



**CIATTI**  
GLOBAL WINE & GRAPE BROKERS



# *California Report*

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**Ciatti Global Wine  
& Grape Brokers**

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## January 2022

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“It goes without saying that 2021 is hard to predict” we wrote last January, after a dramatic 2020 that brought with it a global pandemic and, in California, record-breaking wildfires. Thankfully, 2021 proved less momentous, with the rapid vaccination rollout enabling at least some semblance of normal life to return and a wet October helping to contain the wildfire threat.

By April the on-premise – which in the COVID-19 era has become even more the barometer of economic and societal well-being – had reopened in every US state, albeit under varying restrictions. Correspondingly, the upsurge in off-premise wine sales – brought about by consumer pantry stocking in response to COVID-19’s arrival – began to abate, so that by year-end there was a question mark as to whether sales were trending above their 2019 pre-pandemic level, let alone the 2020 spike.

With COVID-19 still a problem two years on from its first appearance, visibility moving forward remains patchy. Currently we see – between growers and suppliers on the one hand and buyers on the other – a polarized reading of the situation. The former see two-successive lighter crops (as well as potentially a third in 2022) and still-respectable retail sales versus 2019 as justifying firm pricing; buyers see sales returning to their pre-pandemic – i.e., stagnant – levels. Additionally, those on both sides of the argument must cover or offset inflationary pressure on input costs (the 12-month inflation rate reached 6.8% in November, its highest since July 1982), and probably the biggest question mark over the wine industry in 2022 is the same over every other part of the economy: How high will inflation go and if/when will it have an impact on consumer confidence? Only time will tell. In the meantime:

- Wineries should let us know what 2021 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 fulfil them quickly.
- Grape suppliers should update us on the 2022 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, please contact either Mark at +1 415 630 2548 / mark@ciatti.com or Michael at +1 415 630 2541 / michael@ciatti.com. To get your grapes listed, contact Molly at +1 415 630 2416 or molly@ciatti.com.

We at Ciatti would like to wish all our friends, clients and business associates a very happy and healthy New Year. Thank you all for your continued support. We are, as ever, here to help you navigate the twists and turns of the marketplace, so don’t hesitate to get in touch.

*Robert Selby*

# 2021: The Year That Was

California's bulk market entered 2021 in its most balanced supply-demand position for two years. Pandemic pantry stocking in the US off-premise from March 2020 onward and then severe wildfires from August – which caused big concerns around smoke exposure on the 2020 grapes – rapidly drew down the state's large 2018 and 2019 inventories. January inventory levels in the new year, 2021, were consequently at their lowest since at least 2017 and well down on where they were 12 months before – Cabernet inventory, for example, was estimated to be 50% lighter.

By the end of 2020, smoke exposure fears had calmed somewhat and, as a result, so had bulk market activity. Prices were stable, albeit at a relatively high level on any remaining 2018 and 2019 inventory. Coastal pricing had inflated most in response to the wildfires, leaving Interior pricing behind, thus bringing about the return of the Coastal-Interior pricing disparity last seen in 2018.

The industry took stock after a momentous 2020 that no one could have foreseen, with bulk purchasing proceeding in small increments while holiday season sales were assessed and attempts were made to project 2021 sales. Looking back now, we can see how difficult a job making these forecasts would have been: After a summer relatively free of COVID-19 restrictions, stay-at-home orders returned to California in December and the US vaccination program was still in its infancy. “The speed of this rollout is likely to determine the speed at which life can return to some normality,” we predicted in January. Fortunately for the US, the speed was impressive: 70% of the population had received at least one dose by August. By then it had become clear that consumer patterns were gradually returning to some semblance of pre-pandemic normality, with 2021 off-premise wines sales continuing to show growth versus 2019 but diminishingly so as the year wore on. The on-premise had reopened in every US state by April, and “gangbuster” summer business for leisure and hospitality was forecasted in some quarters.

Wine's OND 2020 sales in the off-premise had been strong – up versus the same three months of 2019 despite the high holiday-season base – and January and February 2021 sales were also up versus the first two months of 2020 (consumer stockpiling did not commence until the March of 2020). The bulk market thus started 2021 very active, experiencing the busiest January for many years. Demand for the remaining 2018 and 2019 Coastal supply was strong, in addition those 2020 Coastal wines unshrouded by smoke exposure perceptions. As ever, Napa Valley Cabernet and Russian River Pinot Noir were in high demand. Many Central Valley suppliers, meanwhile, claimed to be sold out of their 2020 and older vintage wines already; consequently, the Valley's 2021 grape market was already very active, with offers across all varieties and one-year and multi-year contracts being agreed. Buyers were also offering planting contracts but, especially given rising input costs, not at prices that would tempt growers. There were also discussions occurring already regarding contracts for 2021 wine.

This high level of activity was vindicated, and low supply level corroborated, on February 10th when the preliminary 2020 crush figure was released: 3.4 million tons, 13% down on 2019's 3.9 million tons and the lightest crop since 2011's 3.34 million tons. Yields had come in lighter due to various natural factors but smoke exposure issues also led to an unknown amount of grapes not getting picked, especially in the Coast. Chardonnay (-16%), Cabernet (-14%), Zinfandel (-15%), Pinot Noir (-20%) and Pinot Gris (-12%) had all suffered declines in tonnage versus 2019 to varying extents, with Pinot Noir perceived – rightly or wrongly – to be the most smoke exposure-affected.

Following two to three months of buyers covering their off-premise needs, by April the bulk market had slowed. Tellingly, we noted that buyers had grown “more measured, gathering intel”, indicative – it was becoming clear – that they were discerning a slowdown in the off-premise sales performance versus 2020 now that direct 12-month comparisons with the stockpiling period were becoming available. In addition, firm bulk wine prices both in the Coast and Valley meant buyers had to carefully consider their needs before making a move. Another dampener on activity was that, although the year so far had brought lower than average precipitation levels to California – drip irrigation was being deployed intermittently in some areas from as early as January – there remained some confidence of a good-sized 2021 crop, especially in the Valley.

*Please see next page for more.*

By May, bulk activity in the Coast had become spotty and there were signs pricing there was, through necessity, softening slightly. Off-premise sales growth – albeit versus 2019, not 2020 – was driving California-appellation programs while Coastal appellations, outside Napa Valley Cabernet and Russian River Pinot Noir, were starting to languish. This was particularly true of the Coast’s 2020 wines, both because the remaining 2018 and 2019 inventory had only recently been purchased and because residual negative perceptions around smoke exposure persisted. Some Coastal wines were managing to attract buyer interest by reducing enough in price to become viable alternatives to Valley supply. By June, the Valley’s 2021 grape supply was essentially sold out, leading to interest in Coastal fruit as an alternative; however, Coastal grape prices generally remained too strong for this need and, as the grape market there had been steady (if not as rapid as in the Valley), there was little incentive for growers to reduce prices.

Another disincentive for reducing grape prices was the situation in the vineyards following the unseasonably dry first half of the year: Snowpack, aquifer and tributary replenishment had been highly limited and, by July, counties were declaring drought emergencies and water usage restrictions. Deleterious effects of drought were not yet visible on vines, but other stresses were: An early frost at winter’s start, a lack of chilling effects through winter, and then some erratic spring weather, had led to uneven progress in shoot development, some shatter, and concern about berry-sizing. Confidence in the 2021 crop coming in at least larger in size than 2020’s persisted, but – amid signs it could still come in below the 4-million-ton average for the third–successive year – bulk wines and some 2021 grapes were being removed from the market by a growing number of wineries deciding to bottle their crush themselves. On the other hand, buyer demand for bulk wine and grapes was showing signs of contraction, reflecting uncertainty regarding the future of off-premise sales. While the lack of activity on the Valley’s 2021 grapes could be explained by a lack of availability, the lack of subsequent pre-contracting activity on the Valley’s 2021 wines reflected this cooling off-premise demand.

By the time the 2021 harvest got underway in August, supply of California 2020 and older vintage wines was highly limited, so too supplies of specific Coastal wines such as Sauvignon Blanc and Russian River Chardonnay. However, supplies of 2020 Coastal Cabernet (outside Napa) and Pinot Noir (outside Russian River) remained available in good quantities, often at pricing too high to tempt much buyer interest. Doubts regarding the size of the 2021 crop disincentivized a price softening, though some suppliers did become negotiable on price in order to free-up storage space.

Coastal Cabernet and Pinot Noir grapes, we could say by September, were becoming hard to find, all the while some 2020 wines remained available – illustrative of buyer reluctance on specific 2020 Coastal reds due to smoke exposure concerns. Indicative of a tightness of acreage for a varietal growing in consumer popularity (in the US as across the world), Sauvignon Blanc was the hottest grape across California, but only a few intermittent pockets of availability arose. Some buyers consequently inquired into sourcing the varietal from Chile or South Africa. Muscat from Chile, South Africa and Australia was also looked into, highlighting the lack of acreage replenishment on florals in California to the point that there is a supply shortage.

We predicted a limited to negligible spot market for 2021 grapes considering good contracting levels in the months leading up to harvest. In addition, with a lighter crop limiting returns per acre just as logistics/labor costs had risen, the continuing availability of storage space for wines, and bulk wine demand that – if not frenzied – was still steady, growers had good reasons to crush their grapes themselves.

Heading into fall, off-premise wine sales volumes continued to be up versus the last comparable year, 2019, but diminishingly so. DTC sales and a reported \$12-20/bottle “sweet spot” were outperforming the overall market, with all categories of table wine priced at \$11 and above growing their market share while all those at \$10.99 and below seeing theirs contract. This suggestion of a premiumization trend, all the while some Coastal appellations struggled for sales, suggested demand for ‘premium California’ wines – California wines using brand identity and equity, instead of appellation, to trade up. As we declared in November: “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

*Please see next page for more.*

lowered as consumers, already facing inflationary pressure, are more sensitive to higher prices on the retail shelf.”

The state’s 2021 harvest was a protracted one, with the North Coast picking early and – due to lower-than-normal temperatures throughout much of the growing season – the Central Coast not finishing up until shortly before Thanksgiving. All areas experienced resource challenges – trucking and labor shortages, increased input costs – but, thankfully, no smoke issues. We remain broadly in agreement with the state’s forecast, issued August 12th, of a 2021 crop of 3.6 million tons: We expect something in the region of 3.6-3.7 million tons, with performance varying by region – lighter than average in the North Coast, average-sized in the Central Coast and Lodi/northern Central Valley, and lighter than average in the southern Valley. By the end of the year sampling was in full swing and quality was widely deemed very good.

October and the beginning of November were relatively quiet on the bulk market as buyers gauged the harvest and the beginning of their OND sales. By the end of the year, however, good bulk wine activity levels opened up in the Coast – mainly for Sonoma Chardonnay and North Coast Sauvignon Blanc – and prices were proving stronger there than originally expected, especially on the whites. Demand for Central Valley wines was more muted, with firm pricing perhaps convincing buyers to proceed incrementally on what little 2021 wines remained uncontracted. The market for the Valley’s 2022 grapes was similar: Growers coming off the back of two lighter crops and rising input costs were understandably bullish on pricing, but buyers were seeing decelerating off-premise sales and case-good sales projections for 2022 that were murky at best.

## 2022: Looking Ahead

We ended 2021 by saying: “A future hard to read makes for a market hard to read”. A lot of bulk wine and grape activity had been discussion rather than deals, mainly because of a significant disparity in price expectations between buyers and sellers that stemmed from polarized readouts of the current case-good sales picture. Suppliers see a lower level of carryover inventory in the state versus previous years and an improved sales performance at retail since COVID-19 first reached US shores; buyers see the on-premise upswing steadily diminishing and consumers possibly reacting unfavorably to higher shelf prices in 2022.

A key determiner of 2022 sales will be inflation – the 12-month inflation rate in the US reached 6.8% in November, its highest since 1982. Will inflation decline in 2022 or will it continue to rise? If the latter, at what point will it start to dampen consumer confidence and on what wine categories in particular? The wine market sweet spot currently seems to be ‘premium California’ wines at \$11+ as consumers have so far been happy to move up on price. One theory for this is that reduced on-premise spending due to pandemic restrictions drove greater spend on at-home drinking occasions and this has lasted beyond the on-premise reopening. But as inflationary pressure increases, we may see a shift back to wines \$10.99 and below, especially testing supplier margins when bulk wine prices across California are so firm. At the other end of the market, however, an increasingly crowded ‘premium California’ category might generate renewed interest in appellation wine as brands seek a point of difference.

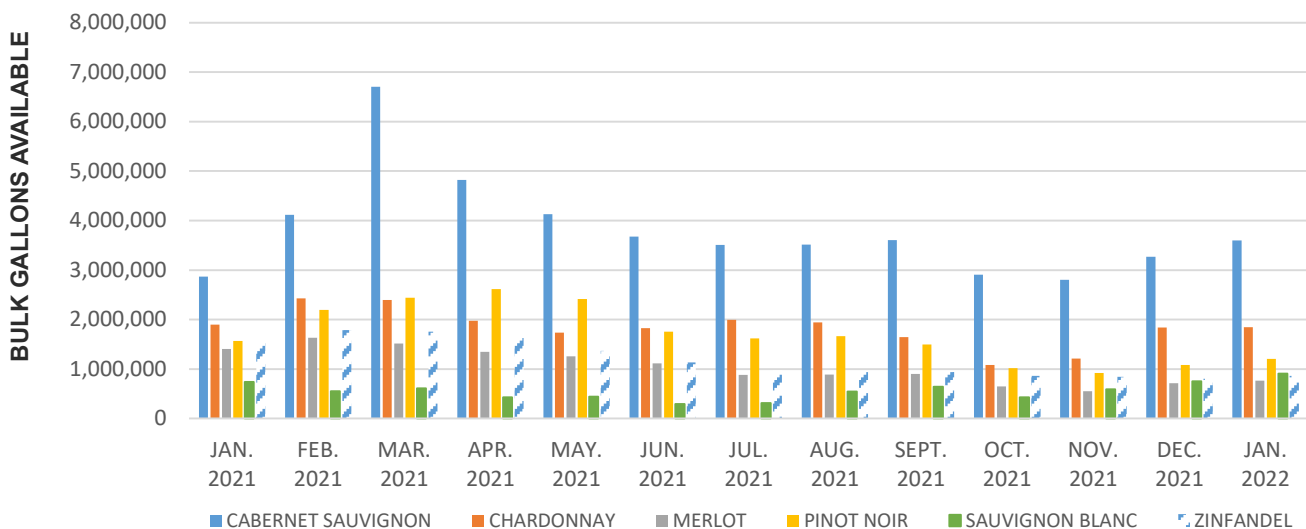
As the height of the pandemic moves further into the past, we would expect to see off-premise sales increases versus the pre-pandemic year of 2019 continue to shrink. We are seeing a few larger wineries starting to turn back to selling bulk wine, which recalls what was happening prior to March 2020. Essentially, the pandemic and the wildfires were short-term boosters to the bulk market that masked – temporarily – the fundamental wine sales trend in the US: stagnant, or even marginally declining, wine consumption as the age of the average US wine drinker grows older.

Cabernet finished 2021 continuing to dominate state inventory with, by our estimates, almost twice as many gallons available – over 3 million – versus the next varietal, Chardonnay. Much of this will be 2020 Coastal Cabernet, perhaps going ignored by buyers because they either deem it too high in price or they are wary of the 2020 vintage due to smoke exposure perceptions. The key word here is “perception”, and it may be that some of these wines constitute an opportunity should pricing on them soften enough, as has been the case on some of the remaining 2020 Pinot Noir.

We have seen good activity levels on 2022 grapes across the state and much earlier demand in the Coast than we have seen in previous years. Much of the interest has been on white varieties: Sauvignon Blanc and Chardonnay in the North Coast; Chardonnay, generic and floral whites in the Central Valley. However, buyers have often been offering prices that resemble those offered at the start of last year ahead of the 2021 harvest, ignoring the price increases – and short crop – that occurred in the intervening time. Again, this is buyer pushback against what they believe are unrealistic prices.

However, growers believe current vineyard conditions support their price expectations. Significant October and December rainfall brought hope that California’s drought would start to subside, but some forecasts that the weather January through March will be warmer and drier than average due to a La Niña influence raise question marks over the extent of the replenishment in water supplies and, in turn, the 2022 crop size.

## California Bulk Wine Inventory Inventory



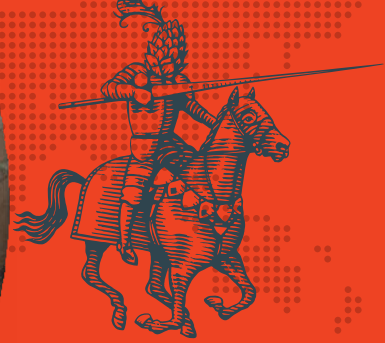
## Events

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

- **January 25 - 27:** Unified Wine & Grape Symposium
- **February 3:** Sonoma County Winegrowers Dollars & Sense Seminar and Trade Show
- **May 19:** WineExpo Tradeshow & Conference

# Structan

## A Smoke Taint Solution



Oak trees first appeared in Europe and North America some 9000 years ago following the receding of the Ice Age. For nearly 4000 years much of Europe and large parts of eastern America were covered by mixed oak forest.

The Greeks and Roman empires used to store their food and drinks in clay amphorae stoppered with wax. When the Romans first conquered Gaul and Germania, they discovered the local use of oak barrels to store wine, spirits and beer. Their preservative qualities were quickly understood; the Romans ditched their amphorae and for the next 2000 years it became the go-to natural food and drink-preserving container. The taste the tannins imparted to the products they contained became the intended standard flavor profile for many wines and spirits that we prize today.

Oak trees for barrel staves are harvested at 150 years old – hardly teenagers in oak lifecycle terms. The demand for French and American oak barrels for use in wine and spirit ageing now far outstrips wood supply. Organic extracts from the same aged sources can offer the same result faster and 30 times more efficiently than their conventional modern counterparts.

The antioxidant, antibacterial, structural, and other magical properties of oak are now being harnessed in a wide range of organic products to naturally preserve and enhance foods and beverages. Scientists and industry alike are also realizing their great potential in numerous other applications. The ongoing world pressure to find natural alternatives to the chemical formulations we have relied on for food to cosmetics and healthcare.

Stoak Technologies has, over the last decade, perfected a method of extracting powerful natural components locked into mature oak wood. Stoak is able to:

- Harness the same antioxidant properties that preserve the tree for hundreds of wet winters and dry summers and utilise these same properties in the preservation and shelf life extension of beverages.
- Deliver in weeks the same maturation, color, structuring and flavour profiles as can only otherwise be imparted to spirits by an oak barrel over many years.

- Provide the finishing tannins that improve structure and mouthfeel, needed by bulk wine makers to finish their products.

We achieve all of this in a natural and responsible process that is many times less environmentally impactful than the use of new wood barrels.

Over the last 36 months the Stoak team has sought and achieved all the regulatory approvals required to sell its products in markets from Canada, the US and Mexico to Japan, China and Australia. It has established supply routes and shipped sample product to customers in all these marketplaces.

Over 50 craft brewers in the Americas already use **Brewshield** to naturally extend the shelf life and flavor profile of their craft beer. Our first organic wineries have started to replace sulphites with **Wineshield**.

The tequila and rum markets have been growing very rapidly and we have on-going product trials with multiple tequila producers who are unable to find sufficient barrels to age and finish their products to meet demand. Following extensive trials, potential customers have helped us refine a blend of French and American oak that meets their needs.

Over the next six months we will look at each of these areas in more detail and explain the opportunity from extending shelf life for craft brewers and organic wineries, to maturing bulk spirits including tequila and rum through to finishing tannins for the bulk wine industry.

*-Jason Drew & Andrew Planting*

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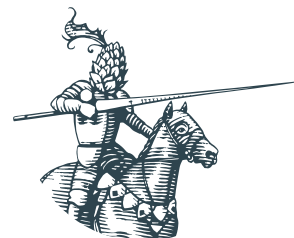
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We'll have a booth in Sacramento for Unified Wine & Grape Symposium. Stop by booth #2141 to meet us in person.



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