



**CIATTI**  
GLOBAL WINE & GRAPE BROKERS



# *California Report*

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**Ciatti Global Wine  
& Grape Brokers**

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“We lack a crystal ball to show us what 2020 will bring” we wrote in our report last January, reading now like a quaint comment from a more innocent age when small movements in demand or prices were the talking points of the marketplace, not global pandemics and record-breaking wildfires. In light of 2020’s subsequent developments, we at Ciatti would like to wish all our friends, clients and business associated a very happy, healthy – but also uneventful! – 2021. We thank you all for your continued support.

California’s bulk market enters the new year in a more balanced supply-demand position as COVID-19 from March onward, then severe wildfires from August onward, quickly depleted the state’s large 2018 and 2019 inventory. For example, we estimated that, by December 2020, Cabernet inventory was approximately half December 2019 levels. Bulk prices rose through mid-year, then plateaued in the final quarter; the Coast/California price separation returned after a two-year absence, though to what extent and for how long is questionable while the on-premise remains shuttered in many areas of the US.

It goes without saying that 2021 is hard to predict: On the one hand, COVID-19 is – now more than ever – an acute problem for the US and the world; but on the other hand, the vaccinations against it have been rolling out since December. The speed of this rollout is likely to determine the speed at which life can return to some normality. But it cannot be taken for granted that, when normality is re-enabled, life will return to how it was pre-2020. Consumer confidence, as well as retail and restaurant districts, may be scarred for the longer-term, particularly as the full economic consequences of the COVID-19 measures start to filter through. In the meantime:

- Wineries should let us know what 2020 bulk wines they have available so that we can help them find a buyer. Likewise, buyers of bulk wine should let us know their requirements so we can get them fulfilled quickly.
- Grape suppliers should update us on the 2021 grapes they will have for sale. Buyers of grapes should register their interest with us so we can match them up with a supplier.

To get your bulk wine listed, contact either Jed at +1 415 630 2548 / jed@ciatti.com or Mark at +1 415 630 2458 / mark@ciatti.com. To get your grapes listed, contact Molly at +1 415 630 2416 or molly@ciatti.com.

Ciatti is here to help you navigate the market – whatever 2021 throws up. Our *California* and *Global* reports will continue to provide insights, but for the fullest and most up-to-date picture don’t hesitate to get in touch with us directly.

*Robert Selby*

# 2020: The Year That Was

**Following harvests exceeding 4 million tons in both 2017 and 2018 (including a record 4.28 million tons in the latter) and weak case-good demand, California's bulk wine inventory going into its 2019 harvest was significant. Consequently, some uncontracted fruit was left unpicked and the final crop totalled 3.92 million tons, smaller than many expected and the second-smallest since 2011.**

We detected welcome pockets of increased bulk activity in the weeks prior to this final harvest figure being released on February 10 2020, activity levels that went “beyond seasonality” for the early-year period as buyers took opportunities to purchase Coastal wines at California pricing. Demand was for small volumes (mainly of remaining 2018 reds and whites and some 2019 whites) and not enough to lift pricing from their rock-bottom position but, by the start of March, we were able to say there was “very cautious” optimism about the bulk wine market after a more active January and February than in 2019.

By the next California Report the world was completely changed. COVID-19 became a global pandemic through March: on the 13th the US declared a national emergency and on the 19th California issued a state-wide Shelter in Place (SIP) order. For the week ending the 21st, wine sales in US off-premise channels were up 66% (and up 224% online) versus the equivalent week of 2019 as consumers stockpiled and, although that remained the high watermark, Nielsen estimated wine's weekly off-premise dollar sales were up 26.6% from the start of March to 25 July. Consequently, bulk market activity quickly ramped up as buyers fulfilling value (such as 3-liter bag-in-box), mid-market (such as \$7-10/bottle) and private label brands with a nationwide distribution in US off-premise channels came in seeking supply, while others took their wines off the market to use themselves internally.

The speed and size of the upswing in activity was probably accentuated by the market's sluggishness in the preceding months: Due to long-term slow case-good demand, buyers had been holding only limited inventory in storage. We put out a call for samples and deployed workarounds to keep the samples pipeline flowing amid restrictions on movement. Meeting just the right price point was important: Multiple resamples were often requested as buyers carefully weighed-up how best to meet retailers' requirements. Most wines that did so were California appellation; a low ceiling kept premium appellation wine prices in check. With the on-premise shuttered, the grocery multiples and online wine retailers were in a powerful position to dictate pricing and which wines the consumer saw on the shelf/webpage.

On-premise purchases, meanwhile, contracted dramatically as consumers stayed at home and/or many businesses were forced to close. By May it was clear that, in terms of value, the cratering in on-premise, tasting room and DTC sales would total many billions of dollars and more than offset the off-premise boom. Many premium wineries mainly serving on-premise channels adjusted down their sales projections and placed wine onto the bulk market, and some – perceiving, correctly as it turned out, that COVID-19 would not be a short-term phenomenon – sought to renegotiate 2020 grape contracts downward. It was perhaps not all doom and gloom: The greater maturity of the e-commerce wine retail sector since the previous global crisis – the financial crash of 2007-09 – perhaps helped more mid-range and high-end wines find a home that otherwise might have done. Online wine clubs, for example, grew strongly and provided a successful retail space for higher-end wines and imports. But in general, premium appellation Coastal wines – other than Napa Valley Cabernet – struggled to find a home. As the 2020 harvest loomed, Coastal suppliers were encouraged to be open-minded in order to secure deals that provided tank space and cashflow if not the pricing they would have preferred.

The grape market remained mostly quiet as there continued to be significant bulk inventory – built up over preceding years – to work through first, though we were starting to see grape activity pick up in the Central Valley. The central focus was squarely on sourcing bulk wine, bottling quickly and shipping for immediate off-premise needs. By July some – selective – grape contracting was being carried out in the Central Valley across a range of

reds and whites at prices workable for sellers but below their expectations. With the trend over the previous two years for not renewing grape contracts, many grape buyers were freed-up to operate on the spot market and some who traditionally operate in the Valley opportunistically prospected the Coast where a significant amount of fruit remained available – more uncontracted fruit, in fact, than at the same stage of the prior year.

By July the bulk market had slowed from its March and April frenzy as contracted volumes were worked through: Off-premise sales were proceeding strongly and steadily, at roughly +20% growth each week through late spring and summer. Specific qualities of specific varieties were becoming harder to find – Central Valley Cabernet at a certain price point, for example – and although prices remained significantly down from the highs last seen in 2018, the floor was firming in some cases. Ciatti's bulk wine barometer in August showed available Cabernet gallons at just over half where they were in February, with Chardonnay and Merlot seeing similar declines. A tightness in supply of good-quality California appellation Cabernet sent buyers into the Coast requesting volumes at California prices.

The continuing bifurcation of the bulk marketplace, whereby bulk wine was selling at California pricing but not at Coastal pricing, was starting to feed through to the grape market by August, with strong grape activity in the Central Valley – especially on Cabernet, Sauvignon Blanc and Chardonnay – ensuring far fewer grapes would be left unpicked in this region versus 2019. With no end to on-premise disruption in sight, and with plenty of uncontracted fruit available, many grape buyers in the Coast were happy to hang back from contracting, planning to take their chances on the spot market later in the year when – they hoped – their needs would be clearer to them. This left plenty of space for buyers who normally source California grapes opportunistically moving into the Coast seeking grapes at California prices, as well as speculative buyers acquiring Coastal fruit at discounted prices in order to see if they could make some money on the bulk market. Suppliers were recommended to think hard before rejecting offers – 2020 had become all about survival through to a new and hopefully better year – and also to weigh-up very carefully whether or not to take on the additional risk of making their own bulk wine, considering the lack of any medium to long-term market visibility.

The 2020 crush got underway in July amid COVID-19 protocols and excellent vineyard conditions across the state. The growing season had thrown up very little disease pressure and few if any climate extremes but – unsurprisingly after three successive average/average-plus crops – the early signs were that the 2020 crop would come lighter than the average. Then, in mid-August, remnants of an eastern Pacific tropical storm brought intense thunderstorms and a record number of lightning strikes to bone-dry areas in California officially in moderate or severe drought. The ensuing wildfires, and other fires that sparked through to the end of September, burned through a record area – 4.1 million acres – but, although some vineyards and processing facilities were damaged, the main concern for the wine industry surrounded the effects of smoke exposure on the grapes yet to be picked. This was especially the case in the Coast, which was more exposed to the wildfires and resulting smoke.

This concern regarding 2020 supply – potential losses due to smoke exposure exacerbating what was already a lighter crop – dovetailed with continued robust off-premise demand to trigger the busiest few weeks seen on the state's bulk wine market in three years or more. The frenzy occurred across all categories of 2018 and 2019 bulk wines, often for larger volumes. Prices increased across the board, the Coast's price floors were resolidified and the trend towards Valley pricing there ended. The market's price-quality hierarchy was resurrected with the Coastal/California price division returning after an absence of two years or so. A ceiling on prices remained, however, considering almost all bulk demand was coming from the off-premise channels. By October it was clear bulk wine inventory had declined and the market was shifting from one of oversupply (especially in the Coast) to a more balanced or 'normal' position.

Meanwhile, out in the growing areas, some wineries reportedly refused to accept contracted grapes until laboratory results showed that they were not adversely smoke-affected. Growers had grapes hanging at the required Brix levels and faced the dilemma of whether or not to pick them while results for smoke exposure were still to come back

– some labs were overwhelmed and reporting backlogs of 30 days or more. Even when results did finally come back, the lack of industry-agreed benchmarks meant they were open to subjective interpretation by growers and wineries trying to protect themselves. We called for dialogue: “The wine industry – growers, wineries, crop insurance companies, researchers, testing labs and others – need to sit down together after this harvest and hash out a way of working with smoke moving forward that is agreed and accepted by all. We do not want to do this again.”

The 2020 harvest drew to a close slightly earlier than in previous years and would have finished sooner still but for layers of smoke reducing sunlight radiation levels, stalling grape readiness in some areas. The expectation was that fruit yields were 10-30% down from average depending on region and variety, not including any fruit left unpicked – mainly in the Coast – due to a positive smoke exposure tests. We estimate a total state harvest of around 3.4 million tons, which would make it the smallest since 2011’s 3.34 million tons. The Coast’s white varieties came in lighter but most were picked before the fires; most of the smoke exposure concern surrounded the Coast’s Zinfandel, Merlot, Pinot Noir and – to some extent – Cabernet.

After the initial panic, fears around smoke exposure’s potential impact on availability diminished towards the end of the year and, consequently, so did activity on the bulk market. By December prices were stable – albeit stable at a relatively high point on any remaining 2019 inventory – and purchases proceeding in small increments while OND retail sales were analyzed and the industry carefully navigated its way through a landscape offering little forward visibility due to COVID-19. The reimposition of strict stay-at-home orders across most of California from 3 December was a reminder that – until such time as vaccinations have reached the requisite percentage of the US population for restrictions to be eased – the virus will remain with us.

Nielsen off-premise data for November showed an 8% increase in domestic wine sales value – down on the levels of increase seen through the year (including October’s +17%) but off a far higher base due to Thanksgiving. Overall, according to research firm bwl66, in the 12 months ended November US domestic wine sales fell 6% in value to USD47.7 billion, as a 13% increase in off-premise dollar sales failed to fully offset a 39% decline in the on-premise. By the end of the year up to a quarter of US consumers had bought wine online, either direct from wineries or from retailers.

## 2021: Looking Ahead

Due to events that could not have been guessed at 12 months ago, California’s bulk market comes into 2021 in a more balanced supply-demand position than it has been for two years: Cabernet inventory by the end of 2020 was approximately half where it stood in December 2019, while the respective inventories of Chardonnay, Merlot, Pinot Noir and Zinfandel were – to varying extents – also significantly smaller. Supply of the 2019 vintage is now very limited and often high in price, while – due to the lighter 2020 crop and potential smoke impact – there is still limited clarity on 2020 vintage availability at this stage.

The Coast has received some interest for its 2020 whites – though Chardonnay demand has been notably muted – and on Pinot Noir. In the Central Valley, meanwhile, some suppliers are already sold out of their 2020 Sauvignon Blanc, Pinot Grigio and Muscat, forcing some buyers to seek alternative sources overseas. Central Valley Cabernet is also becoming harder to find (and the Coast’s Cabernet may currently be too high in price for many buyers supplying the off-premise), and the region’s limited Pinot Noir inventory is receiving interest.

Prices across the state are stable and purchasing will proceed in increments while buyers assess how the new year will unfold. Some suppliers are speculating that prices will trend upward off the back of a more normal supply-demand dynamic – however abnormally it has come about – and are holding onto their wines until later. Indeed, we are seeing some buyers discussing 2021 wine contracts already, perhaps because they are supplying retailers and see lower wine availability now versus a year ago. It may be that the strong growth in off-premise volumes that we

saw in the final nine months of 2020 will continue into 2021, at least until mid-year when, it is hoped, vaccination rollouts will enable the easing of restrictions including those imposed on the on-premise. But it may also be the case that the considerable economic hangover from COVID-19 could start to be truly felt in 2021 and become reflected in consumer spending. These are uncharted waters.

Effective 12 January 2021, the US has expanded its 25% import duty increase on European wines to include French and German still wines over 14% alcohol in both bottled and bulk form, scuppering moves by suppliers to circumvent the increase by bottling in the US or importing higher-alcohol wines. The tariff hikes on these products are an expansion of the original tranche, effective since 18 October 2019, on French, Spanish, German and UK wines “not over 14% alcohol, in containers not over 2 liters”, levied as part of the long-running US-EU aircraft subsidies dispute. Effectively, all French and German wine imports into the US are now subject to the 25% tariff increase. Anecdotally, French wine imports into the US were seemingly holding up well in 2020 in the face of the original tariff hikes, thanks to increased demand from US online wine clubs (attributable to the SIP orders). However, imports of the EU wines affected by the tariff increases have reportedly fallen by half since their original imposition in October 2019 and Italian wines – so far free of the hikes – have consolidated their position as the leading import.

Preliminary discussions around 2021 grapes have got underway, much more so in the Central Valley than on the Coast, but – due to murky sales projections and the general lack of market visibility moving forward – buyers are uncertain about how much fruit they will need. Growers in any case are hesitant to commit to contracts at this stage, especially if the winery is coming in with the same offer as on the 2020 grapes. But the fact people are talking about 2021 grapes now is a sure sign the bulk market has returned to a more normal position, again albeit for abnormal reasons.

It feels like there is some pushback going on against the dominance of the ‘big five’ varieties of California’s winegrape offer, with planting contracts recently being discussed on Merlot (in the Coast and Valley) and Chenin Blanc and Colombard (in the Valley). Looking ahead to the 2021 growing season, the long-range weather forecast dated 6 January from Linfield University’s Dr Gregory V. Jones shows La Niña dominating the outlook for the second half of winter: California is expected to be warm and dry at least through to March and some areas are on drought watch.

## Events

Ciatti brokers will be virtually attending or speaking and will have a booth at these upcoming events:

- **January 26 - 28:** Unified Wine & Grape Symposium
- **March 4:** WineExpo Tradeshow & Conference

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