



CIATTI
GLOBAL WINE & GRAPE BROKERS



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**Ciatti Global Wine
& Grape Brokers**

201 Alameda del Prado, Suite 101
Novato, CA 94949
Phone (415) 458-5150



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Our thoughts are with all those affected by the recent and ongoing wildfires across California and the West Coast in general. In mid-August, remnants of an eastern Pacific tropical storm brought intense thunderstorms and a record number of lightning strikes to much of California, including to bone-dry areas officially in moderate or severe drought. The resulting fires include the 'SCU Lightning Complex' and 'LNU Lightning Complex' blazes in the Coast, which have become the second and third-largest ever recorded in California. We have seen fires erupt elsewhere in the state in recent days, as well as in Washington state and Oregon.

Even though in many cases there was no direct physical damage to vineyards or processing facilities, smoke and smoke exposure concerns have – in the past three weeks – had a substantial effect on our industry and the decisions that are getting made.

The consequences are being felt by – mainly Coastal – growers and the bulk wine market:

- Indicative of how widespread the concern is regarding the impact of smoke, there is currently a backlog of laboratory testing for smoke taint – with turnaround times of up to 30 days or more in some instances – just at a time when Brix levels on some varieties mean they are ready to pick now.
- In the past two weeks the bulk market has been as busy as we have seen it in the past three years, active across all categories of 2018 and 2019 bulk wines, as buyers become more sceptical about the availability of bulk wine on the market moving forward.

Let's not forget that – amid this smoke issue and the continuing pandemic – a harvest is still underway. Many steps are being taken to limit the spread of COVID-19 as we go through crush but, inevitably, we are still seeing the odd outbreak here or there. Overall, the 2020 crop currently seems to be coming in lighter than average.

Harvest in the **North Coast** is running up to two weeks early, is approximately 30% complete and looks lighter than average. Progress has slowed while many growers and wineries wait for smoke testing results; we are not seeing many growers pick if they do not first have a lab result. The **Central Coast** is a little more advanced, with some growers having already completed their Sauvignon Blanc and Pinot Noir harvests; in some cases, Chardonnay is already at or near required Brix levels.

The Interior is approximately 50% through harvest. In **Lodi**, picking of the white grapes is largely complete, much of the Pinot Noir is done, and Syrah and Zinfandel are starting to roll in. The whites in the **southern Valley** have been picked. Timing in the Interior feels normal and the yield appears lighter than average, with Pinot Grigio maybe the least light.

Read on for more details on smoke, plus its impact on pricing and activity levels on the bulk market. This year has proved to be a challenging one – to say the least! – but don't hesitate to get in touch so that we can help you navigate the craziness. Feel free to call to bounce ideas off us. One thing's for sure: After such a testing year, we will all start the next one all the tougher. Good luck and have a safe and bountiful harvest!

Robert Selby

Smoke

As outlined in the introduction, testing for smoke taint is currently a pressing issue. Many growers have grapes hanging at the required Brix levels and face the dilemma of whether or not to pick while they await laboratory results. That wait could take a while: some labs that would normally provide a turnaround of five days are now reporting backlogs of 30 days or more.

The California Association of Winegrape Growers (CAWG) confirmed that growers' crop insurance is eligible so long as the samples are sent to a third-party lab prior to harvest – growers do not need to wait for the test results to be returned before commencing picking – but a fear among growers that they will take the hit should the resulting wine be deemed smoke-tainted means many will not harvest until they have a definite result. Indeed, it has been reported that some wineries will not accept contracted grapes until lab results show that those grapes are not adversely affected.

This – and reports that some wineries will apply not quantitative testing to grapes but sensory testing to the

resulting wines instead – led CAWG to issue a statement on 3 September: “Unless specified in a contract, no buyer should believe they are entitled to reject a grower’s grapes based on concerns over smoke damage without corroborating evidence to indicate those grapes have, in fact, been damaged.” The full statement is [here](#) and we recommend – for the latest on the smoke issue – checking out [this regularly updated wildfire information page on the CAWG website](#).

It needs to be borne in mind that smoke exposure testing remains an often grey area, with lack of clarity as to what the numbers mean and what the resulting wine will taste like. This is likely contributing factor to the differing levels of concern among wineries as to how smoke exposure will affect the 2020 vintage. And without a universally agreed interpretation of test results, growers and wineries are largely working blind as they try to make decisions and devise strategies to take into account the effects smoke could potentially have on the vintage.

The Bulk Wine Market

California’s bulk market had already been experiencing good activity levels in recent months thanks to the well-documented boost in wine sales at US grocery stores following the arrival of COVID-19. But in the past couple of weeks the bulk market has become even more active – as busy as it has been for three years – due to a confluence of factors.

Firstly, there was the aforesaid uptick in bulk demand due to the grocery sales boom, then the 2020 grape crop looked lighter than average, and then the wildfires brought smoke exposure fears. These factors combined with pre-existing pent-up demand from buyers who have been proceeding with smaller inventories in recent years as supply on the bulk market has been plentiful. The result? Buyers are now coming onto the market to cover what they need from the 2018 and 2019 vintages.

The size of the bulk inventory is thus continuing to trend smaller (see graph). This will be assisted by some sellers taking inventory off the market as a

precautionary measure in case they need it themselves or because – quite simply – they are uncertain about where market demand and prices are going. On the flip-side, some sellers are putting wines onto the market that they had previously not listed because prices – from their perspective – are better (and/or they may have less concern regarding the impact of smoke on their 2020 vintage).

It should thus be remembered that buyer demand for bulk wine has primarily increased in response to perceived supply instability, not to an increase in overall consumer demand. While year-on-year dollar sales in the off-premise continue to be significantly up according to Nielsen (17.4% in the week to 22 August; 17.7% in the week to 15 August; 19.1% in the week to 8 August; 17.3% in the week to 1 August), demand is still down overall due to the ongoing closures/restrictions imposed on the on-trade. Only those off-premise-focused buyers with well-positioned, widely-distributed

See next page for more.

brands in grocery stores are experiencing a genuine sales bump.

With deals now being done quickly and – in general – on larger volumes, we have seen bulk wine prices rise across the board. Prices have risen quickly enough that some sellers are removing their wines from the market now in the belief they may command a higher price later on. At the very least, the activity has served to re-solidify the price floors on the Coast so that the trend towards Valley pricing has been halted there.

It can be said that pricing has returned to a more ‘normal’ range – i.e. the price-quality hierarchy seen up until the past two years – but, as it has only recently re-emerged, it is hard to know if such prices will be sustained or indeed rise further. Again, as this buyer activity is due primarily to perceived supply instability instead of increased consumer demand, and with almost all bulk demand being for the grocery sector at the moment, there may be a limit as to how high in price buyers can realistically go before shrinking

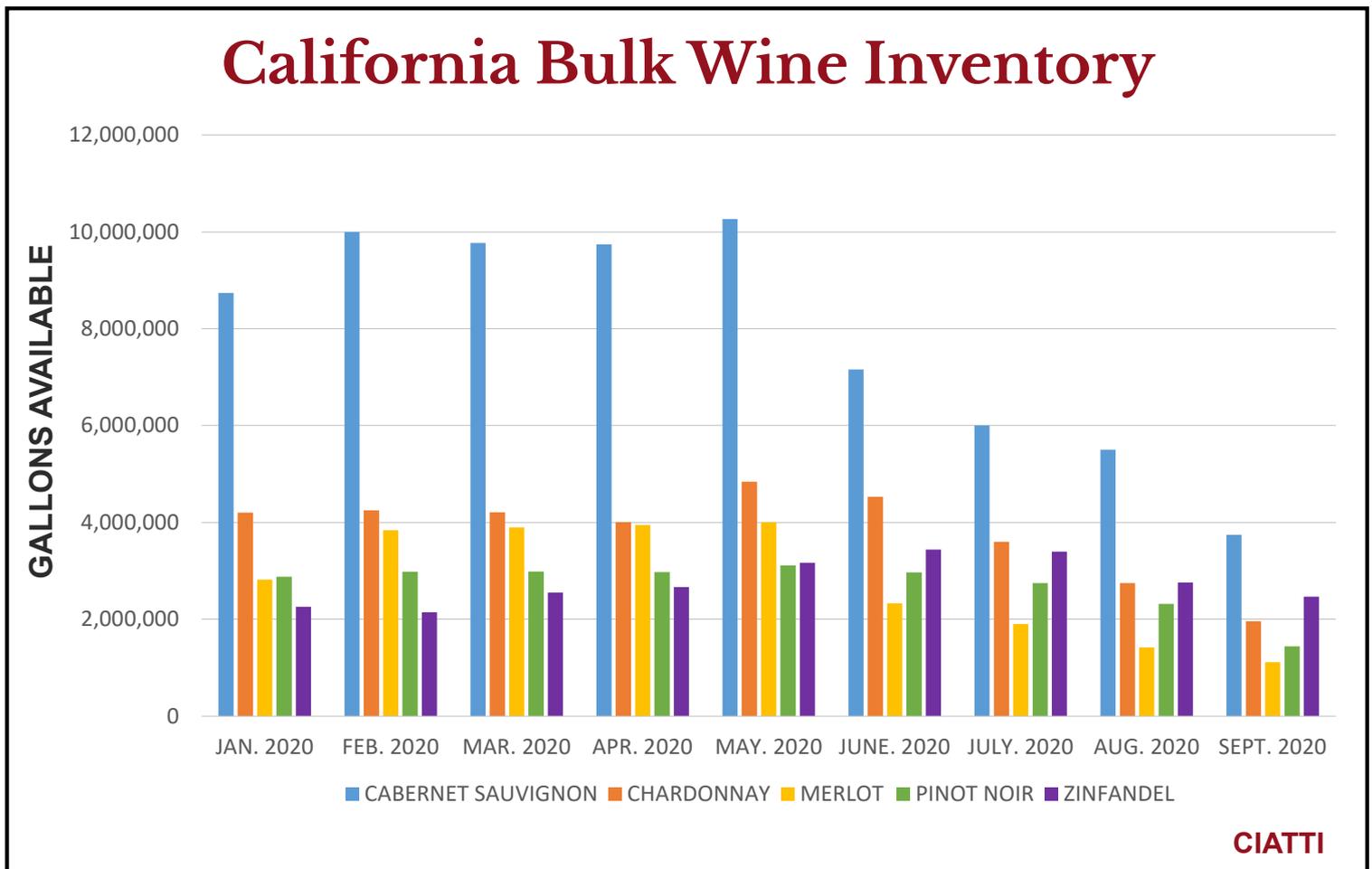
margins make those prices unsustainable. Relatedly, Lodi has likely been attracting much interest in recent days precisely because it offers pricing that is perceived to be sustainable by buyer and seller alike.

We are also receiving inquiries into the availability of wines – and even grapes – from Washington state, and also wines from other countries. All options are being scoped out, weighed up and considered, as people try to determine the right strategy for their businesses moving forward. In the past we have seen some buyers seek to skip a vintage completely, if its quality has been thrown into question by the wine media and the media at large – switching to another state, or different country entirely, is viewed as an option.

With bulk wine activity so strong, now is a great time to put wine onto the market if you have it to sell.

Get in touch with us to let us know what you have.

Likewise, if you have bulk wine needs, we can help you fulfil them.



The Grape Market

Grape activity has continued robustly in the Central Valley – geographically more distant as the region is from the wildfires, at least until recently – and most grapes are now sold, with perhaps some Pinot Noir and Zinfandel still available. The bigger wineries have been pushing on steadily with crush and exhibiting few concerns regarding quality.

Meanwhile, grape activity on the Coast slowed to a standstill in the initial days of the fires, but in recent days the market has picked up a little, with some buyers coming onto the market to purchase fruit, whether to work through smoke issues or fill needs given the smaller crop. Many potential buyers of Coastal fruit are naturally cautious at this point. Those with grapes to sell who can show they are smoke-free may have some success in finding a buyer, but – as

mentioned above – getting test results back is not easy at the moment.

If their winery is not going to buy their grapes, the grower must determine whether to take crop insurance or make bulk wine themselves. Some growers do not have crop insurance, so their decision will be even more difficult.

We have seen some opportunistic wineries seek to sell 2019 vintage wines and then try to find deals on 2020 grapes, in a bid to sell high on one side and low buy low on the other. **There are still 2020 grapes available, so now is an opportune time for buyers less fearful of the smoke issue to come onto the market to secure what they need. If you are in that camp, get in touch and we will help you find what you require.**

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Contact Us : 201 Alameda Del Prado #101
Novato, CA 94949
Phone (415) 458-5150

Chris Welch

T. +415 298-8316
E. chris@ciatti.com

John White

T. +415 250-0685
E. johnw@ciatti.com

Todd Azevedo

T. +415 265-6943
E. todd@ciatti.com

Glenn Proctor

T. +707 337-0609
E. glenn@ciatti.com

Steve Dorfman

T. +707 321-3843
E. steve@ciatti.com

Dennis Schrapp

T. +905 688-1340
E. dennis@ciatticanada.com

Greg Livengood

T. +415 497-5032
E. greg@ciatti.com

Johnny Leonardo

T. +415 717-4438
E. johnny@ciatti.com

Molly Richardson

T. +415 630-2416
E. molly@ciatti.com

Jed Lucey

T. +415 630-2431
E. jed@ciatti.com

Mark Ishimaru

T. +415 630-2548
E. mark@ciatti.com

John Fearless CO. Craft Hops & Provisions

CEO - Rob Bolch
Sales - Geoff Eiter
Purveyor of Quality Used Oak Barrels -
Raymond Willmers
T. + 1 800 288 5056
E. rob@johnfearless.com
E. geoff@johnfearless.com
E. raymond@johnfearless.com
www.johnfearless.com

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