WINES & VINES

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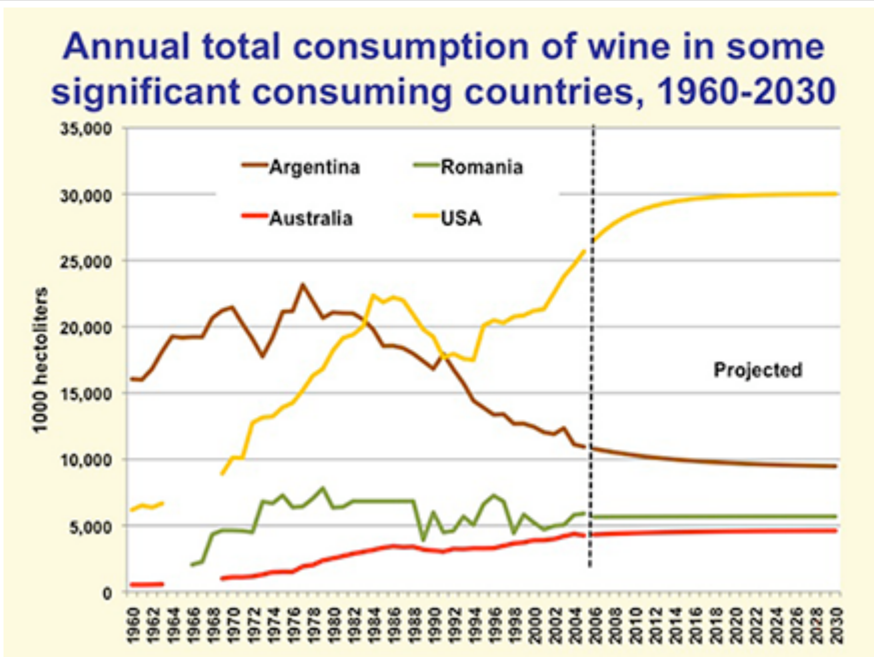
U.S. Wine Market to Swell by 2030

Vineyard shortage foreseen in San Joaquin Valley; artisan wineries urged to focus on appellations

by Paul Franson



Davis, Calif. -- A three-hour meeting addressing the "Outlook and Issues for the World Wine Market" in June presented an almost overwhelming amount of valuable data. Speakers from the United States, Europe and Australia spoke of current realities and issues, and attempted to forecast the future.

It was the inaugural seminar at the new University of California, Davis, conference center. It served as the kick-off for the annual conference of the American Association of Wine Economists, hosted by the Robert Mondavi Institute for Wine and Food Science and its Center for Wine Economics and the University of California Agricultural Issues Center.

For growers and wineries, the bottom line was, "How will this affect my business?" Will demand increase -- and how will the economics change?"

Daniel A. Sumner of the UC Agricultural Issues Center set the stage by discussing global trends in population and consumption. He noted that production, which in Europe had been dropping as consumption fell in traditional big wine producing countries, has stabilized there and is rising in the rest of the world. Nevertheless, much world trade in wine comes from northern European countries importing from the south.

Meanwhile, production is growing outside Europe, with consumption increasing in Northern Europe and the rest of the world.

To focus more on the U.S., James Lapsley of the Department of Viticulture and Enology at UC Davis investigated population and consumption trends here. He forecast a market for 407 million cases of table wine in 2030, compared to 282 million cases sold in 2009, predicting a 125 million case increase in the U.S. market.

According to the Wine Institute, California supplied 61% of all wine sold in the U.S. (about 30% is imported). Wines retailing for less than $7/bottle represented 72% of the total, and fully 30% sold for less than $3 per bottle.

California exports relatively little wine (100 million gallons, half in bulk at just over $4 per gallon; sales in bottle average $11.60 per gallon.) Lapsley pointed out that low-cost wine is made from inexpensive grapes, most from the San Joaquin Valley. The districts south of the Delta grew 52% of all grapes crushed in 2009.

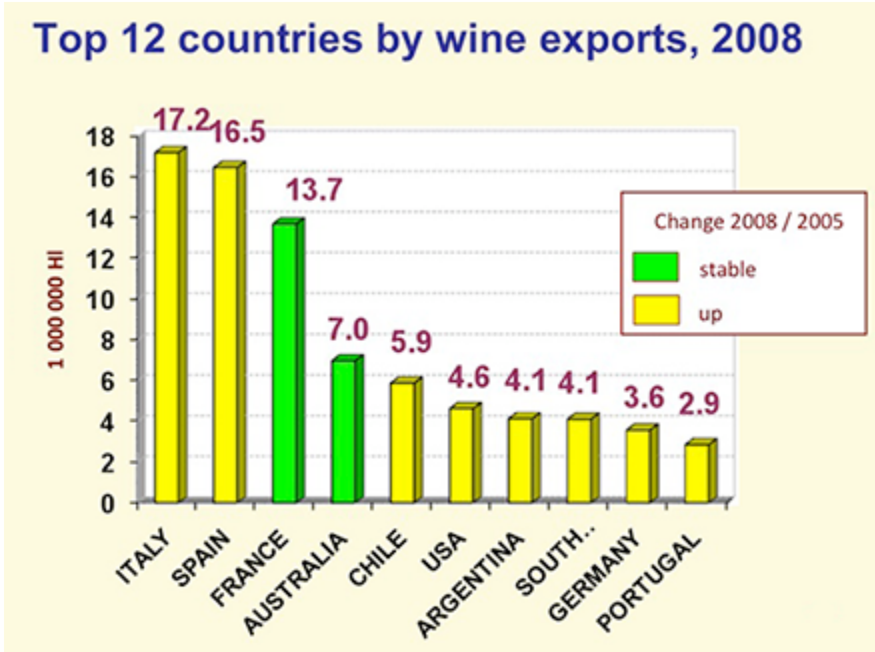
The market expansion of 125 million cases would require 1.75 million tons of grapes. Lapsley said that, assuming 60% comes from California, and half sells for under $5/gallon, this area would have to expand production by half a million tons, requiring 42,000 acres of vines at a yield of 12 tons per acre.

Yet vineyard acreage in that area is dropping. It totaled 157,000 acres in 2008, down from 190,000 acres in 2001. It's not surprising that the vineyard acreage is dropping. Lapsley quoted UC Cooperative Extension economists who said that winegrapes are among the most expensive permanent crops to establish, but are much less profitable than tree crops and even hay:

Comparison of Crops on Per Acre Basis

Crop	Revenue	Investment	Total cost	Net	Duration (years)	Water (acre inch)
Winegrapes	$3,000	$7,100	$2,920	$80	25	30
Table grapes	?	$9,000	$7,652	?	25	55
Almonds	$4,200	$4,840	$4,000	$200	25	52
Walnuts	$5,100	$5,700	$4,030	$1,070	25	42
Pistachios	$4,540	$9,276	$3,680	$860	35	47
Pomegranate	$5,400	$3,490	$4,780	$620	25	54
Alfalfa Hay	$1,480	$530	$1,500	-$20	4	54

Lapsley noted that wine from San Joaquin Valley grapes is essentially an undifferentiated commodity in competition with similar wine produced around the world. The ready supply of inexpensive wine from other countries acts as a ceiling on prices for winegrape growers. In 2009, for example, more than 60 million gallons of finished bulk wine, valued at $2.60 per gallon average, were imported to the U.S. and bottled here.



And the rest of the world continues to pour out wine. Yellow Tail has largely pushed Australia into the low end of the market, and even after 175,000 hectares (437,000 acres) of vines were removed in Europe, the dramatically dropping consumption in Europe's traditional wine-producing countries has resulted in a large surplus.

Answers for artisan wineries

With this competition booming from the low end, how can artisan producers compete? Tom Selfridge, president of The Hess Collection in Napa and one of the few winemakers and wine executives with a background in economics, suggested one way to help make prices inelastic is to differentiate with a sense of place. "It's critical at the high end of the market," he claimed. "The appellation is more important than brands," noting the many once-famous brands that have fallen on hard times or even disappeared.

He also predicted that Millennial drinkers (those born between roughly 1980 and 2000) will be a very good market, because they tend to become core wine drinkers when they start drinking, and also tend to spend more than $20 per bottle. They have more interest in wine than their Boomer parents, and are passionate users of electronic media who are willing to take advice about products.

Jon Moramarco, who has managed large parts of giant Constellation Brands, saw another advantage for small producers. "The wine market is in three segments: commodities, mainstream (retailing for $5 to $12) and 'quality.' It's difficult to manage all three." ShareThis

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