

Current and Future Grape

Market Trends

By

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Introduction

Agricultural production is an ever changing and dynamic phenomenon. It is subject to the whimsical aspects of Mother Nature. When coupled with the tendencies of the U.S. farmer to over-and then under produce given the lagged biological nature of the production process and the changing market demand there are major swings in the level of agricultural production and prices for all products. In the case of grape production the swings seem to be even more pronounced given the capacity of the grape plant to compensate for its environment. All of these factors played significant roles in the 2005 season for the Washington juice and wine grape industries. In 2005, there were over 430,000 tons of all types of grapes produced in Washington. The largest grape crop ever produced in the state.

The U.S. grape industry also produced a record crop. It was estimated at 7.1 million tons by the U.S.D.A. in Mid-October. Of that amount, 6.2 million tons were produced in California.

Concord Grapes

The 2005 Concord grape crop in Washington was at least 279,384 tons. This exceeds the previous record Concord grape crop in 1993 which ended up at 278,300 tons

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according to the U.S.D.A. (Figure 1). However, at the same point in time in 1993 the processors were reporting 275,000 tons. By January 2006, the U.S.D.A. could estimate the Washington Concord grape crop as being in excess of 280,000 tons.

Not all of the 2005 Concord grape crop was harvested according to some processors. The major constraint was space. Some processors were putting product in drums as the harvest progressed. The exact tonnage not harvested was not significant, but it is worth noting that the 2005 crop did fully utilize the facilities available to process Concord grapes.

The average yield per acre for Concord grapes was approximately 11.4 tons (Figure 2). However, some processors reported average yields for all their growers in excess of 12 tons per acre. This is a remarkable yield level given the age of some of the Concord grape vineyards and the fact that not all of the older vineyards were planted in the most desirable locations. However, some of the newer vineyards that have replaced a few of the older Concord grape vineyards and others that were pulled because of their low yields or poor locations subject to winter and frost damage have been planted in more desirable and productive locations. However, the tenacity of the grape plant often prevails and the alternate year bearing was a major factor in producing the 2005 crop. The overall Concord grape acreage has remained stable at about 24,500 acres (Figure 3).

**FIG. 1: WASHINGTON CONCORD GRAPE PRODUCTION, 1980-2005
(1,000 TONS)**

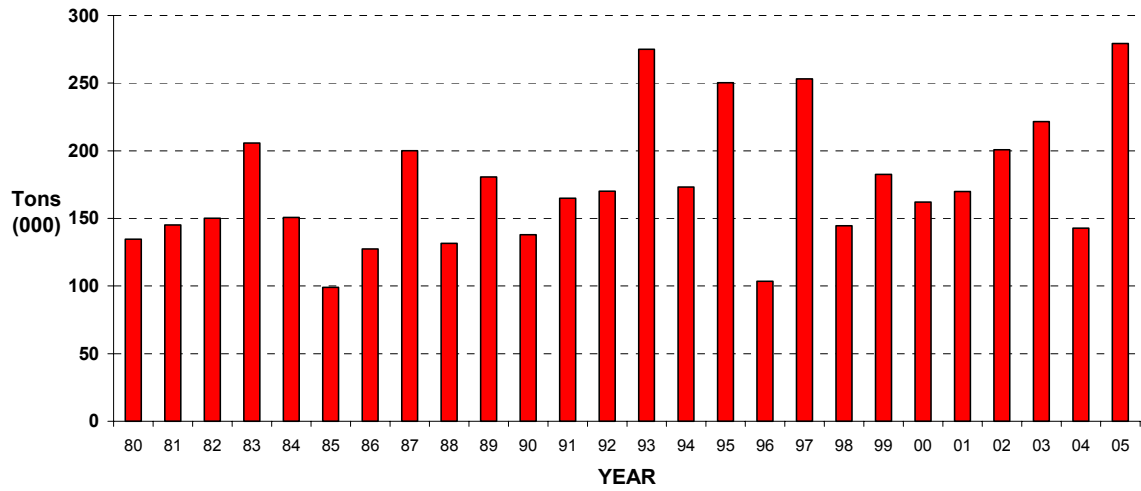


FIG. 2: PRODUCTION AND YIELD OF CONCORD GRAPES, 1980-2005

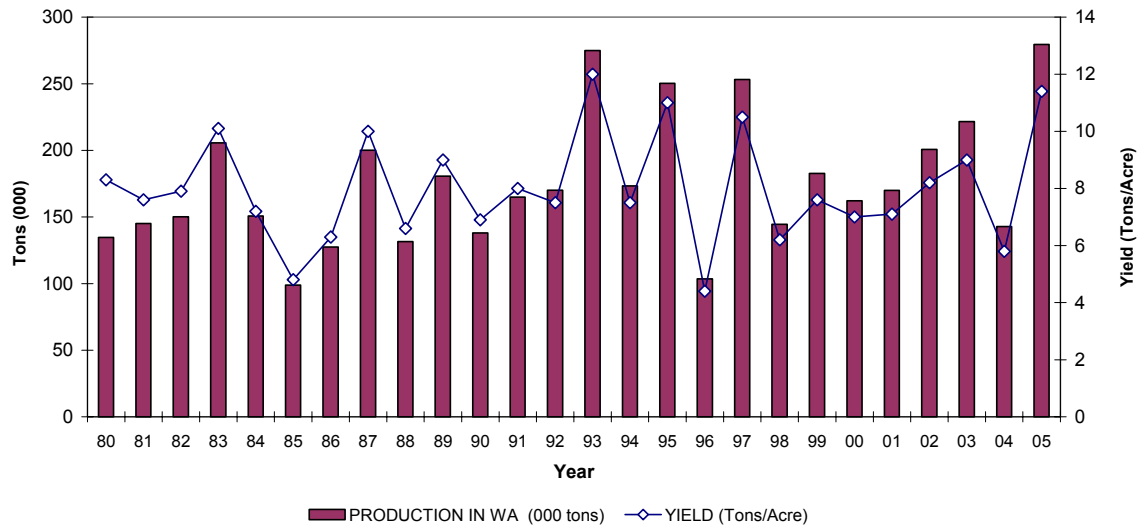
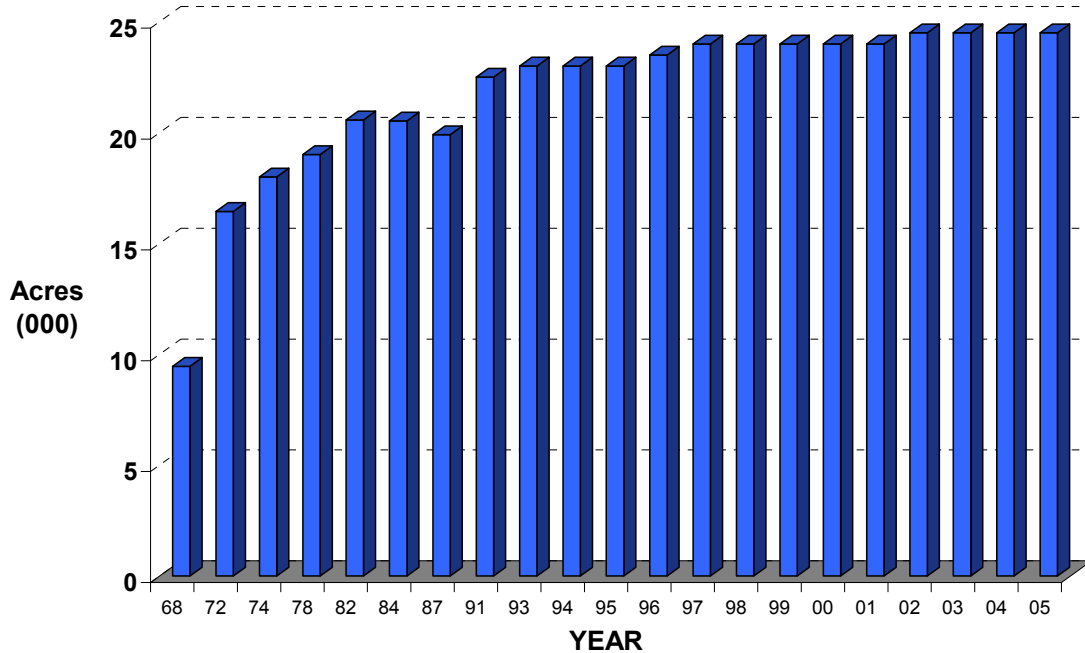


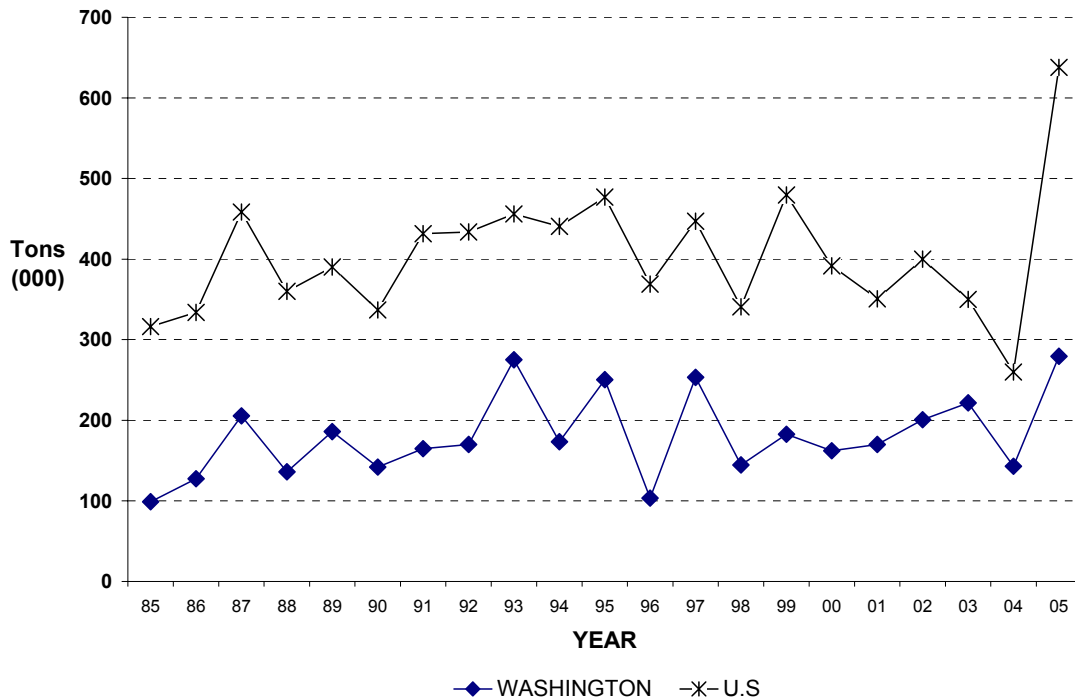
FIG. 3: CONCORD GRAPE ACREAGE IN WASHINGTON, 1968-2005



The overall quality was very good for the 2005 crop. The average brix level was about 16.0. In addition, the color and acid levels were acceptable.

The Concord grape crop in the eastern producing areas was also higher in 2005 than 2004. Current estimates place the eastern Concord grape crop at least one-third larger than last year. If that information is combined with the Washington production data, the total level of Concord grape production in U.S. in 2005 was 638,000 tons (Figure 4). Last year the total supply from the 2004 Concord grape crop was about 350,000 tons. This is the largest supply ever from current production. In 1983, 1987, and 1993 the total U.S. supply from current production exceeded 450,000 tons

FIG. 4: CONCORD GRAPE PRODUCTION IN WASHINGTON AND THE U.S. TOTAL, 1985-2005



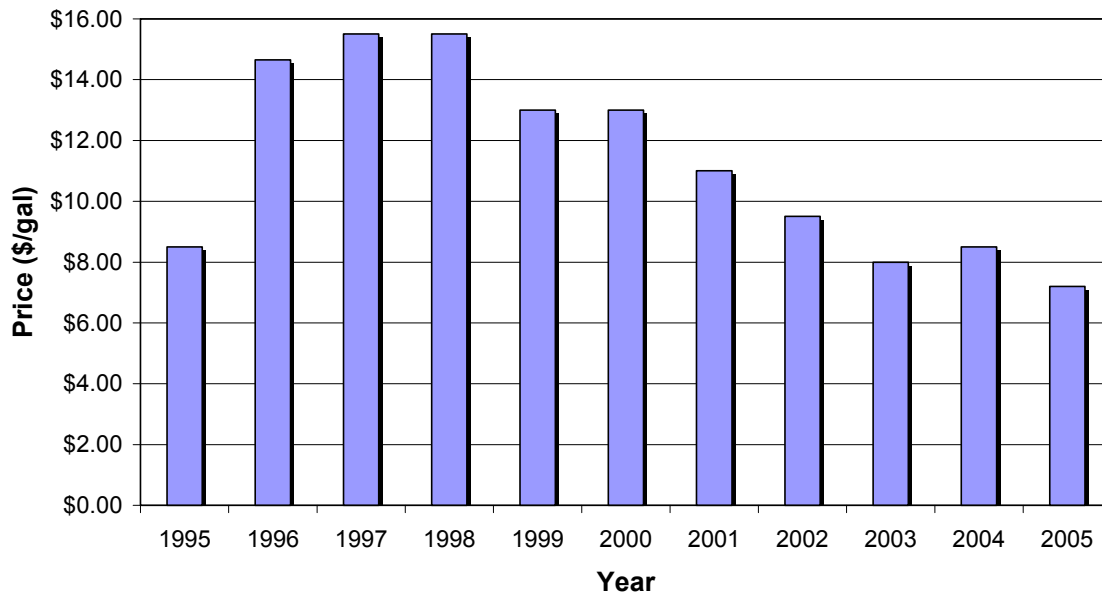
but the industry has never experienced the size of crop that was harvested in 2005.

The inventory situation was manageable as the 2005 crop was harvested.

Concentrate prices were not extremely high but were respectable. However, as the size of the 2005 crop became known, the concentrate price softened. As of last week, the only quoted concentrate price in the west for Concord grapes was \$7.20 per gallon in bulk (Figure 5). Last year at this time the western Concord grape concentrate was \$8.50 per gallon.

The current price quote of \$7.20 per gallon translates into an equivalent Concord grape price of \$265 per ton. However, the costs of processing, concentration, packaging, inventory, marketing, and some profit

Fig. 5: Prices of 68 Brix Concord Concentrate at the Beginning of Each Marketing Year, 1995-2005



margin must be subtracted to arrive at an equivalent price at the grower's level.

During the previous ten years the price of Concord grape concentrate has never been as low as the 2005 price at the beginning of the marketing year (Figure 5). In fact, in the time period of 1996 through 1998 the price of concentrate was more than twice that of 2005. Since 1996 the general price trend has been downward for concentrate at the beginning of the marketing year.

What does this future hold for the Washington and U.S. Concord grape industry? The current concentrate price of \$7.20 per gallon compares favorably with the \$8.00 plus per gallon price for California red grape concentrate.

With significant marketing efforts it should be possible to bring back some of the buyers who switched to California sources in the last few years.

To regain these sales the processors and their staffs will be required to put forth significant effort and resources. It is possible the loyalty of these buyers will only be obtained by proving that the Concord grape industry can supply a competitively priced product that is stable in its supply. The price competition from California will continue given the state's capacity to produce grapes.

With the larger Concord grape crop in 2005, the cash price dropped to \$100 per ton (Figure 6). Only in 2004, 2003, and 1995 has the cash price been at these levels. Typically, the low prices are associated with large crops and/or inventory levels (Figure 7). Hopefully, with targeted marketing efforts the industry will be able to return to more prosperous times.

Wine Grapes

Total wine grape production in Washington reached a new all time high in 2005. The wine crop in Washington was approximately 125,000 tons (Table 1). This level of production is 10,000 tons more than the previous record crop of 115,000 tons in 2002 (Figure 8). There is little doubt that the record crop in 2005 was held in check as a direct result of the emphasis the industry puts on holding down yields in order to produce the quality of fruit needed to make premium table wines. The industry still has the capacity to produce larger wine grape crops. The estimated production of white wine varieties is 65,400 tons, while for the red varieties it is 59,600 tons.

**FIG. 6: WASHINGTON CONCORD GRAPE PRICES,
1980-2005 (\$/TON)**

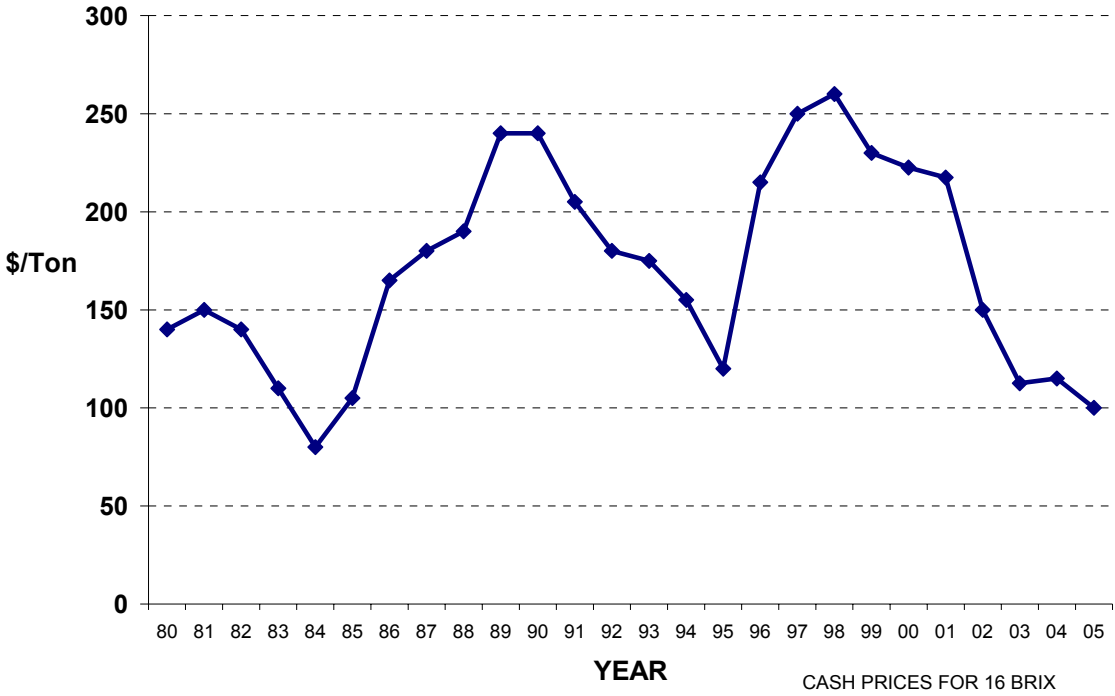


FIG. 7: WASHINGTON CONCORD GRAPE PRICES AND PRODUCTION, 1980-2005

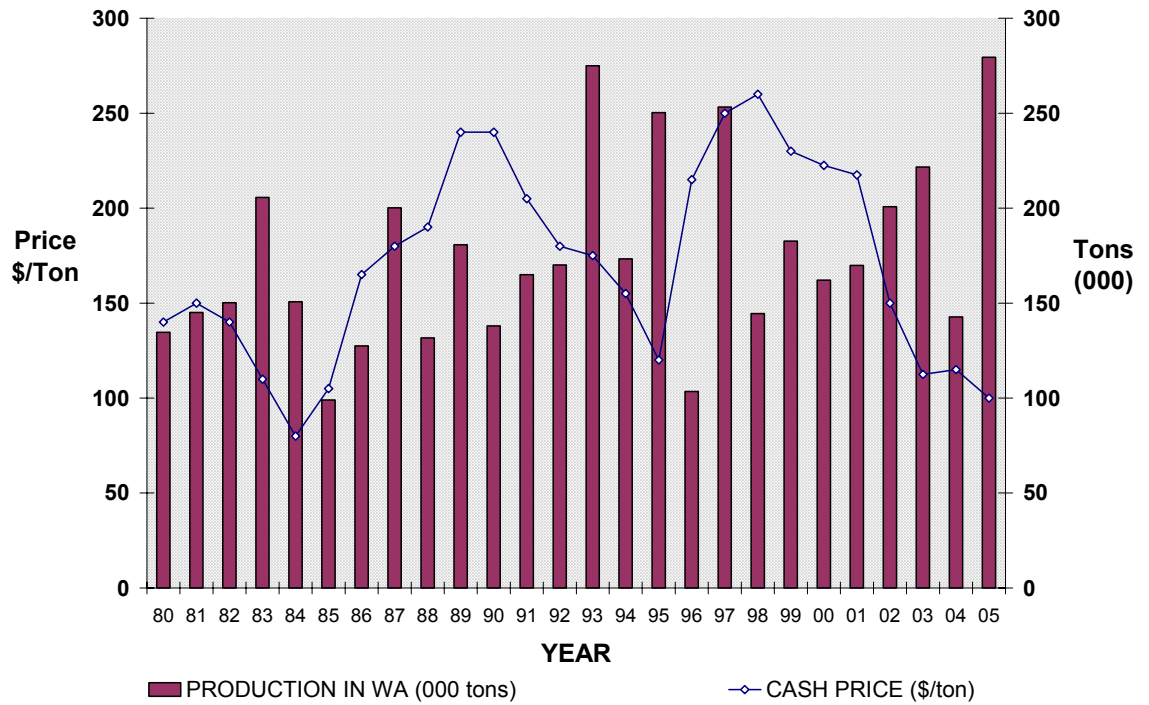
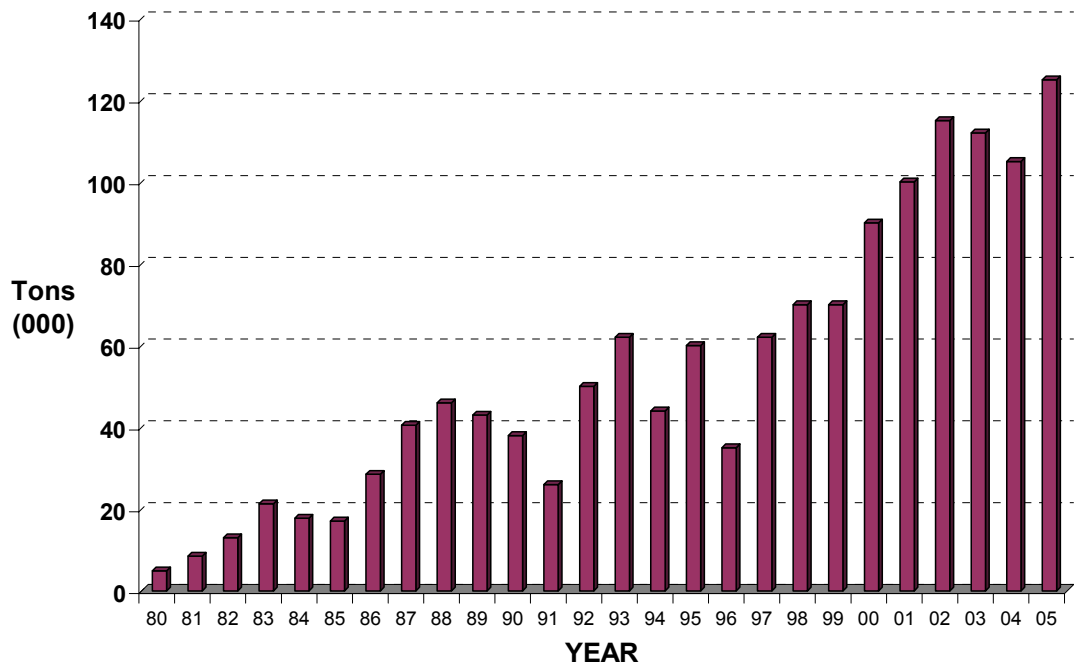


FIG. 8: PRODUCTION OF WINE GRAPES IN WASHINGTON, 1980-2005



It is estimated for the 2005 crop year 200 to 250 acres were not harvested. The unharvested acreage was mostly a result of the lower than desired sugar levels in some varieties such as Cabernet Sauvignon.

The 2005 yields were on average most likely lower than most expected. As a result some wineries were looking for fruit as the harvest progressed. Some of the cash prices during the harvest were higher than last year with the exception of Chardonnay. Some stressed Chardonnay sold for as low as \$350 per ton. The other major white variety, White Riesling was selling for \$750 to \$850 per ton during harvest which is \$50 to \$75 more than the average price last year. The cash price for red varieties during harvest were fairly firm. All of the major red varieties were selling for \$600 to \$650 per ton cash price during harvest.

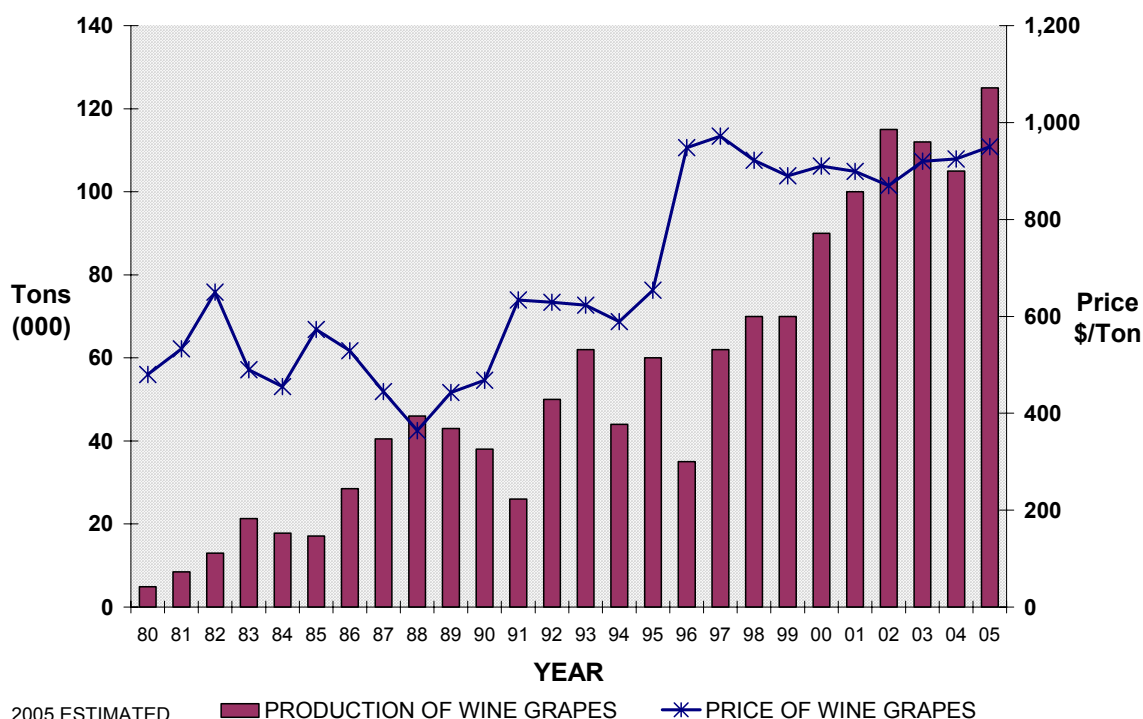
Overall the average red varietal price will be about \$1,125 per ton, while the average white varietal price will be \$790 per ton. Both prices are slightly higher than the average prices last year. The overall average price should be \$950 per ton when released in January 2006 (Figure 9).

Most of the new contracts in the Washington wine industry are on a per acre basis rather than a price per ton. There is little doubt that new bearing acreage contributed significantly to the record crop since yields in the vineyards that contract on a per acre basis are usually held down to 2.5 to 4.0 tons per acre. The cultural practices that are used to hold down the yields not only result in high quality fruit but also to the stability in annual production levels, i.e. less variation in yields and total production year-to-year. The lower yields result in better wood entering the winter season and carbohydrate levels in the roots.

In addition to the large wine grape crop in Washington there was a record crop in California. As indicated above an estimated 6.2 million tons of grapes were produced in California. The estimated wine grape crush in California could reach 2.95 million tons in 2005 as compared to 2.78 million tons in 2004. The only concerns in California are the sugar levels and capacity to handle the crop.

The mix of wine grape varieties produced in Washington has followed the long term trend towards more red varieties as compared to white

FIG. 9: PRODUCTION AND CASH PRICES OF WINE GRAPES IN WASHINGTON, 1980-2005



varieties (Table 1). In 1990 through 1992 white varieties were over three (3.3) times more important than red varieties in terms of wine grape production in Washington. In the period of 2002 through 2004 the production of white wine grape varieties as compared to red varieties was only slightly larger (1.2). In 2005, the trend has continued with the production of white varieties being only slightly larger than the red varieties.

The trend towards red varieties has been a result of the market demand and potential profitability of these varieties as compared to white varieties. However, the production of the red varieties has presented some new problems to the grower and wine maker. First, some of the new red varieties such as Sangiovese are very vigorous and fruitful. There are

Table1. Total and By Color Wine Grape Production in Washington, 1990 – 2005 (tons).

<u>Year</u>	<u>Total Production (tons)</u>	<u>White Varieties</u>	<u>Red Varieties</u>
2005	125,000 (est)	65,400 (est)	59,600 (est)
2004	107,000	56,000	51,000
2003	112,000	60,600	51,400
2002	115,000	62,500	52,500
2001	100,000	50,000	50,000
2000	90,000	48,000	42,000
1999	70,000	42,500	27,500
1998	70,000	43,500	26,500
1997	62,000	38,000	24,000
1996	35,000	23,000	12,000
1995	60,000	39,000	21,000
1994	44,000	31,000	13,000
1993	62,000	44,500	17,500
1992	50,000	37,650	12,350
1991	26,000	20,750	5,250
1990	38,000	29,250	8,750

Source: Washington Agricultural Statistics Service, Washington Grape Report, various years, Washington Agricultural Statistics Service, Olympia, WA.

concerns over the winter hardiness of the variety and the ripening of the fruit. The latter concern carries over to other varieties such as Cabernet Sauvignon. In 2005, there were noticeable tonnages of Cabernet Sauvignon not harvested as a result of low sugars. This lack of ripening occurred despite the long 2005 fall. The Washington wine industry is still on the steep slope of the learning curve and will have to adjust practices in the

vineyards and wineries to judiciously make premium table wines from such fruit. It is doubtful if the trend towards the planting of red varieties will change in the future given consumer desires as expressed in the market.

In the time period ending July 2, 2005, the sales by volume of red table wines in U.S. retail grocery stores were up 6.5 percent. During the same time period white table wine sales were up 4.1 percent and blush table wines were up 3.8 percent. Overall, domestic table wine sales were up 2.5 percent, while imported table wine sales were up 7.5 percent. Most of the import sales increase was comprised of Australian wines.

The increase in table wine sales by volume is only part of the picture. The value of table wine sales was up 8.4 percent as compared to the 3.35 percent increase by volume. The larger percentage increase based upon sales value or revenue as compared to volume results from the higher price per bottle for red table wines as compared to white table wines.

The sales of the “big three” in table wine category all follow the trends mentioned above. Chardonnay sales for the quarter ending July 2, 2005 were up 3.8 percent on a volume basis and 5.3 percent on a retail value basis. Cabernet Sauvignon sales were up 14.5 percent on a value basis and 8.0 percent on a volume basis. Merlot sales by value were up 1.4 percent while on a case volume basis Merlot sales were up 1.2 percent. There is a question as to whether or not the Merlot sales data is a result of seasonal demand forces or if Merlot has become a mature product in the sales mix of the wine industry.

There are other varieties which have noticeable sales growth but not the volume of the big three. These other varieties are Pinot Noir, Syrah/Shiraz, and Pinot Grigio/Gris.

The U.S. including the Washington wine industry is facing stiffer and stiffer price and quality competition from offshore. Australia has created the “second” lake of wine in the world. Australia harvested a record crop of Pinot Noir. The Australian wine industry has already geared up to market this wine on the international market. In fact, the 3 liter box of varietal table wine is already on the U.S. market and is very competitively priced. The first wine lake was created in Europe which now faces an even more severe imbalance between supply and demand.

In 2002 for which the latest world-wide data is available, the total supply of wine was 260,898,000 hl and the consumption was 227,831,000 hl. This is a surplus of 33,067,000 hl. The consequences of such a large surplus can be viewed on the nightly national news. In France, some table wines are selling for 1.17 Euro per bottle. Up to one fourth of the French wine production will be distilled into industrial alcohol this year. Italy converts more wine into industrial alcohol each year than all the wine the U.S. produces in a given year. There has been and will continue to be stiff price competition in the market as a result of the over supply situation.

Another question that the world wine industry faces is the use of appellations. In the U.S. there have been several court cases in California. In Europe the AOC and DOC system which are equivalent to the U.S. appellation system is under fire. In all cases the basic problem revolves around the misuse of appellation names on wine labels and where the grapes are produced. The European Union is demanding a system that lists names of

products that can not be used by others rather than a system that protects producers in a given geographical area that produce a product. Such behavior coupled with the surplus of wines world wide have resulted in a narrowing of the price difference between table wines which bear and do not bear an appellation name on the label. Stated another way the price difference between premium and everyday table wines has narrowed.

In addition to the concerns or opportunities facing the wine industry is the changing structure. There is no doubt that the larger wine companies are growing in size and will be larger tomorrow than they are today. This growth through mergers and acquisitions is a fact of life. It is cheaper to grow in this manner rather than starting new wineries with new labels and distributions/marketing systems. Growers will have to adapt to the fact that the degree of concentration in the industry is increasing and they will be dealing with larger wineries/buyers in the future. Hopefully the increased concentration will not change the basic philosophy in the Washington wine industry that the only manner in which it can compete is by producing quality fruit and premium table wines.