

HARVEST SUMMARY

Fall 2017

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

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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.



HARVEST SUMMARY

An "Allied Press" Newsletter Publication

Written for the growers and customers of
Allied Grape Growers

Editor: Jeff Bitter

Factors driving the timing of harvest **Early Start, Rough Finish**

The 2017 harvest was characterized by an early start, once again, for most winegrape growing regions in California. It seems in recent years, start times have gotten earlier and stayed early. Rare was the day a decade ago that grapes were being picked in July, but that seems to have become the norm over the last five years in the interior regions. Specifically driving it is the popularity of sparkling wines of all kinds, Pinot Grigio as a varietal, and even "low sugar" brandy programs that are commonly executed early, as wineries and growers alike are eager to harvest.

The extremely hot summer, which really drove the timing of harvest, was officially California's hottest on record (and much of the Labor Day heat wave actually fell outside of the formal June-August definition of "summer"). In fact, 2017 broke the previous record by a considerable margin. Many historical weather charts point to a general trend of California summers warming, particularly since the 1980s, but even over the past century. On September 1, San Francisco experienced its hottest day ever recorded (106 degrees) in over 140 years of record keeping. You

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Impact of Heat Wave on Size of 2017 Crop

know we are dealing with some extremes when you hear facts like these.

How much impact did the heat have on the size of the 2017 crop? We don't really know, but we can say with a high level of surety that the crop didn't get bigger under the scorching sun. From the first major heat wave experienced the week after Father's Day (prior to veraison) to the last experienced through Labor Day weekend, the heat had a stymieing effect on the vines as they attempted to develop and size grape berries.

As a result, most industry estimates put the size of the winegrape crop at anywhere between 3.6 and 4.0 million tons. We think both extremes are unlikely and have parked closer to 3.8 million, but we reserve the right to change our opinion after all of our own harvest is accounted for. A normal winegrape crop, given the producing acres we have in the ground today, would be about 4.2 million tons, so we can definitely see it being off by 5 to 10 percent. At the time of writing this newsletter (late October/early November), we continue harvesting grapes and look to end within a week or two.

Despite the early start and light crop, this year's harvest proved to be challenging as we crossed the midway point. With heat spikes throughout the harvest season and

lighter than usual yields, processors often found themselves with more grapes ready to harvest than they had space for fermenting. It's nearly impossible for wineries to plan enough production capacity to accommodate annual harvest spikes in grape "readiness." We see this year-in and year-out, regardless of crop size or timing of harvest, but it never ceases to frustrate growers as peak season means longer [grape] hang time.

The highly publicized fires burning in the North Coast at the tail end of harvest caused major pain for the remaining tiny minority of California's grapes. When the fires erupted, the clear majority of grapes had been harvested. Most California growing regions weren't even affected by the fires at all, but it is now almost hard to remember just how well things were going prior to the fires.

As unfortunate victims sorted through the ashes, growers and buyers were faced with how soon to resume "as scheduled." New challenges erupted as fears and rumors of fears regarding smoke taint became the topic of discussion.

But the industry responded well to the issue, as it was very clear from the beginning that all involved would need to be extra careful about handling/harvesting anything that was potentially less than 100 percent. All growers carrying crop insurance were reminded by their associations to open claims in the event their grapes were negatively affected by the smoke, and wineries and growers alike were testing their grapes for the presence of undesirable smoke-related compounds.

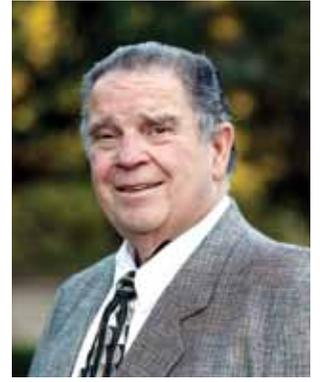
Only time will tell whether or not the fires/smoke caused a truly lasting negative impact on a very small portion of this vintage, but we can say, based on what we have seen and experienced (and in many cases initiated), those that are the guardians of the vintage are doing all they can to deliver everything their constituents have come to expect.

The right thing to do is keep things in perspective, and to remain focused on the fact that nothing is as important as helping those that lost property and loved ones restore their lives. That's the real tragedy and related battle cry of the vintage.



Burnt tractors previously readied for harvest the very day fire broke out in Sonoma County

President's Message:



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The recent fires in the Northern California counties of Sonoma, Napa, Mendocino, Solano and Lake Counties have had a devastating effect on many families, individuals and the wine industry. Many of these families and individuals are members of our close Allied Grape Growers family, while others are members of our extended family of farmers, farm workers and winery employees. Our hearts and prayers go out to everyone involved, and we are especially thankful for the “first responders,” who left their families to protect others! Many individuals that lost their lives or homes may not have been involved in the wine industry, but our prayers and hopes for recovery and assistance go out to them and their families as well.

Various ag, government and industry association sites provide information on where fortunate folks can provide assistance or where unfortunate folks can obtain assistance. The wine industry has banded together under “California Wine Strong” to be a catalyst for aid. Please visit <https://www.cawinestrong.com> and lend a helping hand, if you are able.

As I was reading a recent publication, its heading was “Napa Growers Happy with 2017 Harvest.” It was based on a September 26 press conference to discuss the 2017 growing season. The consensus was that not only Napa, but the entire North Coast, was experiencing what was expected to be a good year. Good rain season, good growing season (although with some extreme heat), decent crop and good demand from wineries at good prices would prompt one to ask, “What else could we ask for?”

But wow, what a difference a month can make in an area and an industry. Before the fires, we did see production levels a bit lower than estimates. But then the fires raged on, destroying everything they touched, and causing wineries and growers to question and test for, “smoke taint” – whatever that is. Getting harvest restarted, and finding harvest crews, trucks and open roads were all problematic in the fire zones. Most of the North Coast grapes were harvested, but of course, some of the most valuable, later varieties remained. North Coast wineries will still have great vintage wines available and will have some great 2017 wines available over time. Give them an opportunity!

I believe the growers, farm workers, wineries, winery workers, and citizens of the North Coast remind me of the story of the Phoenix. What does this mean? Simply, they, too, will figure the way to come back from the ashes better than before – stronger than before – united as a community that has helped one another come through this adversity.

Not to down play the rest of the state’s winegrape harvest – the Central San Joaquin Valley harvest was also still going as of late October/early November and facing some challenges of its own. It was a long harvest, with some winners and losers in terms of varieties and desirability. At this time each year, it is common to have discussions with many winegrape growers throughout the industry as to why grapes are often left to shrivel on the vine past their optimum weight, obviously at the expense of the farmer. But beyond brix, there are “other quality standards” at the time of delivery that growers must satisfy.

The million dollar question is, “What other standards?” Most, but not all, contracts define a desired brix range and will even threaten to impose a penalty for deliveries above that. Ironically, many buyers readily push grapes past the brix range, but then simply waive the penalty. Growers aren’t looking for a waiver; they are looking for a bonus! Further, most contracts seem to have verbiage that refers to “fruit suitable for intended use.” What exactly does that mean?

The confusion and frustration of the grower surfaces, because there is often nothing in the contract about specific color levels, acid or pH level, or other objective measurements.

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The Economy, Consumer Confidence, Wine Shipments and the Grape Market

As we moved into the 2017 harvest season, the market for winegrapes had been mostly robust. This was especially true of the coastal regions, but also applied in general to the interior market, as the majority of available winegrapes were sold during the first six months of the year. It seems there wasn't a spot market grape anywhere on the coast that sold "below average" during the first half of the year. And in the interior, although prices weren't necessarily "high," they were stable, all things considered.

When harvest started, relatively few winegrapes were actually available statewide. But some coastal regions did experience a fairly substantial change in demand, as buyers suddenly took a "wait and see" position. Even available high-end grapes lost their appeal to some degree, at least at the price levels that growers were previously enjoying and had come to expect. In the interior, remaining grapes were mostly limited to fields that were simply not attractive to buyers (maybe due to virus, sunburn, questionable viticulture or other factors) or simply contained undesirable varieties (such as Zinfandel or Merlot). Since the vast majority of the state's grapes were sold at that point, the changing market caused very little concern in the grower community overall.

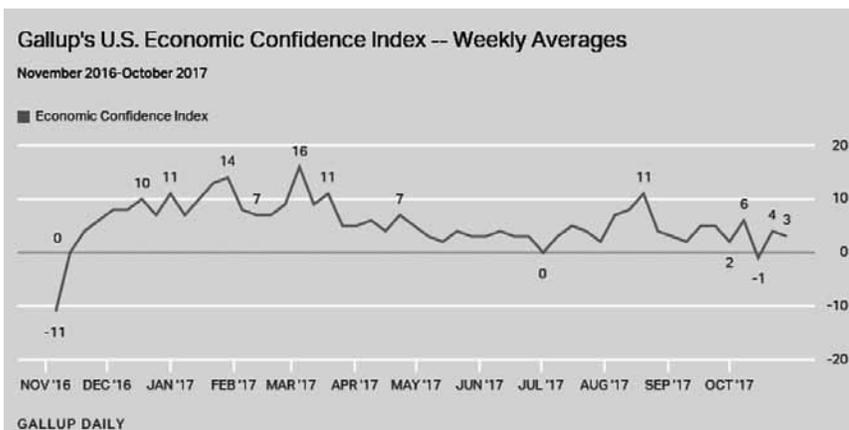
It is possible that there is more to the momentum slow down than just price-skittish buyers though. Perhaps grape pricing momentum was stronger than the underlying wine market was able to support as harvest

approached. Additionally, many buyers had met their purchase goals for the year and simply chose to see what would happen in the marketplace through harvest, and maybe even source wine in bulk following harvest. As we look at wine shipment reports, it seems some wineries may be struggling to maintain growth in shipments. It becomes difficult to accept aggressive grape pricing when wine sales aren't exploding on the other end.

The most recently released Gomberg Fredrikson Report (GFR) for the first seven months of the year shows California wine shipments off by 1 percent. As we have become accustomed to seeing in recent years, lack of growth in the market is usually a function of rising shipments above \$10 per bottle being offset by slipping shipments below \$10 per bottle. To quote from the GFR, "Scanner trends have indicated slowing in the market." For the previous 12 months reported, monthly wine shipments were up as many times as they were down from the previous year, contributing to the overall flat shipment rate.

Short term trends in wine shipments shouldn't really excite or alarm anyone though. We often see strong and weak months (or even quarters) as any year progresses. The real barometer in our minds regarding the underlying strength of the wine market is the momentum of the economy and consumer confidence. Many folks often ask us what the future holds for the winegrape market. There's no for-sure answer to this question, because so many factors can influence it. So what we consistently tell people who want a crystal ball outlook is that their answer comes mainly from the U.S. economy.

If someone can define the strength of the economy at any point in the future, we can tell them with a high degree of confidence how the wine market will be performing at that same time. As long as the economy is "strong," it is likely consumers will be willing to buy more (and pay more for) wine. So, we increasingly find ourselves looking at economic indicators to forecast performance of the wine business.



GALLUP News - Economy, October 31, 2017
Americans' Confidence in the Economy Steady Last Week
by Andrew Dugan

President's Message

(continued)

These are unanswered questions asked repeatedly and with good cause every day, day after day, in the field. We understand that, to make good wine, you need strong and uniform color (in reds), balanced pH and acid, and a brix level that provides the proper alcohol level and flavor balance the wine needs. But I think we need a better explanation when the grapes exceed the contracted brix levels and start dehydrating on the vine. What can we tell the grower other than, "Well, the wineries can add back water to facilitate fermentation."

On the flip side, some growers need to truly evaluate their vineyard operations. Is it economically sustainable? Do you have a handle on the costs of farming your vineyard? What are your direct costs of farming the vineyard year to year? What are your indirect costs of farming even if you don't farm the vineyard? What is your production history, and is it going up or spiraling down? What is the history of price and demand for your variety and area? Some areas and varieties have made a positive change while others have not. We are saying this because some growers may need to evaluate their operations for redevelopment before they spend more money this fall/winter toward the 2018 crop.

The winegrape industry, as a whole, is still alive and well. We are going through a California legislative year that continues to be unfriendly – not only to agriculture – but to business in general. Lowering ag overtime to an 8-hour day and 40-hour week and paying for non-productive time is one thing, but making the law retroactive to 2012 (it wasn't even the law then) is a major hardship. May I remind everyone this was brought on all business initially by the Labor

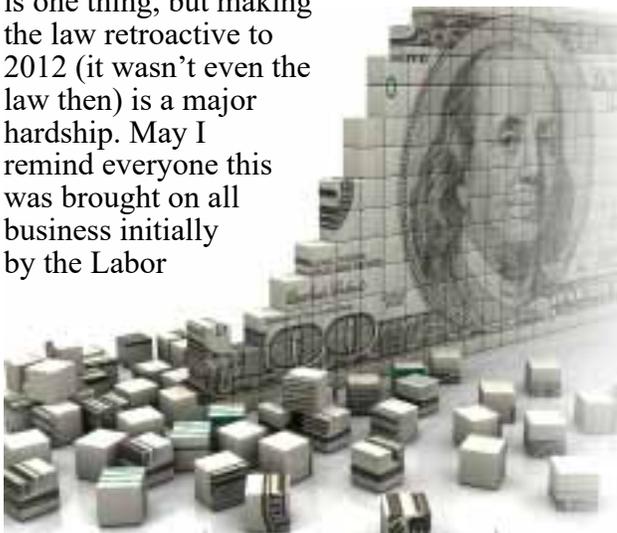
Commissioner, then was endorsed and grandfathered by legislation and California's Governor.

Who knows what else California's legislature will give us in 2018. I believe they passed in excess of 3,000 bills in the 2017 session. Included was a new cap and trade bill, and new gas tax, while we continue to spend more than budgeted on our famous new monument called *high speed rail*. Did I mention that, besides this money being spent on high speed rail, we still have yet to see any new development of water infrastructure? And the State of California departments are still pushing SGMA on agriculture!

At the federal level, we are still looking for immigration reform. Labor is still on my radar screen, with Trump's new tax plan right up there as well. Labor seems to be the hot topic, from the Dreamers, to H-2A and H-2C to refugees. All seem to be sound bites for the far right and left, with no one coming up with a solution on resolving the problem to help people in need. We need to help to provide agriculture and other industries with a reliable labor force with people who want to work, that gets people off welfare if they want a job, and that secures our borders. Let's get it done! If you have to cross the aisle a bit, then cross the aisle. Get it done!

Same thing with tax reform. It's needed to be done for many years, and nobody has wanted to tackle it. Inheritance tax is the worst form of double taxation that exists. You should not be taxed to pass it on to the next generation! I'm sure there are other more complex pieces of the tax code that my CPA could relate to that would add a more meaningful dialogue to this conversation, but I'm an agriculturalist and a third generation farmer, and this is what was and is important to me and my family.

As we have wound down this harvest, I reflect on the season, and I hope that you have a Happy Thanksgiving and a Blessed and Merry Christmas.



The Economy, Consumer Confidence, Wine Shipments and the Grape Market

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Arguably, of equal or even greater importance than various indicators of economic performance is the actual perception of economic strength by consumers, and for that we turn to measures such as the *Consumer Confidence Index® (CCI)* or *Gallup's U.S. Economic Confidence Index*. Most consumer confidence indicators are designed to measure the degree of optimism regarding the state of the economy that consumers are expressing through their activities of savings and spending, or simply through their expressed views (via survey) of current economic stability and their assumptions/perceptions regarding future economic conditions.

Since last November, by most measures, consumer confidence has been strong, as compared to that experienced between 2008 and 2016. In reality, the CCI has steadily improved since the recession of 2008-2009, when it hit an all-time low.

Where the CCI sits today is about as high as it has been since 2001. Similarly, *Gallup's U.S. Economic Confidence Index* (see graph on Page 4) has shown "positive" numbers since last November. This means that, overall, consumers are confident in present and future economic situations. You can visit the Conference Board or Gallup websites (or other similar survey groups) to learn more.

The increase in shipments of wines above \$10 per bottle has been coupled with improving (and now strong) consumer confidence over the last few years. It should be no surprise that these two things go hand-in-hand. So when we feel little speed bumps in grape market activity or see reports that show we had an off-month in wine shipments, don't panic. The longer term economic trends are what we are interested in, and with the third quarter of 2017 showing higher than expected U.S. economic growth and generally positive consumer sentiment, things seem to be staying on track at the current time as well.

All in all, the 2017 harvest will be recorded in a series of successful harvests. With California and global wine volume under control, a stable U.S. economy and positive

consumer confidence, there isn't much to be overly concerned about. Our basic and ongoing concerns remain – global competitiveness, regulation and cost increases, and external variables that would cause any major hiccup in the economy and consumer confidence.

2018 Health Care Information

Open Enrollment for all California Health Care Plans now underway
Enrollment for all Covered California Plans ends January 31, 2018

Enrollment for all Individual/Family Plans ends December 15, 2017

Important Updates for Employers

Employers prohibited from reimbursing premiums for employees' non-employer health plans

Employers with at least one eligible full-time employee on payroll may qualify for a group plan

To enroll as a group, application must be between Nov. 15 and Dec. 15 for a plan that will begin January 1, 2018

For more information:

800-568-4500

916-686-4500

help@rlwellsinc.com

Upcoming Industry Events

Wednesday, November 29, 2017

2017 Industry Forum

Pardini's, 2257 W. Shaw, Fresno

San Joaquin Valley Winegrower's Association

<http://www.idrinkwine.net/news/>

Thursday, November 30, 2017

North Coast Wine Industry Expo

Sonoma County Fair Grounds, Santa Rosa

<http://wineindustryexpo.com>

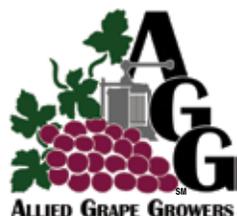
Tuesday - Thursday, January 23 - 25, 2018

2018 Unified Wine & Grape Symposium -

Sacramento Convention Center

Presented by: CAWG & ASEV

<https://www.unifiedsymposium.org/>



ALLIED GRAPE GROWERS