



CIATTI
GLOBAL WINE & GRAPE BROKERS



California Report

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**Ciatti Global Wine
& Grape Brokers**

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Ciatti June Global Market Update

**Wednesday, June 23rd, 2021
9:00AM - 10:00AM PST**

**Review of the Global Market, What has happened this past year and how things
look as we move forward**

Shipping Wine Around the World in a Pandemic – Hillebrand

Market Review by Country:

Petrè Morkel – South Africa

Eduardo Conill – Argentina

Marco Adam – Chile

Florian Ceschi – Europe

Greg Livengood – USA

REGISTER

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May brought little moisture to California and the impact of an unseasonably dry winter – in which snowpack, aquifer and tributary replenishment was highly limited – is starting to make itself felt. Counties are declaring drought emergencies and water restrictions and in parts of the Central Valley the federal government has reduced water allocations. Vineyard conditions currently appear healthy across the state, but the tightness in water supply this early raises a question mark over the outcome of the 2021 crop.

In the Central Valley, long used to negligible water, particularly in the south, the vineyards are through bloom and cluster numbers appear normal, though the clusters themselves potentially seem smaller in size – less filled, with reduced shoulders. The Chardonnay crop is perhaps looking a little lighter than normal. In the Central Coast, also used to limited water supplies especially at its southern end, there is confidence water shortages will not become a problem, but some winter kill was in evidence and the feeling is that it is not shaping up to be a big crop. In the North Coast, the Russian River's low water levels and limited aquifer stores are a concern. In summary, our tentative, very early estimate is a crop reaching 4 million tons at its upper limit, but likely coming in below that figure. Harvest timing, meanwhile, looks to have caught up with last year's after an initial delay to shoot growth, potentially the result of an early frost event last November.

Meanwhile, the bulk market continues to be driven by demand for California appellation wines. Consequently, bulk wine and grape activity in the Coast is outstripped by activity in the Central Valley. The Valley's bulk supply, however, is now highly limited and robustly-priced, potentially bringing into play any Coastal wines at the right price point for the buyer and also international wines for those especially price-sensitive buyers. The US on-premise is now open for business but while NielsenIQ data shows that wine's dollar sales at grocery stores were down 15% in the four weeks ending May 1st versus the pantry-stocking boom of April 2020, they were still up 12% versus April 2019. DTC shipment volumes exhibit the same trend: down on last year's COVID-inspired sales boom but still well up on 2019.

Readers are advised that shipping delays are currently a significant problem globally, due to a number of factors including a worldwide shortage of shipping containers and other requisite equipment, COVID's impact on port operations, and increased volumes for ports and inland transportation providers to handle. Shipping delays apply to most major North American terminals, East Coast and West, and West Coast port congestion is expected to grow in Q3 2021. Many prices to do with shipping have risen. **There will be a Ciatti webinar on Wednesday June 23rd, at 9am PST, providing a bulk wine and grape market update from each Ciatti office around the world as well as a shipping briefing from international logistics company JF Hillebrand. Don't forget to sign up and tune in.**

In the meantime, read on for the Californian market latest, don't hesitate to get in touch directly if you have any queries, and stay safe.

Robert Selby

The Bulk Wine Market

As mentioned in our introduction, California's bulk wine market continues to be active but it would likely be even more active if the Central Valley had more supply available (as well as lower pricing on what little remains). The lack of Valley supply has led some buyers to consider sourcing wines from abroad if the pricing works and their brand positioning permits a change in country.

The Coast's bulk market continues to proceed steadily but the current pricing outside the most in-demand wines – such as Napa Valley Cabernet – precludes more buyer interest. That said, there are some specific items sold out or close to being so: Russian River Chardonnay, for example, is low in availability. Demand for the Coast's 2020 Cabernet outside Napa Valley is limited, perhaps because buyers came in and secured the remaining 2018 and 2019 wines after last summer's wildfires and are covered for the time being. Smoke exposure perceptions – retailer, consumer – are likely one further cause of the slowness in demand for 2020 Coastal Cabernet and Pinot Noir.

It remains to be seen whether demand for 2020 Coastal Cabernet will return once the older vintages have worked their way through at the consumer end, or whether the supply will need to soften in price in order to attract those buyers currently active – i.e., those fulfilling California programs. A wider question is whether the strength of wine sales in grocery stores (where sales are more brand- and price-orientated than appellation-focused), combined with the reduction in on-premise wine lists (to a few eye-catching options on a QR code-generated menu), makes sub-appellations less able to command a premium in the medium to long term.

There are buyers eyeing Coastal wines that have reduced enough in price to become viable alternatives to the Valley. This growing interest continue should the Valley inventory remain under big pressure and then the 2021 crop comes in lighter than average. The Valley's bulk supply is further restricted by the fact big wine companies have taken in all their own bulk supply for their internal use in meeting grocery store demand, therefore putting less wine onto the bulk market.

Grape Market & Planting Contracts

As on bulk wine, so on grapes: Availability is tight in the Central Valley – with any 2021 grapes still unsold likely because the grower is holding out for a higher price – and some buyers of Valley fruit would consider switching to the Coast if the price was right.

Especially outside Napa and Sonoma, the Coastal grape market can be characterized as slower than in the Valley but still steady, with interest popping up intermittently on specific items, usually in limited quantities. Buyers who normally source Valley grapes have been eyeing Coastal fruit if margins allow, but pricing would need to soften to a level we have yet to see in the Coast to attract concerted Valley interest. That being said, opportunistic grape buyers eyeing Coastal supply must take note that – overall – grape inventory is significantly reduced in the Coast from where it was and, should the 2021 crop come in lighter, a late spot market may not develop.

Wineries need grapes and affordable pricing but a number of grape varieties have not seen new acres go into the ground in California for many years. Consequently, wineries must often buy fruit from older vineyards that lack the efficiencies to yield enough tons per acre to make the grape price per ton attractive from their perspective. Are buyers willing to invest in planting contracts that will, in the long-term, produce grape prices that both the grower and buyer can work with? We see little evidence of that at the moment, and the industry continues to feed off the prior generation's investments in vineyards. Growers are naturally hesitant to undertake new plantings speculatively, they will require contracts to plant, but so far there is a gap between the tonnage prices offered by buyers and those that growers expect, particularly as wine demand in the US is currently off-premise driven, wine's overall consumer sales were flat coming into the pandemic, and COVID uncertainty persists.

A lack of a long-term planting vision has resulted not only in there often being a disparity between the grape prices growers and buyers expect, but what grapes are available at all. For example, we are still having buyers ask for white blender and floral grapes but there just isn't the supply available, anywhere in the state, and

the *California Report's* deep-dive into these varieties last month did suggest vines had come out of the ground and not been replaced in the past few years, just at a time when canned wine and infused white wine drinks have taken off at retail.

Crush Capacity & Storage – tight?

We have seen earlier than normal activity on securing crushing space, potentially because there have been relatively good demand levels for grapes this year. The conventional suppliers of processing claim to have limited space available and there is often a disparity in price expectations between the processor and the buyer.

In addition, demand levels for storage space are perhaps higher than might be expected after a short 2020 harvest. This is something of a conundrum but

may be down to a wide range of factors – difficulties in obtaining glass bottles or other materials, for example, delays to shipping, even purchases of international wines. Storage is now relatively high in price and buyers will have to be confident what capacity they will end up requiring as storage providers may choose to charge the full amount whether the reservation is fully utilized or not.



Structan

A Smoke Taint Solution



As many winemakers in California are currently only too aware, after wildfires blazed across the state following August's freak lightning storms, the biggest commercial damage caused by fire can be smoke drifting into vineyards prior to – or during – harvest. Wines made from smoke-affected grapes can be characterized by unpleasant smoky, ashy or burnt aromas with an excessively drying back palate and retronasal ash character. Unsurprisingly, consumers have been shown to respond negatively to such wines.

The three main factors that determine if smoke-exposed grapes become smoke-tainted are: the growth stage of the grapevine, the variety of the grapes and the length of their smoke exposure. Grapes close to picking readiness, grapes being of the typically most susceptible varieties (Cabernet and Pinot Noir of the reds, Pinot Grigio, Chardonnay and Sauvignon Blanc of the whites), and prolonged smoke exposure, increase the taint risk. All three factors currently apply in California: the smoke has settled in vineyards mid-harvest, the most sensitive varieties are the state's leading cultivars by acreage, and smoke has been lying in some areas for many days.

The compounds in smoke known as free volatile phenols (such as Guaiacol and 4-methylguaiacol) are absorbed directly by the grapes and can bind to grape sugars as glycosides. These glycosides break apart during fermentation (or over time in the barrel or bottle), releasing the volatile phenols into the must/wine so that a smoky flavor becomes perceptible. They can also be released in the mouth during drinking, contributing to the perception of smoke taint.

What solution can our partners at Stoak Technologies offer winemakers visited by smoke? Well, Structan – their all-natural, organic-certified, liquid oak extract – can not only be used as a finishing tannin and wine stabilizer but also as a smoke-taint masking option.

Results from chemical analysis and sensory evaluation against a control,

carried out by PhD research in the Viticulture & Oenology Department at the University of Stellenbosch, have shown that Structan reduces the perceived intensity of smoke-taint flavor and aroma in smoke-affected wines.

While other winemaking interventions – such as reverse osmosis – may reduce the concentration of smoke-derived volatile phenols in wine, it has not yet been shown that it is possible to completely remove them and, anyway, such interventions also strip the wine of its best characteristics (and any positive impact does not last). Structan, however, successfully masks the volatile phenols through increasing the wine's overall complexity, thus preserving the wine's best flavor, aroma and color attributes, for up to five years.

In fact, one of the Western Cape's premier wineries, which sells its wines into the European market, used Structan to make a highly successful red wine. That was after a wildfire similar to those seen in California, when thick smoke lingered in the vineyards for three weeks.

In summary, Structan is your smoke taint solution. And its stable liquid form makes measuring and adding really simple, with no premixing or dissolving necessary. Just dose during the fermentation process and/or in the blending tank, to get stabilized, complex wines free from unpleasant flavors and aromas. Give us a call.

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