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# The State of The Grapes - A World View

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California's wine grape growers have become increasingly aware over the last few years that they are truly functioning in a world market. This is especially evident when looking at the growing interaction between California vintners and foreign markets, whether in the sourcing of bulk premium wines or in the expansion of our own exports overseas. Fluctuations in California's burgeoning premium varietal wine grape supply has meant substantial differences between times of material foreign inflow, particularly of bulk wine in 1997 after the relative short harvests of 1993-1996, and substantial outflow such as when California exports reached a record level in 1998 following our very large crop the previous year. In any case, California's wine industry is looking more than ever at the rest of the world as a potential customer and of course, the world's wine producing countries are viewing the U.S., with its strong economy and low per capita consumption, as the number one target in their opportunity to grow sales.

In an attempt to better understand the potential of the major wine producing nations of the world to supply consumer wishes for premium varietals, particularly Chardonnay, Cabernet Sauvignon, and Merlot, we must first face the challenge of locating timely and accurate statistics. While there is not universal agreement on the most desirable single location for such a base of information, the O.I.V. (Office International de la Vigne et du Vin headquartered in Paris) looks to be a consistent, if not timely, source of global wine grape and wine production. The main complaint with the data provided is the fact of the time lag between the actual production of the grapes or wine and the dates of publication. For example, the 1997 statistics were not made available until May of 1999. However, the O.I.V. remains a wealth of historical information that can be helpful when interpreting overall general trends.

For the following analysis, statistics relating to the three basic categories of wine production, per capita consumption, and wine grape acreage for the period 1990 thru 1997 were included for the major wine producing areas of Western Europe (France, Italy, Spain, Portugal, Germany, Austria and Greece), Eastern Europe (Bulgaria, Hungary, Romania, Former Soviet Union, and Yugoslavia), South America (Argentina, Brazil and Chile), United States, South Africa and Australia. While an eight-year trend line has been added to the graphs, the trends so indicated are for information only and should by no means serve as the sole predictor of future supply and demand numbers. But taken as a whole, and in conjunction with supplemental information relating to the increased production of the primary premium varietals, the trends paint what should be a fairly accurate representation of the current state and direction of the market in the short, and possibly intermediate, term .

The first major statistic presented ranks countries in terms of world wine production percentages based upon 1997 results. In summary the Western European countries of France, Italy and Spain represent 52.3% of total world wine production for that year. The United States places fourth at 9.5%, but this figure is somewhat misleading in that 1997 was definitely a bumper crop year and usually the US is historically closer to 6 to 7 percent of the world's wine production. As a comparison of 'New World' wine producers, Argentina comes in at fifth place (5.1%), South Africa seventh (3.3%), Australia eleventh (2.3%) and Chile thirteenth (1.7%). Of course, these numbers are for total wine production and do not begin to tell the story of the continuing movement worldwide to the primary premium varietals which is the most important undercurrent existing in the wine industry and which the 'New World' wine producers, along with selected areas within Europe, are best positioned for success.

In the 1990's, Western Europe wine production has generally trended downward, going from a high of over 5 billion gallons in 1992 to just over 4 billion gallons in 1997. At the same time, per capita consumption in this region has also decreased from just under 13 gallons annually in 1990 to about 11 gallons for 1997. Producing acres of wine grapes appear to be falling at an even faster rate, moving from approximately 9.5 million acres at the start of the decade to something between 7.5 and 8 million acres currently. However, contained within these numbers is the reality of a growing base of acres connected to the production of Chardonnay, Cabernet Sauvignon, Merlot, Sauvignon Blanc and Shiraz (Syrah).

The best example of the movement to premium varietals that are popular in the United States can be found in the Languedoc area in the south of France. In 1980 when this area was producing 840,000 acres of wine grapes, only about 23,000 acres or less than 3% was devoted to the aforementioned varieties. By 1996, the total wine grape acreage had dropped an estimated 740,000 acres but the land dedicated to those same varietals had jumped to almost 150,000 acres! Estimates for the turn of the century project the acreage for Chardonnay and Sauvignon Blanc both to be at about 16,000, Cabernet Sauvignon at around 38,000, Merlot up to 62,000 and Shiraz (Syrah) an astounding 66,000. Taken together, total acres committed will be almost 200,000 or the equivalent of almost 75% of the comparable acreage in the US for these varieties. Tonnage estimates alone call for increases between 1996 levels and the year 2000 to range between 17% to 85% for individual varieties with an overall growth rate of 36% to over 256,000 tons. Most observers believe this production will intensify competition at the California appellation level. Wine from this area has already served as a primary source of bulk product when the last short varietal crops were experienced in California prior to 1997 and the contacts developed during that period will most likely facilitate growth in the future.

Eastern Europe produces less than one-fifth of their Western European counterparts. However, while the eight-year trend for production shows a decrease from 1990 when over 900 million gallons were made to just over 800 million in 1997, the more accurate picture may be represented by the last four years of statistics that show a growth from the low in 1994 when 'only' 700 million gallons were produced. Per capita consumption, on the other hand, has risen from 6 gallons in 1990 to just under 7 gallons in 1997 while reported acreage has held relatively consistent at between 1 to 1.1 million producing acres. This is a region that appears to be in transition and is hopefully beginning to feel benefits of a free market economy. However, it is still struggling with problems such as the lack of infrastructure as well as limited capital. Concern for US producers centers not only around the potential to expand varietal wine grape production legitimately but also as to past reports of the misidentification of varietal wine exported into the US

Wine production in South America has been greatly impacted by individual yearly crop fluctuations. A stable level of wine, between 530 and 560 million gallons, was made between 1990 and 1993 but production shot up in 1994 when almost 660 million gallons were made and then fell to just about 500 million gallons in 1996. Production was up in 1997 but fell again in 1998. Reports for the current crop year put tonnage up but maybe not yet back to 'normal'. A major variable here, and to a lesser extent in the US, is the production of grape juice concentrate which can materially impact the amount of wine produced. Meanwhile, per capita wine consumption mirrors the decrease witnessed in Western Europe

and has fallen from about 3.25 gallons in 1990 to just over 2 gallons now. Acreage statistics are somewhat limited but present a stable base at just about 700,000 acres. However, first hand observations indicate a continued growth in the amount of primary premium varietal acres in both Argentina and Chile. Clearly, both of those countries have the potential as well as the desire to increase exports into the US to compete at the California appellation level.

The statistics provided by O.I.V. for the United States have been used for consistency's sake, although based upon first hand knowledge of actual wine grape ducing acreage in this country the numbers shown are obviously lagging in accuracy. For example, while the O.I.V. figures indicate approximately 325,000 producing wine grape acres in 1997, the actual acreage in that year for the entire US is closer to 380,000 to 390,000. The wine production trend, with its spike in gallons due to the very large crop of 1997, is probably more reflective of the actual trend which puts estimated production at about 600 million gallons. Per capita consumption has been increasing slightly and stands at just under 2 gallons. However, adult per capita consumption, which is a more accurate reflection of market potential, has been reported to be currently at 2.43 gallons, a level that obviously has growth potential.

A review of trends in South Africa reveals a pattern of almost consistently flat lines in regard to wine production, per capita wine consumption, and wine grape acreage. But the truth of the matter is that premium varietal acreage and production is increasing at an impressive rate. In fact, excluding the acreage growth in generic varieties such as French Colombard and Chenin Blanc, premium varietal tonnage is estimated to jump 75% between 1997 and 2002. Chardonnay alone is thought to grow over 140% in that period. However for the three varieties, Char-donnay, Cabernet Sauvignon, and Merlot, total tonnage in the year 2000 will be only about 12% of the comparable production in California, so this nation has some way to go before it competes globally as some other countries.

One of those countries that is already competing around the world and by all measurements will become an even more formidable competitor is Australia. This is an area where all trends are definitely up, including acreage and production Even per capita consumption which is hoped to go from about 4.8 gallons currently to 5.8 by the year 2025 according to Australia's well known strategic planning process, is optimistically estimated higher. Although with only about 19 million people or just over one-half California's population, the future market growth for Aussie wine certainly lies outside of their borders. Overall, premium wine grape projections for the year 2000 indicate production moving up about 40% from 1998 levels which is in line with the amount of nonbearing acres that is currently thought to represent almost 33% of total plantings. Experts in Australia are predicting an oversupply of white wine, primarily Chardonnay, in the short term and red wines reaching a supply-demand imbalance within four to five years. Prices for wine grapes have been estimated to fall between 35% and 42% from current levels by the year 2003. The US will be a prime target as an outlet for this increased production, which will provide additional competition not only in the California appellation category but also in some regional appellations in the super premium classification.

Reviewing in a very general way the world wine balance sheet in terms of production, consumption and acreage, a challenging situation makes itself clear. Overall acreage and potential production, given "normal" yields, are materially up, particularly for California style premium varietals. Consumption on a per capita basis, led by declines in Western Europe, continues to trend downward. There is no question the world is going to have more premium varietals to sell. The question therefore for both growers and vintners worldwide is how to grow consumption. For many nations, the obvious answer is not domestically but internationally.

## 2000 Crush Brings Changes & Challenge

### Overview

A review of the wine grape market for the 2000 California crush reveals a continuation of the divergence

between the coastal and interior regions. For many of the varieties found in the premium coastal areas, this harvest, in terms of dollars per ton, will seem very similar to those experienced over the past few seasons. On the other hand, the impact of a growing oversupply in the interior portion of the state caused the market to decrease dramatically, with spot market prices at some of the lowest levels experienced in decades. The difference in return for the growers varied significantly in the different growing regions of the state.

### **Grape Growing Areas Defined**

Traditionally, wine grapes in the state of California are divided into four major crush regions. The North Coast is comprised of Crush districts 1 through 5, representing Mendocino, Lake, Sonoma, Napa and a portion of Solano counties. The Central Coast area is represented by Crush districts 6 through 8 plus 15 and 16 and is made up of the Bay area counties plus Monterey, San Luis Obispo, Santa Barbara counties and southern California. The Northern interior which is best exemplified by the Lodi/Woodbridge area but also including the Delta, Sierra foothills and northern California counties such as Sacramento. And then there is the Central and Southern San Joaquin Valley which is comprised of Crush districts 12 through 14 which is Stanislaus south through Kern county. In reality, particularly with this year's above average crop, the wine grape as well as the bulk wine market tended to look at the division between regions as best defined by the first category being Napa and Sonoma, which is a principal supplier for the ultra and luxury premium category of fine wines. After Napa/Sonoma would come the general coastal area which would include Mendocino, Lake, Solano as well as the Central Coast counties. The remainder would be represented by a California appellation or simply interior product and would include all Central Valley grapes and wine. Granted, the Northern San Joaquin Valley would be recognized as generally the best quality from this interior area but in fact the market differentiates less in times of potential oversupply.

### **Differences in Production and Related Values**

To best illustrate how the various growing regions differ in terms of production and value one would only need to look at the 1999 crush statistics. These numbers showed a total statewide tonnage of about 3.2 million tons crushed of which wine grape tonnage represented approximately 2.6 million tons. The total statewide value for the entire crush was 1.6 billion dollars with the wine grape portion of that value being 1.5 billion. When looking at the specific growing regions, the North Coast represented only 10 percent of the statewide tonnage and 13 percent of the wine grape tonnage yet represented 37 percent of the statewide crush value and 40 percent of the wine grape value. The Central Coast accounted for nine percent of the statewide tonnage, 11 percent of the wine grape tonnage but like the North Coast represented a much larger portion of the statewide grape value. In this case, the Central Coast amounted to 19 percent of the total statewide value and 20 percent of the wine grape value.

The Northern interior comprised 15 percent of the statewide tonnage last year and 19 percent of the wine grape tonnage with 20 percent of the statewide value and 22 percent of the wine grape value. The most telling statistic impacted the Central and Southern San Joaquin Valley. This region represented 66 percent of the statewide and 57 percent of the wine grape tonnage but only was 24 percent of the statewide value and 18 percent of the wine grape value, reflecting an association with value priced wine as well as grape juice concentrate production. For the 2000 crop year, most experts are expecting a similar value for the overall crush but a widening of the allocation of dollars so the North and Central Coast regions will have even a larger piece of the pie.

### **Statewide Production History and Current Year Estimate**

A review of the statewide grape crush tonnage for the years 1992 through 1999 showed a somewhat consistent pattern for production (averaging 2.3 million tons) with the exception of the 1997 crush year when the industry saw almost 2.9 million tons of wine grape varieties processed. An additional one million tons of raisin and table varieties, which went primarily into the concentrate market, were also crushed to produce an all-time record of almost 3.9 million tons. That harvest, 1997, was a year that significantly challenged capacities. Since that time, the 1998 and 1999 crush seasons have been less

than expected given the impacts of El Nino and La Nina, with the wine grape crush being only 2.5 million tons in 1998 and 2.6 million tons in 1999 even though grape acreage was expanding rapidly. Currently, the California agricultural statistics service has estimated the wine grape crush for the year 2000 to be 3.2 million tons. This would exceed the previous year by almost 600,000 tons and is comprised both of a crop that would be considered above average and the impact of new acreage which is generally thought to be an additional 40,000 plus acres coming into production this year. To prove, once again, that Mother Nature is always in charge and given the results of this season's production which seemed to get bigger and bigger in spite of grower's efforts to thin, most observers would not argue with the State's estimate which will be either confirmed or proved wrong February 10, 2001 when the preliminary Grape Crush Report is published. On top of this wine grape crush there have been estimates ranging between 500,00 and 700,000 tons of other grape raisin and table varieties which could bring this year's crush very close to the all-time record crush of 1997. This year's large crush once again presented new problems in meeting capacity needs for the industry. Even though additional storage and processing has been added since 1997, the fact that we entered this year with higher inventory wine levels has mitigated that expansion.

### **The Four Major Varieties 2000 Production Review**

In looking specifically at this year's production in terms of the four major premium varieties, on a statewide basis Chardonnay was uniformly higher in terms of production than almost any other variety. All regions reported significant increases in production for Chardonnay and this year's crop on a statewide basis could approach or possibly exceed 600,000 tons. And looking at the individual growing areas it is interesting to note that even with this year's large crop the coastal areas will probably produce less than the record levels of Char-donnay that were grown in 1997. On the other hand, the interior areas have approximately doubled production of this variety over the last three years. Cabernet Sauvignon presented a similar picture and that overall tonnage will most likely easily exceed 300,000 tons with the majority of that increase over last year's level coming from interior areas. Merlot, given the fact of fewer newly producing acres as compared to the last few years, will most likely be slightly less in terms of production as compared to Cabernet. Zinfandel, a variety which is dominated by interior production, will most likely exceed 400,000 tons but should fall short of the record 1997 production. The jump in production in 2000 for these major varieties had significant impacts on the spot market.

### **Changes in California Grape Acreage**

With an eye toward the future, a review of California's wine grape acreage continues to show significant increases both in bearing and nonbearing acres. In 1998, the California agricultural statistics service reported a total of 427,000 acres of wine grape varieties in California with almost 85,000 acres been in nonbearing status. In recognizing the voluntary nature of the California wine grape acreage report and knowing the dynamic nature of new plantings, the California Ag Statistics Service in 1998 estimated the actual acreage for wine grape varieties at 507,000 acres with 122,000 acres being in nonbearing status. These figures have now been updated for 1999 and show a reported total of 470,000 acres with estimated actual acres now being put at 554,000 acres with an amazing 130,000 acres in nonbearing status. The State in its estimation of actual acres did not to attempt to identify the location by county or region of these underreported acres. However, most industry observers would estimate that the breakdown of nonbearing acres is fairly evenly distributed throughout the growing regions. However, on a percentage basis, these nonbearing acres would lead to a much higher percentage of growth in the interior as compared with the coastal areas for the four premium varieties most planted within California. In fact, when estimating the actual and nonbearing acres for the four major growing regions, the annual growth rate required to compensate for this additional production is best handled by the North Coast where current growth rates for wine shipments more evenly match up with anticipated increases in production. The Central Coast would require a slightly higher growth rate in wine consumption which would tend to indicate an oversupply possibly developing there would within the near future given current numbers. When looking specifically at the interior regions their current level of expansion and the current rates of increase of wine sales originating from these areas, it can easily be seen why that area is already in the oversupply phase of the cycle.

## **No Area is an Island**

The growing oversupply of the grapes within the interior is expected to have some impact on coastal grape pricing as well. While there is no question that the higher based appellation programs in the Napa and Sonoma regions will be insulated to a degree from price declines brought on by interior, and possibly other coastal, overproduction, the fact is that there will be some impact on spot market prices for almost all grapes. The industry witnessed some of this interaction, as best illustrated by Chardonnay, this year in that spot prices decreased in every area including the high-end Napa/ Sonoma products.

## **Pricing Thoughts Entering the 2000 Crop Year**

Entering this season, the general pricing outlook for the 2000 wine grape crop had most observers thinking that the North Coast would be relatively stable with some softness developing primarily outside of Napa and Sonoma counties. This was due to the high percentage of grapes under contract and the predominance of reference price agreements. The estimate for the amount of grapes actually on an annual or spot market basis in the North Coast area is thought to be five percent or less. The Central Coast was expecting some generally easing of prices given higher estimates of production and in increasing base of acreage. The Northern interior was thought to have mostly decreasing price trends in all major premium varietal categories with generic grapes most at risk. The Central and Southern San Joaquin Valley came into the season with an expectation of a continuation of the pattern as set by the 1999 crop year which brought late spot market prices declines. This was particularly true for red generic grapes such as Barbara, Carignane, Grenache and even Ruby Cabernet which were expected to decrease significantly. As always, there was also hope that the concentrate market would help bail out this area as well.

## **Actual Results for this Crop and Some Preliminary Thoughts for 2001**

In reality, the actual results for 2000 did show that the North Coast was generally stable. However, as previously stated, Chardonnay, due to the nature of its extremely large crop, did show considerable spot market weakness. As expected for most varieties, the high percentage of reference price contracts will most likely keep prices consistent and in fact, for some like Cabernet Sauvignon in Napa, will actually see significant increases in average prices. But the future will most likely hold, with a growing acreage base, the probability of growing spot market declines, particularly if the industry experiences an above average crop. The Central Coast witnessed the situation were Cabernet Sauvignon and Merlot were generally consistent in terms of pricing with the previous year. Chardonnay pricing dropped overall, particularly on the spot market and red Zinfandel showed some weakness. The higher amount grapes planted on speculation in the Central Coast, currently estimated at only 10 to 15 percent but growing rapidly, began to manifest itself this year and should further pressure the market given a normal crop in 2001. The Northern interior did witness price declines for all varieties. These declines ranged from about 10 percent to as much as 80 percent on the spot market this year. However, returns will vary widely given the amount of grapes under contract (estimated at 75 to 85 percent) as opposed to growers selling on the spot market. Many growers may witness only a slight decrease in price per ton coupled with the higher than expected production which would result in an overall increase in revenue. On the other hand, growers exclusively on the spot market or attempting to sell their grapes on annual basis will see major decreases in dollars for their operation. Central and Southern San Joaquin Valley growers experienced some of the most difficult spot market conditions in many, many years. The market was almost nonexistent at some points of the season. This was especially unfortunate based upon the higher amount of grapes sold on an annual basis in this area which is estimated to be between 25 and 40 percent. Given a normal crop next year, this region will again experience pricing pressures. This pattern will most likely continue three to five years or until such time as substantial acreage adjustments take place.

## **Some Positive Thoughts to Close**

In looking at an overview of the wine grape market, all is not doom and gloom based upon the positive

fundamentals underlying the wine market. The overall quality of California wine has never been better and the opportunities to grow sales both domestically and internationally are very encouraging. The industry has plenty of California wine to sell at almost all levels as compared to times of selected shortages. The image of wine remains generally positive, wineries appear ready to spend money on promotion, rules on flavored wine products have changed and consumer demographics appear to favor further growth.

However, given the rush to plant grape vines the last five years, the probability of an oversupply in many areas of the state, notwithstanding the potential impact of the glassy-winged and Pierce's, appears well on it's way to becoming a reality. Production cycles and related pricing impacts have always been a part of the history of wine grape production in California. The current situation developing looks no different. Wine grape growers must continue to concentrate on quality and can only hope that acreage additions will now take a sabbatical (read: no planting without a contract) so that consumer demand has a chance to do some catching-up.

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