



CIATTI
GLOBAL WINE & GRAPE BROKERS



California Report

November 2021

Volume 4, Issue No. 11

**Ciatti Global Wine
& Grape Brokers**

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California's 2021 harvest is effectively complete, with the final areas of the Central Coast due to finish picking in recent days. The Central Coast experienced lower than normal temperatures throughout much of the growing season and consequently picked well behind the rest of the state – a cool and overcast October meant development of sugars dragged on in some areas.

Yields varied, but in general the Central Coast crop looks to have come in average-sized – up on last year and perhaps slightly up on 2019, performing better versus the average than the North Coast and Interior. The North Coast's harvest was early and compacted, with volumes lighter than average to varying extents depending on area – Mendocino and Lake counties appear to have suffered larger shortfalls than Napa and Sonoma. Volumes in Lodi and the northern Interior ticked up on the later varieties – such as Cabernet – to help offset a lightness on the early ones, so that the total crop for this area ended up being approximately average in size. The southern Interior's crop was early and light – this was mainly due to winter damage, though we believe vine removals in recent years are serving to lower the ceiling of potential production.

Most areas experienced resource challenges – trucking and labor shortages, increased input costs – but smoke at least was not an issue this year. The state's August forecast of a total state crop of 3.6 million tons still rings true: We estimate 3.6-3.7 million tons.

As mentioned above, October was cooler and wetter than normal, with a storm track bringing record rainfall and flash flooding to some areas towards the end of the month. The flash nature of the precipitation means drought conditions remain, albeit slightly alleviated. The La Niña effect is still projected to cause dryness November through January, with the northern half of the state experiencing average precipitation levels and the southern half experiencing below average.

The bulk market continues to be muted while assessment of the 2021 vintage continues, OND sales are watched keenly and sales projections for the beginning of 2022 start to be formulated. The decline in the state's overall inventory size versus recent years, especially in the Interior, has increased prices on the in-demand California appellation, further limiting buying activity. Inventory sits disproportionately in the Coast, with 2020 Coastal carryover affected by smoke exposure perceptions and pricing on 2021 wines potentially too high to supply the current California appellation sweet spot. The growth of the 'premium California' appellation may offer opportunities for Coastal wines to act as supply, but the bulk pricing will still need to be at levels many Coastal suppliers will find uncomfortable.

With upward price pressure on all inputs, we are seeing some wineries increase retail prices on their brands in order to maintain margin. This is likely to be one of the ongoing stories of 2022: How will consumers – already feeling inflationary pressure – react to noticeably higher wine prices on the retail shelf? It is inevitable that some sales projections will be adjusted downward and, in turn, some extra supply may pop up on the bulk market. In the meantime, whether you're a buyer or a seller we are here to help you navigate the twists and turns of the post-pandemic environment and beyond: Don't hesitate to get in touch if you need our assistance, and stay safe.

Robert Selby

The Grape Market

With 2021 Sauvignon Blanc tonnages coming in light, especially in Mendocino and Lake counties, and demand for the varietal firm, we are now seeing early activity on 2022 Sauvignon Blanc grapes in the North Coast. This activity mainly comprises formative discussions around potential availability next year, but there is also talk around longer-term supply contracts as well as planting contracts. Growers are unsurprisingly hesitant to commit at this early stage and – with input costs rising – will argue for increased prices.

There have also been discussions in the North Coast around varieties that have not been planted for a while – Zinfandel and Petite Sirah, for example – and in the southern Interior around generic grapes such as Colombard, Chenin Blanc and Rubired that have been getting pulled out in recent years and not replaced. Discussions around these varieties perhaps reflects an overly narrow focus on the dominant varieties in California in recent years. Planting contracts currently being offered are not at price levels that will persuade many growers to plant.

Until recently, interest in Chardonnay grapes was slow, especially after the record 700,000+ ton crop of 2018. But each of the three subsequent harvests have yielded significantly less than that, and not many new acres have been planted in the Coast in recent years. Consequently, we have felt the Chardonnay market becoming more active, and we expect increased interest in the 2022 Coastal Chardonnay grapes. The Interior's bulk Chardonnay supply has been tight and in much of Lodi the Chardonnay vines are 20-plus years old and declining, yield-wise. The leading candidate for new plantings in the Interior is thus Chardonnay: Some growers may feel able to plant it on spec, but most will wait for contracts and – again – prices being currently offered on these are most often too low to tempt growers. With light crops, lower pricing and rising input costs, growers are delaying capital investments,

especially in the Coast where the erosion of appellation wine sales at the retail end is a real threat to viability.

Outside of Russian River, we foresee some weakening of demand on Coastal Pinot Noir grapes as certain big Pinot Noir brands migrate to the California appellation. Some of these will continue to source at least some of their Pinot Noir grapes from the Coast, but the price would have to be right for them to do so, and that potentially means Coastal suppliers having to compete with California prices just as their costs are rising. The picture on Cabernet appears similar, with supply – outside of Napa and (mainly assisted by the Alexander Valley sub-appellation) Sonoma County – having to potentially compete with some California supply. (That said, even Napa and Sonoma have felt some downward price pressure.) On the flip-side, most new Cabernet acres have already come into production so there should be no more production influxes for the market to digest.

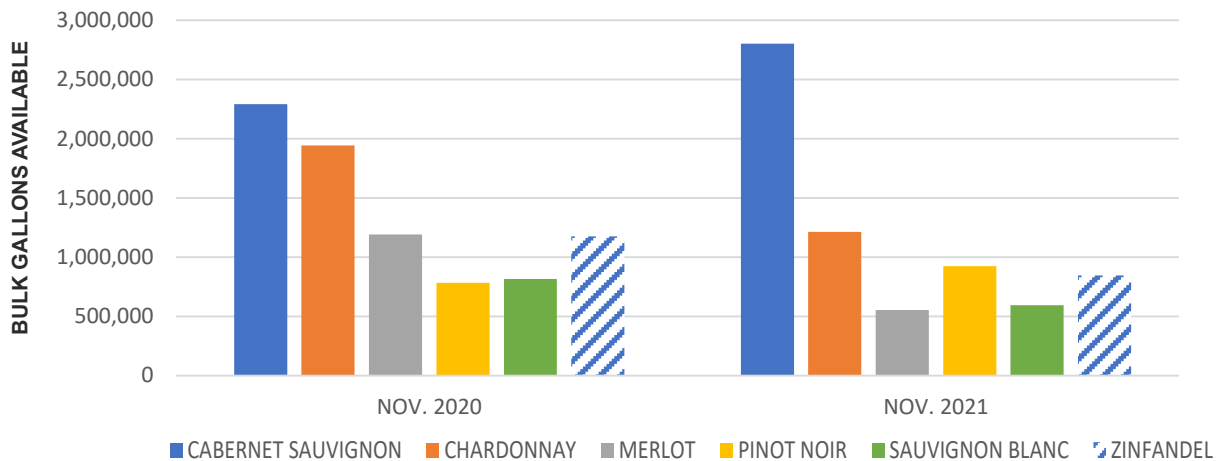
Looking at our estimates of the state's bulk inventory as November gets underway, of the six major varieties Cabernet and Pinot Noir are the two currently sitting with more inventory than a year ago; Chardonnay, Merlot, Sauvignon Blanc and Zinfandel inventories are all smaller.

Grape juice concentrate prices are up across the board and availability is highly limited, with 2020 GJC essentially sold out. GJC suppliers have a reduced menu of items available but can – potentially – source specific products if there is a contract for it and there is some availability to go get. Muscat and floral GJC supply is in very tight supply and longstanding customers have been prioritised.

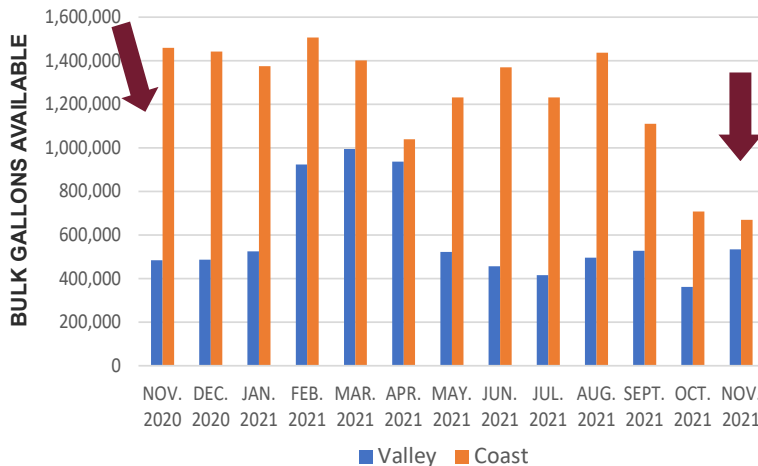
Please update us on the grapes you will have for sale for 2022 by contacting Molly at +1 415 630 2416 or molly@ciatti.com.

Bulk Wine Inventory Graphs

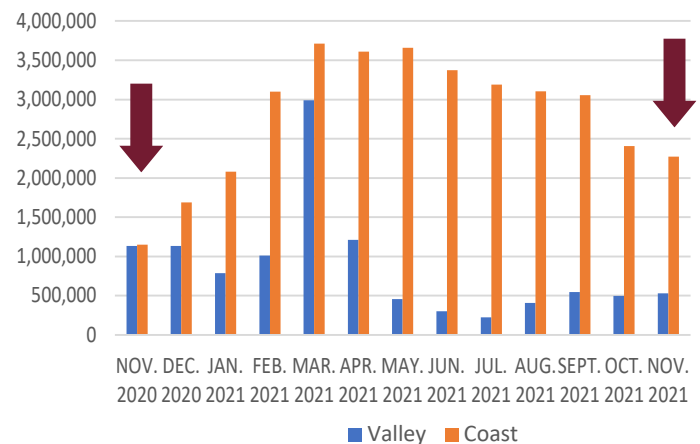
California Bulk Wine Inventory Inventory (Nov. 2020 - Nov. 2021)



Chardonnay



Cabernet Sauvignon



The Bulk Market

October, November and December sales are highly important for the US wine industry (November and December account for approximately 20% of the year's total dollar sales) and this year is no different: a disappointing holiday season could add to bulk inventory levels as some wineries release unwanted wines onto the market.

OND sales in 2020 were muted by the pandemic's impact on family gatherings and the on-premise. SipSource analyst Danny Brager urges caution this year too, with an expectation that OND performance will be up versus 2020 but down on 2019 as some COVID-19 caution persists among consumers. COVID-19 may

have been the initial trigger to get more people shopping online but convenience is now the main driver for continuing to do so: DTC business (excluding carryouts) is expected to be even higher in OND 2021 versus OND 2020 in dollar terms, though lower in terms of volume – the discrepancy explained by an uptick in the price of wine that consumers are buying online. This uptick is true of the off-premise in general: SipSource data for the 12 months ending September 2021 shows all categories of table wine priced at \$11 and above growing their market shares while all those at \$10.99 and below seeing theirs contract.

See next page for more.

This ongoing premiumization trend, occurring as it is while some Coastal appellations struggle for sales, suggests the market sweet spot is currently ‘premium California’ – California appellation wines using brand identity and brand equity, instead of appellation, to trade up. Could this, in turn, usher in a switchback to appellated wines, as players in this crowded premium California segment seek a point of difference? Will this premium California segment threaten the standard California segment and put California wines back onto the bulk market, easing an Interior bulk market that has been in tight supply-demand balance? Only time will tell.

With light crops and rising costs, it suits brands to upwardly reposition in order to maintain margins, but we shall see if – in 2022 – sales projections will need to be lowered as consumers, already facing inflationary pressure, are more sensitive to higher prices on the retail shelf.

Looking at our estimate of California’s bulk inventory as November gets underway, we can see that, in a

reversal of the situation a year ago, Coastal inventory predominates. As mentioned above, of the six major varieties Cabernet and Pinot Noir are the two currently sitting with more inventory than last November. Coastal Chardonnay inventory is well down in size from this time last year, while Coastal Cabernet inventory is markedly up, with Lake and Mendocino the main contributors. These inventory figures do not yet represent what we will see up on the market from the 2021 vintage as those wines are just getting listed. It is likely that inventory of Coastal Cabernet is currently long due to smoke perceptions surrounding the 2020 vintage, and the dialogue now is around how the 2020 wines can be used up.

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Structan

A Smoke Taint Solution



As winemakers around the world are now only too aware, after a year of wildfires in a number of wine-producing countries, 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 characterised 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.

There are three main factors that increase the risk of smoke-exposed grapes becoming smoke-tainted: being close to picking readiness, 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. 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. 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 colour attributes, for up to five years.

Structan has been used successfully over a number of years by several wineries around the world who have had to contend with smoke-affected wines (and one of the Western Cape's premier wineries, which sells into the European market, used Structan to make a red wine that went on to become an award winner). The fires of the past year have also led to an uptick in interest in Structan and, from this, new trials are ongoing. Consequently, Structan now comes with a full trial protocol, refined over the years by the experience of multiple wineries. The protocol differs depending on whether the wine in question is red or white and it outlines, for example, the size and timing of dosing. Structan's 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 flavours and aromas.

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. Further scientific validation is ongoing at Stellenbosch and adding to the growing body of evidence, from the lab and out in the field, that Structan has a very significant positive impact on smoke-affected wines; the latest report will be ready at the end of the year. In the meantime, give us a call to discuss Structan further and start your own trial.

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