growers and customers of
Allied Grape Growers

Editor: Jeff Bitter

Reviewing the 2015 crush season...

With or Without Warning?

Depending on how one looks at things in retrospect, it might be said that the warning signs were plenty as we ventured into this 2015 crush season. Within the industry, the variance in the marketplace was very well publicized – specifically noted was differing performance between the lower and mid/upper price segments of the market. Also of general knowledge were the robust sizes of the 2012-2014 coastal crops. In knowing what we know, should it be any surprise that the interior grape market was difficult and the shortness of the coastal crop was so severe? The chips had fallen in place for such occurrences, and we can't really say we were without warning.

The interesting (and good) thing about this business is that most people are eternally optimistic. We can have three large coastal crops in a row and industry folks can still be heard saying, "The crop looks pretty good this year." We can have sluggish wine sales at the lower end and industry folks can still be heard saying, "Maybe this will keep the imports out;" or "We have seen this before; it will pass." Attitudes in the business are built on a foundation of long term success and growth; that is admirable. The California wine business has experienced three prosperous decades,

continued on back page

President's Message:



BOARD OF DIRECTORS

Chairman of the Board

Michael Naito,
Madera/Kerman

Vice Chairman

Paul Lanfranco,
Kerman/Biola

Secretary

Jeff Cederlind, Turlock

Treasurer

Timothy Norgard, Ukiah

Directors

Steven K. Nickel, Lodi
Ray Jacobsen, Fresno
Matt Andrew, Madera

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

Chad Clark,
Manager, North Coast

Matt Kerr,
North Coast

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

The 2015 winegrape harvest is over, and as we prepare for the holidays, I have memories of the season that just passed, and in some cases, the season that nearly passed us by. This season brought some opportunities, yet many more challenges than we expected back in January.

I do not take much joy in reviewing 2015, and in many cases it makes me think of Charles Dickens' "A Christmas Carol" about Christmases past and future. We were haunted by many wineries reminding us of the large crops growers delivered to them in 2012, 2013 and 2014. The claim was that tanks were full of bulk wine, and in many cases the financial wizards of various larger wineries were not going to allow buyers to buy the 2015 grape crop until they used their inventory. We were also being told by some wineries they would buy from the bulk wine market or source available cheaper imported wines, adding to our woes.

Some major wineries continue to bring in cheap imported bulk and bottled wine that displaces California wine. If California can't produce grapes at those prices, how can other countries and for how long? Will the lower end of wine sales be taken over by cheap imported wines? SJV growers have been affected by this in the past, but producers of wines selling for more than \$10 should also be concerned by the amount of bottled wine being imported. What were growers to do with their 2015 crop? Growers do not and did not have the luxury of skipping a year!

Uncontracted SJV growers had no choice but to continue growing the crop and spending money to get it to harvest, hoping someone would eventually buy. Yes, in the North Coast, winegrape buyers were buying at fair prices and with some interesting terms that we had not seen there for many years. Buying excitement was fueled by consumers trading up to wines sold for \$10 and above. Growers selling grapes into a less-than-\$10 bottle saw their nightmare extended into harvest.

Speaking of nightmares, let's talk about Halloween and the "trick or treat" of the 2015 harvest. As stated, many North Coast wineries were very active throughout the season, offering to buy grapes for multiple years and, again, at good prices. So they were giving North and Central Coast growers, "treats" for their hard work and tenacity in providing quality grapes for those programs. The "trick" was provided by Mother Nature, who gave growers the problem of extreme shatter of winegrapes coupled with crop reductions of 30 to 40 percent, and even higher in some cases and for some varieties. Many speculate it had to do with the past three years of a large crop, the drought, the weather patterns of the spring, and even heat throughout the past 18 months. Again, neither growers nor wineries had any control over this phenomenon. The result was that even growers who had good winery contracts or spot market sales options had no grapes to deliver. Many growers were challenged with financial sustainability in light of the short crop.

In the Northern Interior and Central San Joaquin Valley, it was an entirely different scenario. The "treat" was in most cases winegrape growers had a decent sized crop – maybe closer to average. The "trick" was when uncontracted growers knocked on the winery doors – the lights were off and nobody was home. For the better part of the season, they were told, "We are not buying this year." What's a grower to do; skip a year?

Some wineries bought only their contracted grapes and never came back to the table to buy thousands of tons of grapes that came off contract after the 2014 harvest. There were literally thousands of tons of Muscat Alexander (remember the Muscato craze), White Zinfandel, Merlot, Syrah, Grenache, Ruby Cabernet and even some Cabernet Sauvignon that were sold at unsustainable prices. These prices paid were some of the lowest I can remember since joining AGG 16 harvests ago. Because of these prices, thousands of acres of grapes are currently being removed from the ground, and thousands more will follow. SJV growers are no longer going to produce winegrapes that they are not sure will be sold, even at low prices, and that will depend on winery schedules and the whims of winemakers. They have too many financially secure crop alternatives.

Mother Nature advanced harvest to begin and end earlier than past years. Many vineyards and varieties experienced a fast harvest, with reds and whites often needing to be harvested at the same time. This put pressure on wineries to maximize the crushing and fermentation capabilities.

Upcoming Industry Events*

Thursday, November 12, 2015 -
Napa Valley Grape Growers Association's
"Rootstock" Symposium - Napa, CA

**Friday, November 13, 2015 -
American Vineyard Magazine's Winegrape Expo -
Cloverdale, CA**

**Tuesday, November 17, 2015 -
American Vineyard Magazine's Grape, Raisin &
Nut Expo - Fresno, CA**

**Friday, November 20, 2015 -
San Joaquin Valley Winegrower's Association,
Annual Wine Industry Forum - Fresno, CA**

Wednesday, December 2, 2015 -
UC Davis Grape Day - UCD Activities & Recreation
Center, Davis, CA

**Thursday, December 17, 2015 -
Allied Grape Growers Associate Sponsors' winter
grower meeting - Fresno, CA**

**Tuesday-Thursday, January 26-28, 2016 -
Unified Wine and Grape Symposium -
Sacramento, CA**

Tuesday, February 2, 2016 -
Lodi Grape Day - Lodi, CA

* Bold type denotes
events at which AGG
staff will be speaking

President's Message (continued)

Growers were scrambling for harvesters and trucks. These conditions stressed growers, and the delayed harvest resulted in a loss of crop due to dehydration. But at the end of this harvest, some SJV grapes were challenged with making desired brix levels as well as desired color development. These many factors will likely cause the total amount of tons harvested in 2015 to be less than last year. At this time, we are estimating the 2015 crush to be 3.8 million tons, at best. I also believe the total value of the crop to be less than 2014.

Fall is here; leaves are changing and will soon be falling. Most growers are looking to next year in anticipation of a better crop and/or prices, and wineries wanting their grapes. Others will be faced with the decision of whether or not to pull out their vineyards. Just as the dropping of leaves changes the landscape of the countryside, the replacement of vineyards with orchards will change the landscape of the SJV wine industry. There will be fewer growers dealing with harvest issues; fewer growers scrambling for buyers; and fewer winegrapes for that \$3 to \$10 bottle of wine. By the way, the latter still constitutes well over 50 percent of the wine purchased by consumers and exported around the world.

I've been asked how this change in the industry will affect Allied Grape Growers. We, like the other growers I've talked about, have faced similar challenges this year, such as crop loss, lower SJV prices for some of our winegrapes, coupled with the nonexistence of a Thompson Seedless market and a California concentrate market. Allied Grape Growers has survived the ups and downs of many winegrape cycles over the past 64 years, and we will survive this one as well. AGG's membership demographics have and will continue to change as the industry does.

We've expanded our grower base in the North Coast and Northern Interior in response to new opportunities. We will continue to review and evaluate the development of an AGG Central Coast operation when a suitable grower representative can be hired. AGG has growers who are survivors. As some of you may recall, I came to AGG in March of 2000, as we headed into our last down cycle, and we got through it, as we will this current challenging time. I'm proud of our AGG staff, board of directors and growers that got us through, and who will get us through 2016 and beyond. AGG will continue to be committed to the California wine industry, California concentrate business and California winegrape growers.

As we move into November and Thanksgiving, you might ask what we have to be thankful for. I'm thankful we live in a free country where we can all pursue our dreams whether they are owning a vineyard and experiencing the life of a farmer, or the pursuit of being a winemaker and eventual winery owner.

I'm thankful to be alive and that we have all survived this harvest at some level.

I'm thankful that growers have options with their farm ground. It may be to continue growing winegrapes, other commodities or even selling their vineyards for a profit. Yes, I used that "for profit" term again. Growers and wineries both should have the opportunity to not only be sustainable but profitable. This year had many challenges, but let's lift our half-full glasses of wine and make a toast for a better 2016.



What's a grower to do?

Growing winegrapes in California can be one of the most rewarding - but also one of the most challenging - responsibilities out there. Even during times of strong markets and great returns, it can be frustrating to be on someone else's schedule for harvest and experience "hang-time" or to deal with the realities of a shorter than budgeted crop. In addition, Mother Nature always has something to say about ease during the growing season or harvest. At the end of the day, the only thing a grower can really control is how much to invest into growing and marketing the crop. But these decisions to farm a certain way or to employ specific practices each have to be evaluated for their return on investment, including the cost of time and effort.

The idea of sustainability falls into this review process. Most growers would accurately argue that they are farming sustainably, even if they aren't officially documenting it. For certain segments of the business, it is challenging to argue the idea of sustainability amidst severe market weakness. The last thing a struggling grower wants to hear from his buyer is how he should be (as if he isn't) sustainable. At the same time the grower asks, "What does sustainability mean if the return I am receiving doesn't cover my costs?" Doesn't the idea of sustainability include economics?

We have been inundated with questions this post-harvest season about whether or not to keep vineyards in the ground, specifically in the Central Valley. The real question becomes, "Is it economically feasible (sustainable) to farm winegrapes south of Lodi?" Quite simply, it depends. It depends on a few things, but ultimately it comes down to two things...price and production.

We are not encouraging growers to keep uncontracted grapes in the ground that do not exhibit a strong production history. If they have a contract to limit production in the interest of quality and are compensated to do so, then it makes sense. But during difficult market cycles, and without a contract, production can be the only thing that allows growers to weather the storm.

It's nice to say that a focus on quality will save you in the toughest market, but buyers don't always pay economically sustainable prices in the midst of depressed markets, even for the highest quality vineyards. We have seen, time and time again, where contractual obligations and inventory levels force wineries to accept

grapes under contract while simultaneously walking away from uncontracted growers that have provided, and/or currently have, high quality grapes. Production and quality do not always have an inverse relationship, but focusing only on quality by limiting production doesn't necessarily get a grower through tough times. Most likely the grower will suffer a financial slap that comes with the lower production, unless he can capitalize on quality by moving a step up the supply chain and making wine himself.

During the toughest market periods, those vineyards that exhibit lower quality will surely be left to suffer. Specifically, these vineyards exhibit challenges in achieving sugar and uniform, dark color (for reds). Even if these vineyards produce large crops, they are not sustainable from a quality standpoint over the long term. We encourage growers with quality-challenged vineyards to pull these out, even if the yields say otherwise.

The bottom line is that a grower really needs both price and production to be economically sustainable over the long term. Either one on its own will only help in certain conditions, but both together will provide the best chance for success during any cycle.

Many vineyards in the Central Valley are aging. They may no longer be sustainable from a production or financial standpoint. We are encouraging growers with these vineyards to consider removal. We also see vineyards that are afflicted with virus. Even though they may not be "old," they do not exhibit the quality needed to be considered sustainable for the longer term.

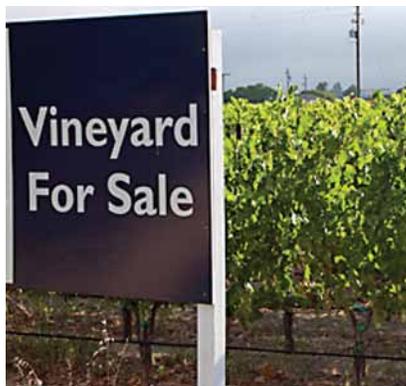
Challenging times, like being experienced in today's interior grape market, mandate a correction. In the vineyard business, this correction essentially speeds up the otherwise predestined attrition process. Without immediate vineyard removals, we will continue to suffer low prices and a financially unsustainable market for growers. Growers with production and/or quality challenged vineyards should ask themselves, "What am I keeping it in for?" Even if (and when) the market turns around, those growers still have the plague of low production or quality. Everything has a useful life. It is in the grower's and industry's best interest if growers understand and act appropriately upon the useful life of their vineyards.

More and more growers are exiting the business in the interior regions. Other crops are much more attractive to grow, both from the standpoint of ease of production as well as financial return.

continued at bottom of next page



Vineyard displaying virus and uneven fruit maturity.



Wine Shipment Up, But . . .

Overall, California wine shipments are still nudging up according to the monthly-published *Gomberg Fredrikson Report* (GFR). For the first eight months of the year, they were up by 1 percent, as compared to the same time period in 2014. Although it is better to have positive shipment numbers than to have negative ones, we need to see those growth rates increasing at a rate a bit larger than 1 percent to effectively move through the excess inventory currently in tank statewide.

Thankfully the growth trend, although small in size, is a solid one. Over the last 32 reported months, California wine shipments have been up 28 of those months from the previous year. Winery inventory levels alone would spur one to believe that we are due for some exciting shipment numbers in the near future. With the build-up in supply due to three large crushes since 2011, it is destined to move through the system at some point. The problem is that inventory build-ups mostly get depleted through discounting and price concessions - something most California wineries simply can't afford, due to the costs invested in their bottles.

What continues to be under the cover of overall wine shipment increase is the reality of a very segmented market, where the lower end continues to struggle to maintain volume, while the upper end looks to have the momentum of a downhill freight train. According to the GFR, coastal warehouses that ship wine to the U.S.

What's a grower to do?

continued from previous page

There are many other economically sustainable options. Some winegrape growers are also choosing to sell their vineyards. Most of the time, the real estate buyers have no interest in the vineyard, but rather in the ground and water beneath it for alternative crops. It is reality that, with today's real estate prices, selling a winegrape vineyard is a viable option for some growers to exit the business.

What hurts is that there are growers out there that are removing good quality, good producing vineyards as well. This is not necessarily because they aren't economically sustainable, but because their opportunity cost to continue to farm vineyards instead of trees is too great for them to handle. But as we have seen many times in the past, agriculture ebbs and flows, and market demand comes and goes. Growers need to do what is best for them and consider above all sustainability. . . economic sustainability, that is.

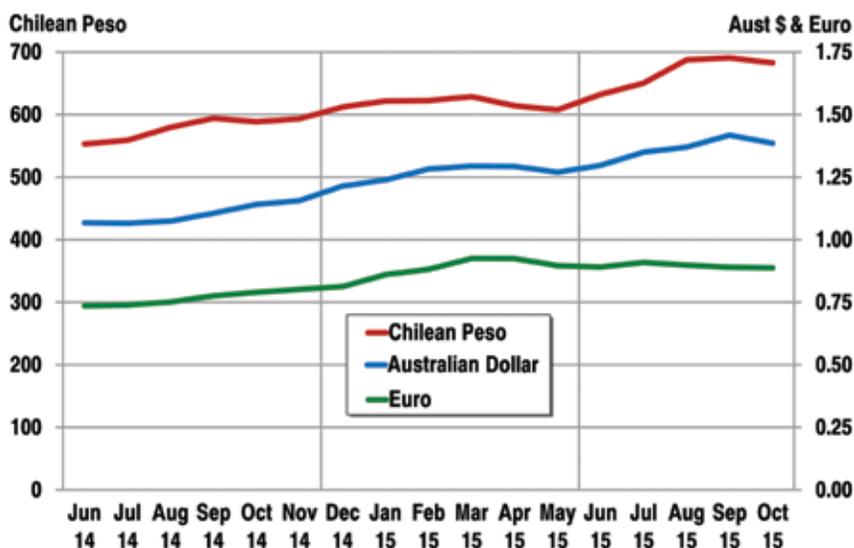
are up by 13 percent in volume through August. Although this may not be an exact measurement of wine shipments at a specific price point or range of prices, it is a strong indicator that wines priced in the middle and upper tiers of the price spectrum (those originating from coastal wineries) continue to experience strong shipments. Unfortunately, continuing volume losses at the lower end of the market (where most of the volume resides) are almost entirely offsetting gains in the upper end.

One bright spot for producers of grapes for wines in the value segment of the market is that competing bulk imports continue to experience declines in volume as well. According to the GFR, volume is down 7 percent through August, as compared to last year. However, this decline is purely driven by lack of demand due to ample inventories at the lower end of the market, including affordable California supply.

Meanwhile, bottled imports are reported to be up by 5 percent. On the export side, the trending strength of the dollar continues to provide challenges in exporting California wines, while making imports more affordable to U.S. consumers and wine buyers. Just since the beginning of last summer, the U.S. dollar has strengthened by over 20 percent to the euro, over 23 percent to the Chilean peso and by about 30 percent to the Australian dollar. In a time where we are long on much of California's wine supply, a stronger dollar does not help us in our effort to move the product off-shore or to fight off competition within the U.S.

growth is limited to mid and upper end.

Exchange Rates (Value to \$1 U.S.) 6/2014 - 10/2015



Despite the challenges in certain segments of the market and the need to move inventory, there are a number of stronger producers actually increasing (or planning to increase) bottle prices

*continued on back,
top right*
5

With or Without Warning?

continued from front page

and even though there have been times of challenge with regard to supply and competition, California continues to view its industry with optimism.

This year, like so many before it, displayed two different worlds when reflecting on the grape market. While any uncontracted grower in the interior struggled severely to place grapes at sustainable prices, the coastal market was on fire. Unfortunately, the market wasn't the only thing on fire in the coast, as growers and vintners had to deal with wildfire after wildfire, and prospects of smoke-tainted grapes and wine. Last year's harvest brought with it an unusual amount of lab testing because of stuck fermentations in the coast; this year's harvest brought with it an unusual amount of lab testing for Guaiacol compounds (the compound commonly associated with smoke taint).

One thing that everyone seems to agree wholeheartedly on is that this year's state crop is definitely smaller than last year's. We have yet to tally all of our internal numbers, but most industry observers are throwing out total winegrape crush estimates of anywhere between 3.6 and 3.8 million tons. The coastal crop was extremely short for some varieties in some regions, such as Sauvignon Blanc in the North Coast, Cabernet Sauvignon on the Central Coast, and Pinot Noir in Monterey and Sonoma. As a result, bulk market activity has immediately picked up on various 2014 lots that are available to sell. Simultaneously, some wineries are now pulling previously listed bulk wine lots off the market because of the potential need they may have within their own programs, given the short 2015 crop.



In spite of the vast differences in the coastal and interior markets, one thing was common to both areas – the harvest was compacted into a very short period of time, starting much earlier than normal. Wineries were extremely impacted as they were attempting to finish white programs while reds

were skyrocketing in brix and physiological maturity. What seemed to frustrate some buyers was that they were in need of additional fruit, but they were so impacted by the flood of mature grapes from their contracted vineyards that they couldn't quite take advantage of the opportunities in the marketplace.

Eventually, almost all the available fruit made its way into a tank somewhere, although not always at ideal brix for growers. Surely, there are a few vineyards with crop still hanging on the vine, but the amount of those vineyards out there are much less than that which was anticipated when harvest began. Many growers will be left licking their wounds from the 2015 crop, which produced small coastal yields and low interior prices. But true to form, most growers continue to exclaim, "Next year will be better!"

Wine Shipment Up, But . . .

continued from previous page

over the next few months. We have already seen this with some of the hotter brands in the marketplace, and a recent sneak peek into an annual winery survey from a very credible wine industry analyst suggests that well over half of the surveyed wineries plan on increasing their FOBs in 2016. Ultimately, success or challenge in today's market comes down to brand strength and market position. Weaker brands (especially at the lower end) will struggle, while stronger brands (those that provide consistent value) at all price points will continue to be the growth drivers into 2016.

Scholarship Opportunities

The California Wine Grape Growers Foundation (CWGGF) is once again offering up to six scholarships in 2015 to graduating high school seniors. Students may study the subject of their choice. However, to stay active in this program, students must be enrolled in 12 college units during the scholarship award period.

Up to two scholarships being offered each provide \$2,000 per year for four years (provided studies continue to be completed satisfactorily) at any campus in the University of California or California State University system. Another four scholarships each provide \$1,000 a year for two years at any California community college.

Only the children of vineyard workers employed in the 2015 or 2016 winegrape growing season are eligible to apply. However, children of wine grape growers may request a waiver from the eligibility requirement based upon financial need. Students currently enrolled in college are not eligible. The Scholarship Committee of the California Wine Grape Growers Foundation will award the scholarships. Selection is based upon financial need, demonstrated scholastic ability, community involvement and leadership and/or work history, and determination to succeed.

For more information, visit www.cwggf.org.

In addition to the above scholarship opportunity, in 2013 Allied Grape Growers established an endowed scholarship fund with the Ag One Foundation at California State University, Fresno, in honor of Robert "Bob" McInturf. Scholarships awarded will help support students majoring in viticulture, plant science or agricultural business in the Jordan College of Agricultural Sciences and Technology at Fresno State.

More information, can be found at Ag One: www.fresnostate.edu/jcast/agonefoundation/index.html.

If you are interested in donating to a wine industry scholarship fund, please consider a contribution to either the CWGGF or the Ag One/Allied Grape Growers Robert "Bob" McInturf Endowed Scholarship.