



CIATTI  
GLOBAL WINE & GRAPE BROKERS



# *California Report*

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**Ciatti Global Wine  
& Grape Brokers**

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## March 2021

Volume 4, Issue No. 3

- 3 The Bulk Wine Market
- 3 The Grape Market
- 4 Sauvignon Blanc
- 5 Cabernet Sauvignon
- 6 Structan – a smoke taint solution
- 7 Contacts

Reading online?  
Use the links above  
to jump through this  
document.

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As the first quarter of 2021 draws to a close, we can say California's bulk wine and grape markets continue to be active following the supply adjustment brought about by last summer's wildfires and the shorter 2020 crop – last month's grape crush report confirming, at 3.4 million tons, the smallest crop since 2011.

We have moved to a much more balanced supply-demand position in most regions of the state, with 2018 and 2019 vintage wines now hard to find and a very active 2021 grape market in the Central Valley. As this better supply-demand equilibrium has been caused by less supply than the industry expected in, say, the middle of last year, rather than a growth in overall sales, we see the market as being in a 'tenuous' balance: For example, how resilient is this balance if the 2021 crop looks like it is coming in average-sized or larger? Another question: Will the performance of consumer sales in the first few months of this year be strong enough that, if the 2021 crop looks like being another short one, the market will tighten further? Close attention is being paid both to early spring conditions in the vineyards and sales performance, projections of the latter particularly difficult to make with any sort of confidence right now.

On the first point, we see California having experienced a drier than average winter and Sierra Nevada snowpack – which provides one-third of the state's water supply – at only 60% of the average at the start of March. This has raised fears in some areas, particularly in the mid to south Central Valley, about water reserves come summer should March and April not bring big rainfall. Forecasts for March through May are for a drier than average period, due to the influence of La Niña. We must wait some weeks to gauge bud break and fruit set.

On the sales point, Nielsen numbers suggest the strong off-premise performance seen in June to October last year – created by COVID-19 and SIP orders – has continued into the new year, with wine's retail sales up 22% in value in January versus the same month of 2020; DTC sales were up 21%. The big unknown is what happens to this strong off-premise performance as life in the US – aided by vaccines – returns to some level of normality. Will there be post-pandemic confidence that re-grows on-premise sales and softens off-premise sales? Will post-pandemic economic insecurity harm all sales? Everyone's trying to make the right decisions in a currently very uncertain world.

California has included "food/agriculture" workers among its priority groups to receive the COVID-19 vaccine and the rollout is now happening in a patchwork across the state, with some areas providing pop-up vaccination clinics at workplaces. We hope that, as the year progresses, increased immunity achieved through the vaccine will ensure vineyard and winery work can be carried out safely and straightforwardly for all. In the meantime, stay safe, and read on for deeper dives into the bulk wine and grape markets.

*Robert Selby*

# The Bulk Wine Market

Bulk wine supply in the Central Valley continues to grow tighter across all varieties, though supply can pop up. Prices in the Interior remain stable at the level they reached after the wildfires, with demand pressure on prices to an extent offset by an awareness that this demand is powered by price-sensitive retail sales growth and also that, once prices reach a certain level, the Coast comes into play as an alternative source. With bulk supply limited, much of the focus in the Interior is now on 2021 grapes and we are seeing buyers come in to secure supply for 2021 wines that will be produced on contract.

Bulk activity continues in the Coast and any volumes of 2018 and 2019 wines that remain are available at a premium. There has been internal rebalancing taking place at some wineries: The selling off of old vintage wines (at a premium) and then moving onto 2021 grapes. Activity levels on 2020 wines are good and it does not seem as if smoke concern is affecting the market – certainly the wine we have seen is of typical high quality and pricing is holding.

Volumes of Coastal 2020 wines remain available and there is a greater confidence among buyers in the Coast than in the Interior that they can take the buying pace slower and still capture what they need eventually. With the sales picture so uncertain, they are assessing sales forecasts carefully and many are buying bulk wine in

small increments for the time being. This may change in a few weeks should bud break and set suggest the 2021 crop will be shorter.

There is question mark about how deep demand is for Coastal wines if specific appellations – Napa Valley Cabernet or Russian River Pinot Noir, for example – are removed from the equation, especially considering sales growth is currently being driven by price-sensitive off-premise channels. For now, any potential sales weakness can be mitigated by robust bulk pricing: Premium inventory can generate cashflow on the bulk market, if not the margin hoped for. This does, however, mean exposure to softening bulk prices should demand fall back again for whatever reason, perhaps the 2021 crop looking average or average-plus in size.

In all areas of the state inventory still has the ability to hit the market, especially as robust bulk pricing is encouraging wineries/growers to crush a higher percentage of their grapes rather than sell them on. This will also be a factor in 2021 wine supply. Pockets of wine can and do pop up, so buyers should get in touch get the very latest opportunities. Likewise, with demand so robust, if you have wine to sell give us a call and we will help find you a buyer. **Contact either Jed at +1 415 630 2548 / [jed@ciatti.com](mailto:jed@ciatti.com) or Mark at +1 415 630 2458 / [mark@ciatti.com](mailto:mark@ciatti.com) to get your wine listed with us.**

## The Grape Market

The grape market in the Central Valley is tight and offers are occurring on almost everything. Three-year deals are the most commonly offered, and the greatest demand is on white varieties and – in the southern Interior – white blenders.

The tightness of the Valley's 2021 grape supply is exacerbated by the fact that many wineries are not selling as many grapes this time, choosing instead to retain more grapes for their own internal use. In addition, and this is especially the case in the Valley, some growers or wineries that are offering their 2021 grapes are – due to the strong bulk wine market – quite prepared to crush the grapes into bulk wine themselves should they not receive a grape price that they feel is adequate.

The Interior's tight grape supply has fed through to planting contracts, which are being offered on whites and white blenders (such as Muscat, Colombard, Chenin Blanc etc) due to pull-outs over the past ten years and, potentially, the recent strong growth in canned wine, the majority of which is white wine or rosé. There are also planting contracts being offered for Chardonnay and Merlot, reflecting the fact that the last wave of new plantings for these varieties is now two decades old. There is often a disconnect between the price the winery will pay for replanting – a price which often reflects the spot market – and the price the grower feels they need to take on such a long-term capital investment.

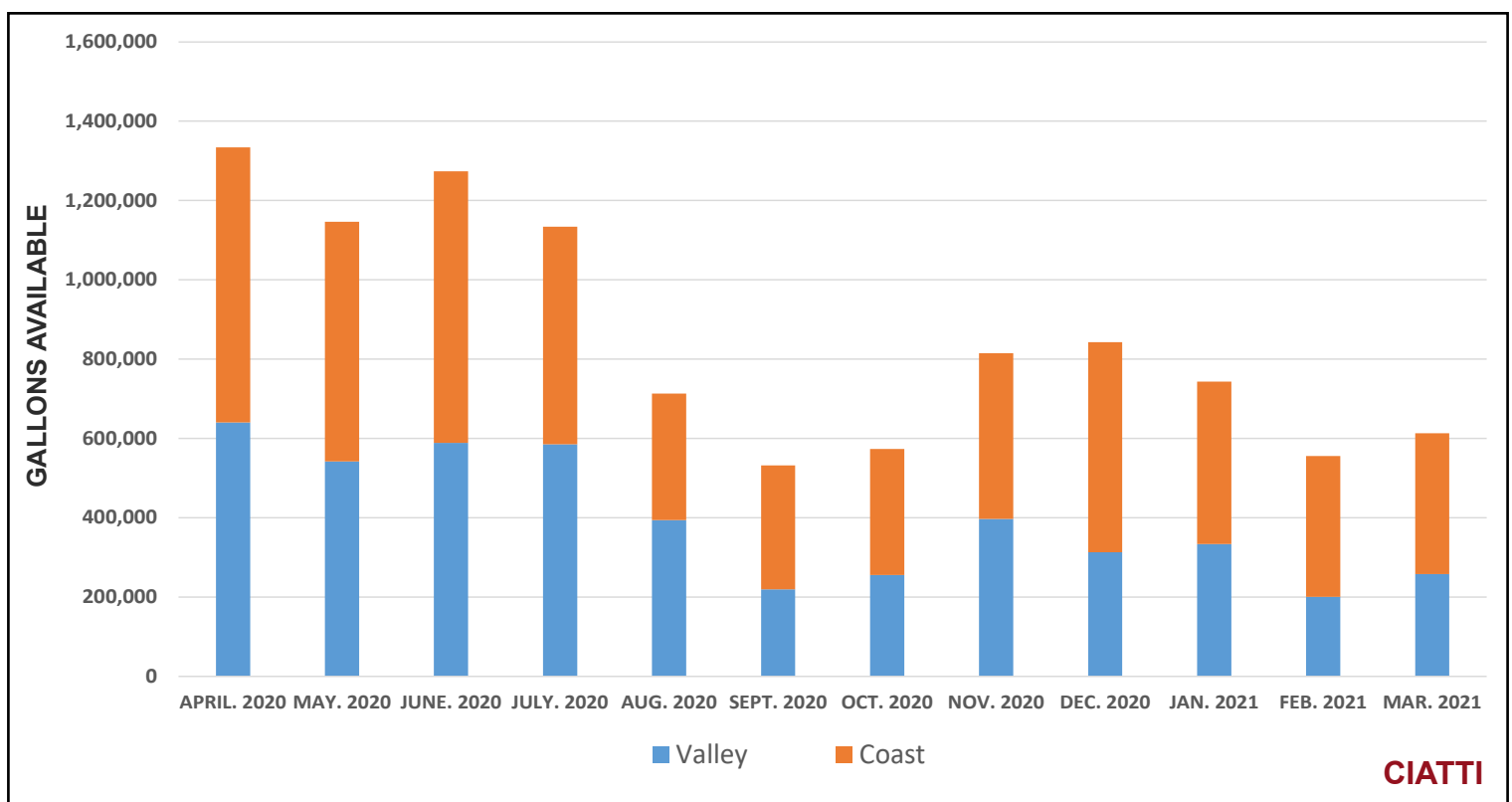


The Coastal grape market is also active – though more selective than in the Interior – and there is some limited interest in planting contracts too. Much of the grape activity is on Napa Valley Cabernet, Russian River Chardonnay, and Sauvignon Blanc. Across the Coast, many potential buyers are waiting until they have a better feel for their sales projections and/or a picture of the coming 2021 crop. This understandable hesitancy may open up Coastal opportunities for buyers struggling to source grapes out of the tight Central Valley market – we have already seen some of this occurring on Merlot.

Likewise, Coastal growers are hesitant to strike a deal now and some would prefer to wait in case prices rise later in the year. Our advice is that if a supplier can get pricing for the next two years that brings some profitability and stability – if not the exact pricing they would like – then they need to seriously consider it. To take advantage of future opportunities a business must first get through the near-term uncertainty.

**If you have grapes to sell, contact Molly at +1 415 630 2416 or [molly@ciatti.com](mailto:molly@ciatti.com) to get them listed.**

## Sauvignon Blanc

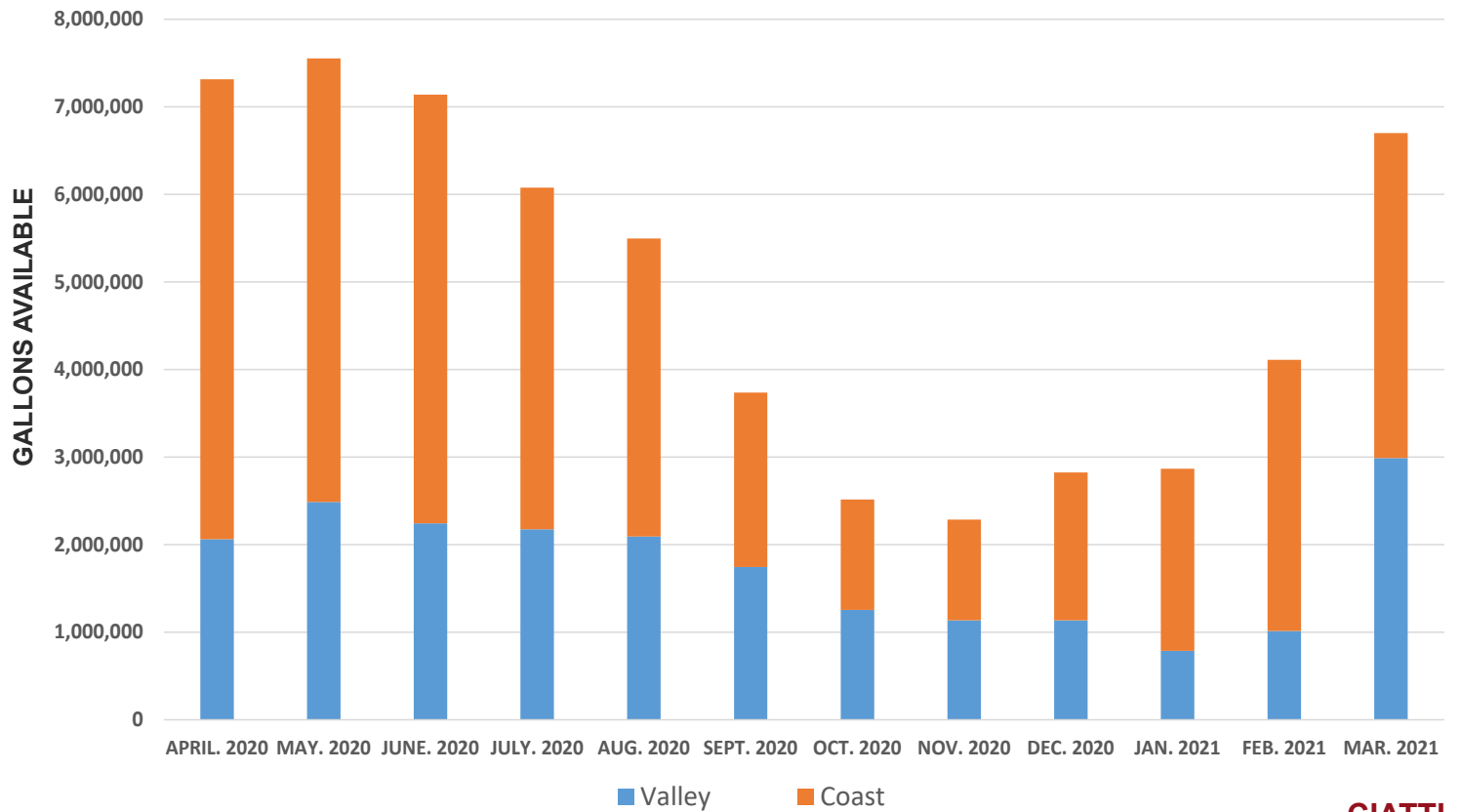


Sauvignon Blanc, which feels like the hottest white in both the Coast and the Central Valley, was the only varietal to see an uptick in production between 2019 and 2020 – by 3.9% to 125,245 tons – assisted by new plantings and graftings. Total tons was still some 90,000 fewer than Pinot Gris, however, and it remained the most expensive white varietal on average per ton, at \$901/ton (down from \$1,101/ton in 2019).

The varietal has consistently remained sellable – even through the sluggish 2018 and 2019 markets – and is a fixture even in portfolios that shun other whites. Sauvignon Blanc acreage is predominantly situated

in the Coast; the varietal thus has a certain premium prestige that is perhaps one of the reasons it has held up well in the consumer market versus popular New Zealand imports. The competition from New Zealand has probably helped reinvigorate the varietal, in fact, and been of a net sales benefit to Californian Sauvignon Blanc. In addition, the growth of canned wine – a category that normally consists of whites, including Sauvignon Blanc – may have further tightened demand. Certainly, the varietal remains in supply-demand balance and, with acreage growing but still very limited relative to Chardonnay and Pinot Gris, we don't see that changing for the foreseeable.

# Cabernet Sauvignon



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Cabernet's 2020 tonnage came in at just under 500,000 tonnes, down 14% on 2019. The average price per ton, meanwhile, was down a substantial 30%, from \$1,767 to \$1,231, due to smoke exposure concerns compounding a grape market that had been depressed for the previous 18 months.

The significant Cabernet inventory that the state was holding until the off-premise boom and wildfires has fallen more than on any other varietal in the past 12 months. The Cabernet category is a large and mature one on the consumer market and Nielsen numbers suggest sales are good. That said, demand is tightest on Central Valley Cabernet, while Napa Valley Cabernet can still command a premium. Other Coastal areas are receiving less interest. These appellations lack the same cache, while their pricing

potentially does not dovetail with retail-driven demand. It may be that Cabernet pricing expectations in these areas needs to soften a little and a consistent price established across multiple years, regardless of market characteristics at any given time, to gain a reputation as a source of reliably-priced supply. Perhaps once the on-premise re-opens – and if pent-up demand sees it booming – these other Coastal areas may receive stronger interest.

The Interior has recently seen the removal of some old and inefficient Cabernet vineyards, though not enough to offset new plantings. Demand for California appellation Cabernet has consistently remained robust and, with grocery store sales powering growth, this is the case now more than ever.

# Craft Beer Update

**JOHN FEARLESS**  
PROVIDER OF CRAFT HOPS AND PROVISIONS



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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