

2002 Sonoma County Grape Growers Report



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Prepared by the

Sonoma County Economic Development Board

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2002 Grape Growers Report

In the spring of 2002, the Economic Development Board mailed 500 Grape Growers Surveys to local growers. One-hundred and twenty-seven surveys were returned, yielding a response rate of 25%. These respondents represent 11% of all grape growers in Sonoma County, and roughly 16% of total 2001 Sonoma County grape acreage. From survey results, it is possible to discern specific characteristics of the local grape growing industry. These characteristics are outlined below.

Overview

The response to the survey came from predominantly small, independent growers (94%), most of whom had contracts with wineries. This base indicated that five major challenges face grape growers in Sonoma County:

1. Environmental regulations
2. Water availability
3. Disease prevention
4. Urban encroachment
5. Long range vision for viticulture in Sonoma County

In addition, although not identified in the survey, the recent softness in some grape prices, a result of aggressive planting in recent years, indicates that supply has been temporarily overtaken by demand and there may be corrections to be expected in the industry. The problem of overplanting in some areas will be discussed in an appendix to this report.

The survey also showed that local government is in a position to help the industry in the areas of education/job training, worker housing, and permit streamlining.

Findings

1. In 2001, responding grape growers received compensation for most varieties well above what they consider essential to remain viable, with the possible exception of Pinot Noir.

2. Between 2001 and 2002 (projected), the amount of fallow acreage being developed by respondents decreased 65%. Similarly, acreage replanted by respondents declined 28%.

3. 86% of respondents reported they have contracts with wineries, allowing some shelter to declining prices. 61% of respondents reported they have multi-year contracts.

4. Most respondents are relatively small in terms of annual grape production

- 52% , less than 100 tons annually;
- 27% , 101-350 tons;
- 5% , 351-500 tons;
- 4% , 501-750 tons;
- 3% , 751-1000 tons;
- 6% , 1000+ tons annually.

5. 94% of respondents are independently owned, 6% are winery-owned.

6. 40% of respondents feel local government could help the grape growing industry via assistance with job training/education.

7. 46% feel local government could assist with licensing and permit issues.

8. 42% think local government could help the industry with worker housing

Recommendations

Many of the problems identified are much the same as those identified in other EDB surveys of the ag sector during 2002 (Food Processing, Dairies, and Wine).

It is recommended that a cooperative program among key ag groups be implemented to seek potential answers to these problems. An Ag Roundtable could be formed to essentially function as a bridge to bring the concerns of growers to the attention of relevant agencies and programs and to create action items designed to resolve those problems. This Ag Roundtable should be composed of representatives from a broad coalition of groups with a stake in a healthy ag climate in Sonoma County, including local grape growers.

Grower-identified issues that should be explored include:

ENVIRONMENTAL ISSUES

The subject of environmental regulation is complex and profound, and will continue to be a fact of life for local agriculture, not just grape growing. The Ag Roundtable, taking testimony from the industry, could, however, bring regulatory groups to the table to help suggest ways growers may abide by all regulations without detriment to their industry.

WATER

The issue of water is one that is under careful study in a number of areas. The Roundtable would be expected to include water, and all agencies and groups responsible for its availability, in its deliberations.

URBAN ENCROACHMENT

The Sonoma County General Plan is currently dealing with land use policies for the next couple of decades. The Roundtable, as well as Sonoma County Grapegrowers' Association, should monitor these efforts and, if necessary, represent the best interests of growers in an official capacity before the County during its General Plan deliberations.

DISEASE PREVENTION

The Agricultural Commissioner's office and the University of California at Davis' Integrated Pest Management Program (UCD IPM) are working on these problems. The Roundtable role could be one of devising more effective communication techniques to reach the ag sector, including the local grape growing community.

LON RANGE VISION FOR VITICULTURE

There are existing documents, such as the Australian Wine Foundation's Strategy 2025 and Five Year Plan: 1997 to 2201, which could be used as models along with the local North Bay Technology Roundtable's Vision Statement. The Roundtable could coordinate efforts to work with local grower organizations to help formulate such a plan, and gain acceptance from local governments to implement such a plan.

EDUCATION/JOB TRAINING

Once again, the Roundtable could serve in a position as coordinator to get grower groups together with other ag groups, along with the Sonoma County Workforce Investment Board to address job training issues.

LICENSING AND PERMIT ISSUES

The Roundtable could review permit streamlining programs, including the 1993-95 Sonoma County Regulatory Roundtable, which dealt on a county-wide level with permitting issues similar to those particular to the grape growing industry.

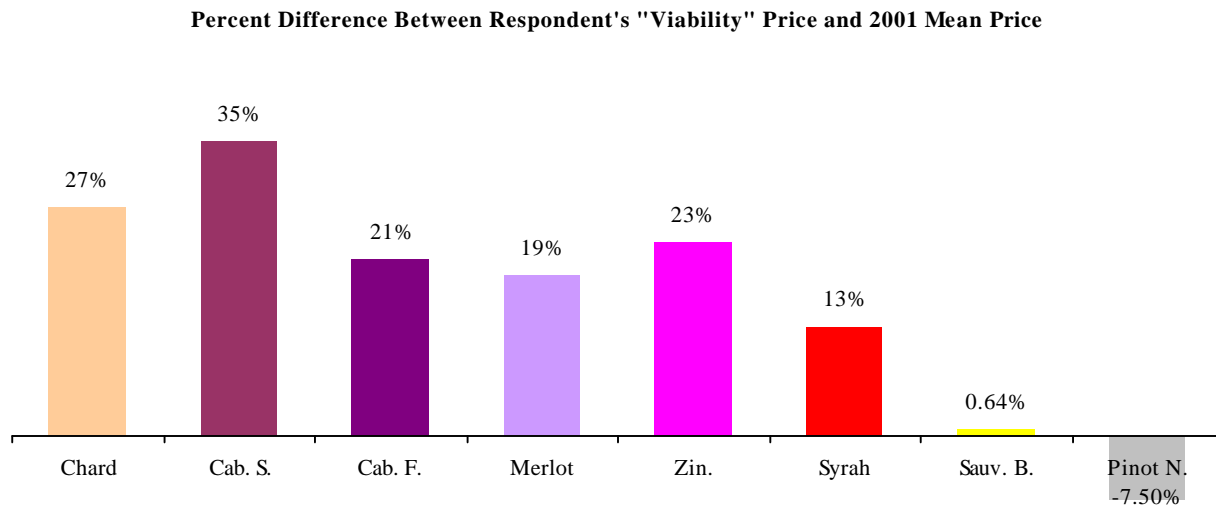
WORKER HOUSING

The Roundtable could discuss grower concerns with PRMD and the Coalition for Affordable Housing as well as other agencies and programs to search for solutions to the worker housing crisis.

INFORMATION LEARNED FROM THE SURVEY

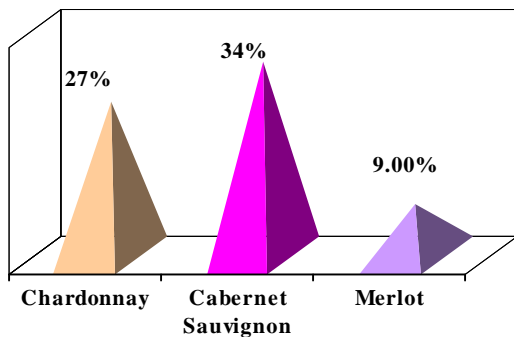
A. Oversupply Issues

As the wine industry boomed in the 1990's, Sonoma County experienced explosive growth in vineyard acreage. Between 1990 and 2001, local vineyard acreage increased 77%, from 33,164 acres to 58,665 acres.¹ Demand for grapes has not kept pace with this acreage increase however, resulting in a grape oversupply that threatens to lower prices for local growers' fruit. Currently, survey results show that for most varietals responding growers received compensation *well* above what they indicated as necessary to remain viable in Sonoma County in 2001 (see graph below). However, as grape prices fall, this may change. According to the Wine Industry Symposium Group's 2002 Vineyard Economics Seminar, prices are already softening for some Sonoma County grapes, including chardonnay, cabernet sauvignon, merlot, and pinot noir (exact figures were not available). Exceptions to declining prices included chardonnay from the Russian River and Carneros appellations, sauvignon blanc, pinot gris, zinfandel, and syrah.²

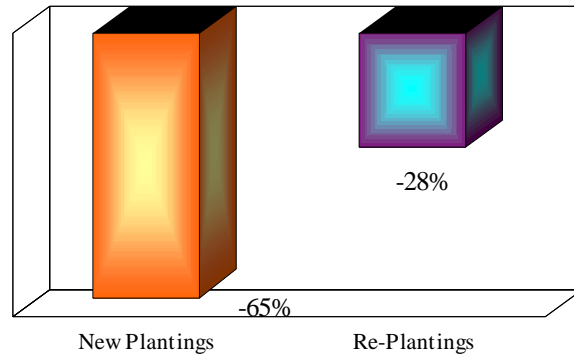


How far prices will fall will depend largely on future wine sales and grape production. With some 15,000 new acres expected to begin production in Sonoma County over the next three years, the local grape oversupply will likely last 3-5 years, according to information presented at the 2002 Vineyard Economics Seminar. Adding to the problem will be the 2002 California harvest, which was large (see chart below left) though not as big as the record 1997 and 2000 harvests. Survey data show that new and re-plantings of Sonoma County vineyards are slowing (see graph below right), with less than 1,200 acres expected to be planted in 2002, far fewer than the 2,400 acres planted in 2001. This decrease in planting should help to trim the grape oversupply.

Expected Increases in Tonnage for Selected Sonoma County Varietals, 2001 to 2002



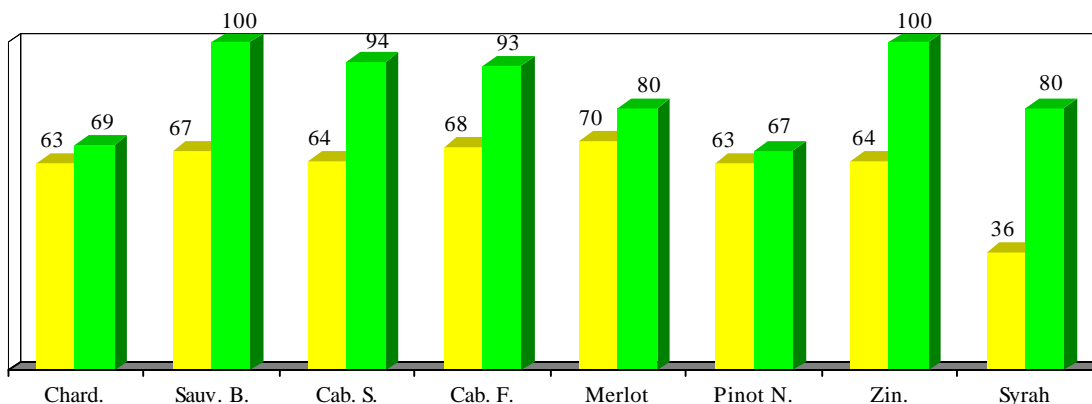
Decreases in New and Re-Plantings, 2001 to 2002



B. Contracts

In the face of such oversupply, many local growers are fortunate enough to have contracts with wineries. Eighty-six percent of survey respondents indicated they have a contract with a winery, with many of these (61% of all respondents) selling the bulk of their grapes via multi-year contracts.

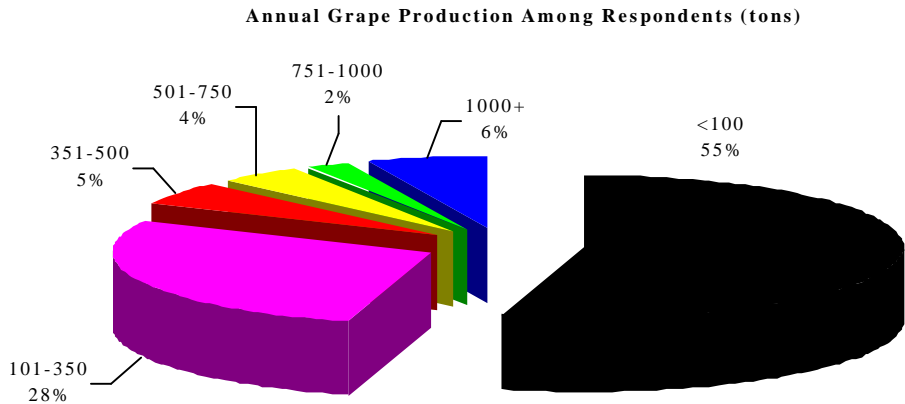
Multi-Year Contracts Among Respondents*



**This chart shows the percentage of respondents producing a specific varietal that sell at least part of their production through multi-year contracts (first bar), as well as the percentage of these respondents that sell 100% of their production of the specified varietal through multi-year contracts.*

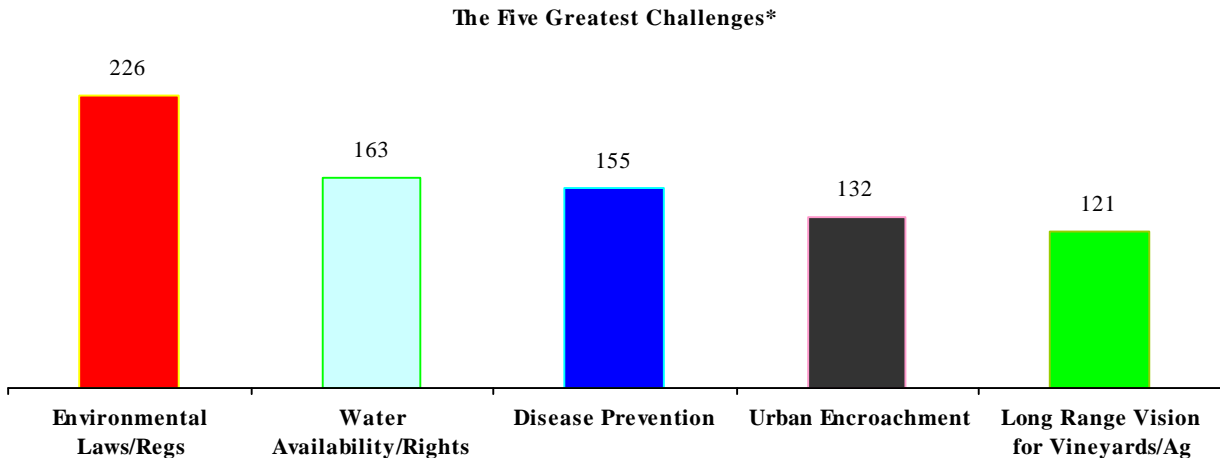
C. Respondent Profile

While having a contract with a winery may provide many local grape growers with a degree of security during the grape oversupply, many may also be rather sensitive to changing grape prices due to their small and independent (i.e. not winery-owned) nature. Ninety-four percent of survey respondents are independently owned, and most produce less than 350 tons of grapes annually.



D. Greatest Challenges

In addition to problems relating to grape oversupply, responding growers noted the following issues as the greatest challenges to the Sonoma County Grape Growing Industry:



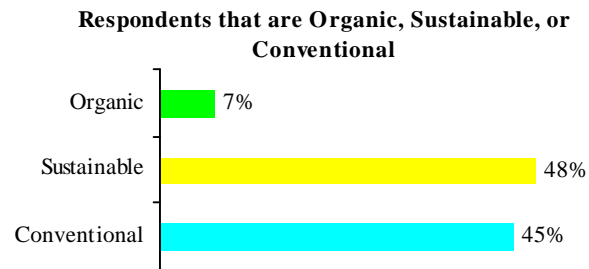
**These rankings were produced using the following method: survey respondents were asked to rank the five greatest challenges to the local grape growing industry by assigning a ranking, from 1 to 5 (where 1 is the greatest challenge, 5 the the fifth greatest challenge) to five issues from a 15-item pool. Rankings of 1 were credited five points, rankings of 5 were credited one point, rankings of 2 were credited 4 points, etc. Scores for each issue were then totaled to arrive at a cumulative score (the number found above).*

A. Environmental Laws/Regulations

According to Nick Frey, Sonoma County Grapegrowers' Association Executive Director, the local growers' concerns with environmental regulations relate chiefly to erosion, sediment, riparian, and pesticide issues. Many local growers' are affected by Sonoma County's Vineyard Erosion and Sediment Control Act, a 1999 law that stipulates that all acres planted after the law's effective date, 1999, must be registered with the County. Upon registration the grower is assessed a grower's fee, the amount of which depends on the size and slope of the new vineyard (fees typically range from \$150 to \$2,500). Such legislation raises production costs for local growers.

Current riparian issues of note to local growers are the possible designation of the California Tiger Salamander as an endangered species, as well as looming decreases in the total maximum daily loads (TMDLs) of runoff that can enter a waterway from a grower's property. An endangered species designation for the salamander would stop vineyard development, alter cultivation practices, and possibly limit rodent control among growers present in those areas where the salamander resides (an area ranging from Healdsburg in the north to Marin in the south, Sebastopol in the west to Kenwood in the east). Lowering TMDLs would also affect the vineyard management practices of many local growers.

As pesticide use becomes less popular with the general public, some growers may be concerned that some of their most useful and cost effective chemicals will be more difficult to use. Such action would leave growers with only less effective or more expensive alternatives, which could lead to increased production costs and/or reduced productivity. Very few local growers report they use organic farming methods (see graph, right), making pesticide regulations a real concern to most local growers.



B. Water Availability/Rights

According to Nick Frey, the two key elements of water availability/rights are the basic competition between agriculture and urban development for water, and the utilization (or non-utilization) of re-used water. Understandably, local growers may be concerned that as Sonoma County's population continues to grow (it has grown 25% since 1990, and is expected to grow in the future), there will be less water available for local agriculture. Currently, adequate rainfall and a manageable population make this a non-pressing issue, but in the long-term, an expanded population without an expanded water supply could result in reduced water availability for local growers.

Major concerns in regard to re-used water involve salt levels and the availability of Geysers pipeline water for agricultural uses. High levels of salt in re-used water could build up in soil, possibly harming plants. If Geysers pipeline water is available for ag (an uncertain scenario), there would need to be a distribution and storage system capable of providing an ongoing water supply to users. Currently, there is no such system.

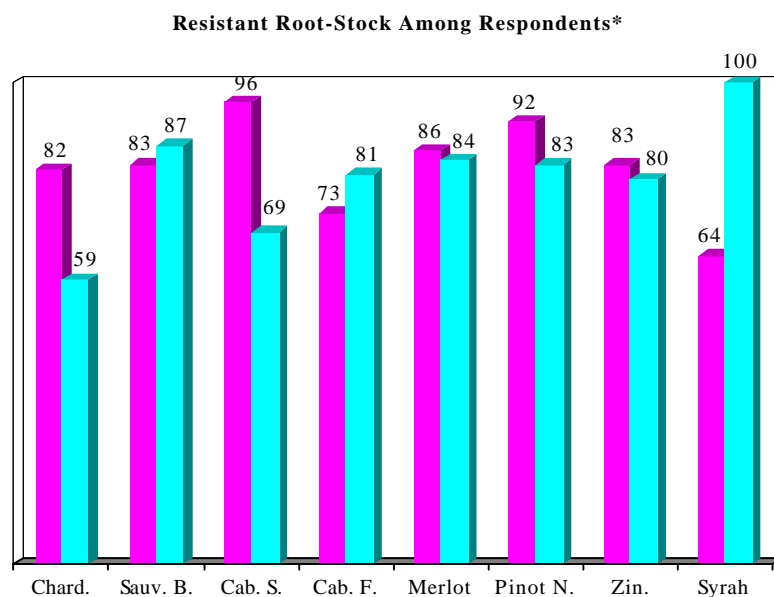
C. Disease Prevention

Local vineyards are threatened by a plethora of vineyard maladies. Currently, local growers are concerned with the glassy-winged sharpshooter (as a vector of Pierce's Disease), Eutypa, Young Vine Decline, and "black goo."

In recent years, much industry attention has justifiably been dedicated to the sharpshooter and the Pierce's Disease it can carry. By choking plants' circulatory systems, Pierce's Disease can quickly destroy a vineyard. Presently, there is no cure for the disease.

Eutypa is a slow-growing fungus that typically affects older vines. It reduces productivity and can eventually kill the plant. Young Vine Decline and "black goo" are fungi that can become pathogenic if a vine becomes stressed. With time, they will kill the vine, requiring re-planting.

Survey results show that many local growers have planted vineyards with resistant root stock, which should help to ward off disease.

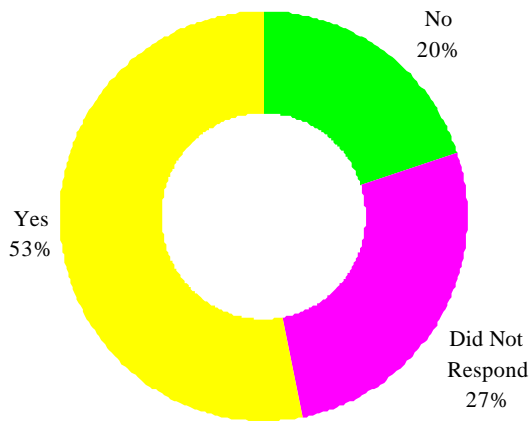


**This chart shows the percent of respondents that produce a specified varietal that have at least some of their acreage planted to resistant root stock (left bar), and the percentage of such respondents that have 100% of their acreage of the specified varietal planted to resistant root stock (right bar).*

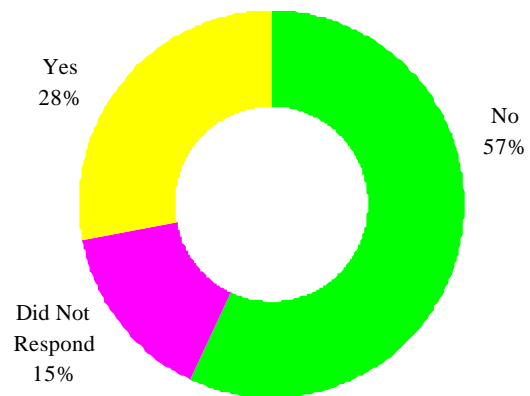
*D. Urban Encroachment &
E. The Long Range Vision for Local Agriculture/Vineyards*

Urban encroachment and the long-range vision for local agriculture are two concerns that are closely related. As Sonoma County becomes more populated and more urban, growers may fear that urban populations will become increasingly hostile to agriculture, opposing the use of traditional vineyard management tools such as wind machines and pesticides. Vineyard owners may be concerned that as this non-agricultural population grows, it can have increasing influence over long-term County planning (i.e. General Plan), and thus could unfavorably shape the future role of vineyards in the County. Such a situation would make Sonoma County far less attractive from a grower’s standpoint, and would likely affect growers’ long-term plans for their operations. Currently, survey results show that nearly 60% of responding growers feel that local residents do *not* understand and appreciate the grape growing industry and its concerns, while a little more than 50% feel the current General Plan is fair to agriculture.

Do You Think That the Current General Plan is Fair to Agriculture?



Do You Think Local Residents Understand and Appreciate the Grape Growing Industry and Its Concerns?

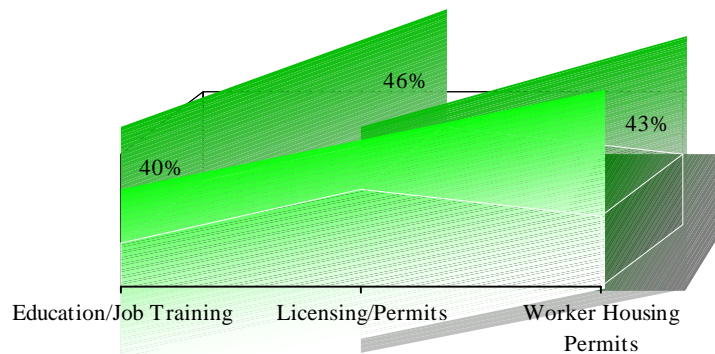


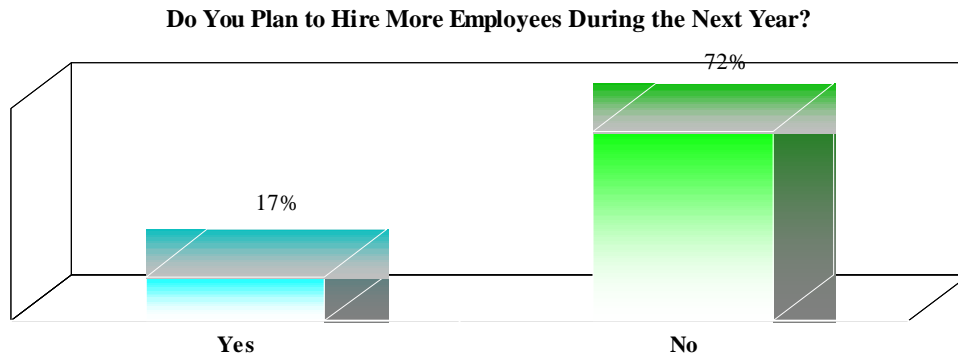
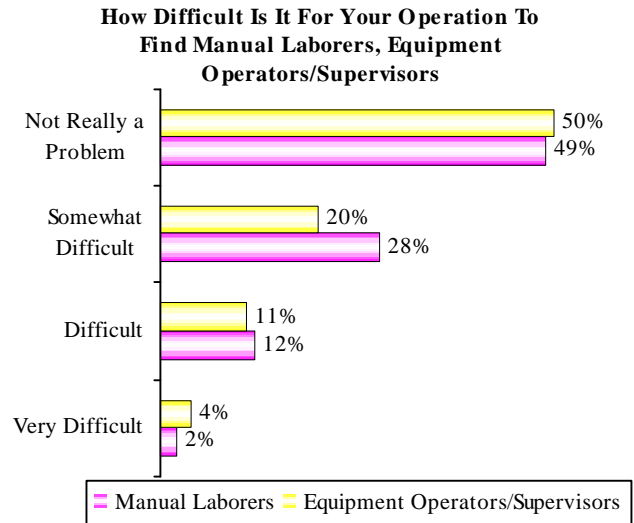
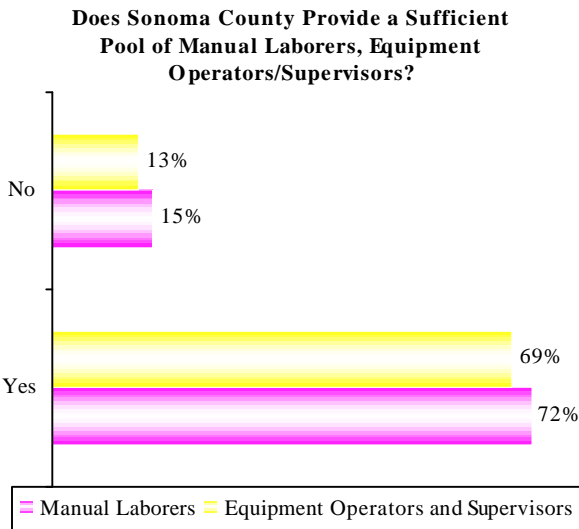
6. Governmental Assistance

In addition to the challenges outlined above, responding grape growers also indicated that local government could further assist the industry with education/job training and licensing and permit issues (particularly worker housing permits).

Responding grape growers’ feelings towards governmental assistance in regard to education/job training is interesting, because most responding growers indicated they have little difficulty in finding manual workers, equipment operators, or supervisors. Additionally, survey results show that relatively few growers plan to hire more employees during the next year (see graphs following page).

Where Could Local Government Further Assist Grape Growers?





The licensing and permit process is a concern to local growers because regulatory matters add to production costs and because delays in the licensing and permit process can cause growers to lose valuable time. If growers cannot obtain the proper permits quickly enough, they have to wait a year, until the appropriate time in the growing cycle returns, to begin the project they originally intended to undertake. Obviously, such circumstances can severely reduce growers' ability to respond to changing markets and/or improve their production process, making them less competitive and possibly less productive also.

Growers would like help with worker housing permits because in the future they will likely need not only more worker housing, but a different type of worker housing as well. According to Nick Frey, as growers seek to retain their most skilled workers for longer periods of time, worker housing will change from relatively short-term bunk houses to longer-term, more family-oriented, apartment-style housing. This would facilitate the retention of skilled workers by allowing workers to live with their families for extended periods of time on the growing property. By retaining talented workers for longer periods of time, growers hope to increase the quality of their production. To aid growers in this endeavor, local vineyard owners would appreciate County support for increased and modified (as outlined above) worker housing.

Methodology

The Economic Development Board conducted its 2002 Grape Growers Survey to record a “snapshot” in time of the local industry. Five-hundred surveys were mailed to local growers in March 2002; 127 were returned, yielding a response rate of 25%. Survey results are expressed in percentages of all respondents, *not* respondents to a given question. Survey results to questions involving mutually exclusive responses may exceed 100% due to rounding. Please note that unless otherwise noted, all data contained in this report is based on information received from survey respondents. Survey responses were gathered into a database for analysis, and with the exception of responses to Question 20, no results were weighted by any factor or interest.

Survey responses were reviewed with mr. Nick Frey, Executive Director of the Sonoma County GrapeGrowers Association. Mr. Frey assisted the EDB staff with interpreting results and expanding staff’s awareness of grapegrower issues.

Mr. Michael Swanson, Vice President of Wells Fargo’s Economic Department, provided the charts regarding the world wine scene and the consumer wine market.

Endnotes/Sources

1. Sonoma County Agricultural Crop Reports, 1990-2001.
2. Tesconi, Tim. “Wine glut driving down prices, hurting growers. Above-average crop expected to worsen oversupply, but vineyard land prices continue to escalate.” *The Press Democrat*. May 18, 2002.
3. “Wine industry experts say 2002 will challenge North Coast grapegrowers.” *North Bay Business Journal*. May 16, 2002.
4. Tesconi, Tim. “Vineyard boom over. Big drop in plantings in county as prices fall amid slowing wine sales, growing supply of grapes.” May, 10, 2002.
5. Graphs were originally created by Michael Swanson, Wells Fargo economist, May 2002.

Acknowledgements

Most thanks go to the many grapegrowers who responded to the survey; without their participation, this report would not have been possible.

Considerable thanks go to Nick Frey, the Sonoma County Grapegrowers' Association Executive Director, who provided much insight in reviewing results and interpreting their significance.

Jim Bielenberg, of Rodney Strong Vineyards and Chairman of the EDB, also deserves much credit for the success of this report; his help in designing the survey was pivotal.

Special thanks also to Hilary and Carolyn Schneider, who provided constant support and advice during the project. Thanks also to Colette Thomas and Catherine Harper for their special role in facilitating the preparation of this report. The entire EDB staff, whose teamwork and support helped to speed things along, is also thanked.

Brandon Schneider did an excellent job editing the survey, compiling the results, and writing the report.

Ben Stone

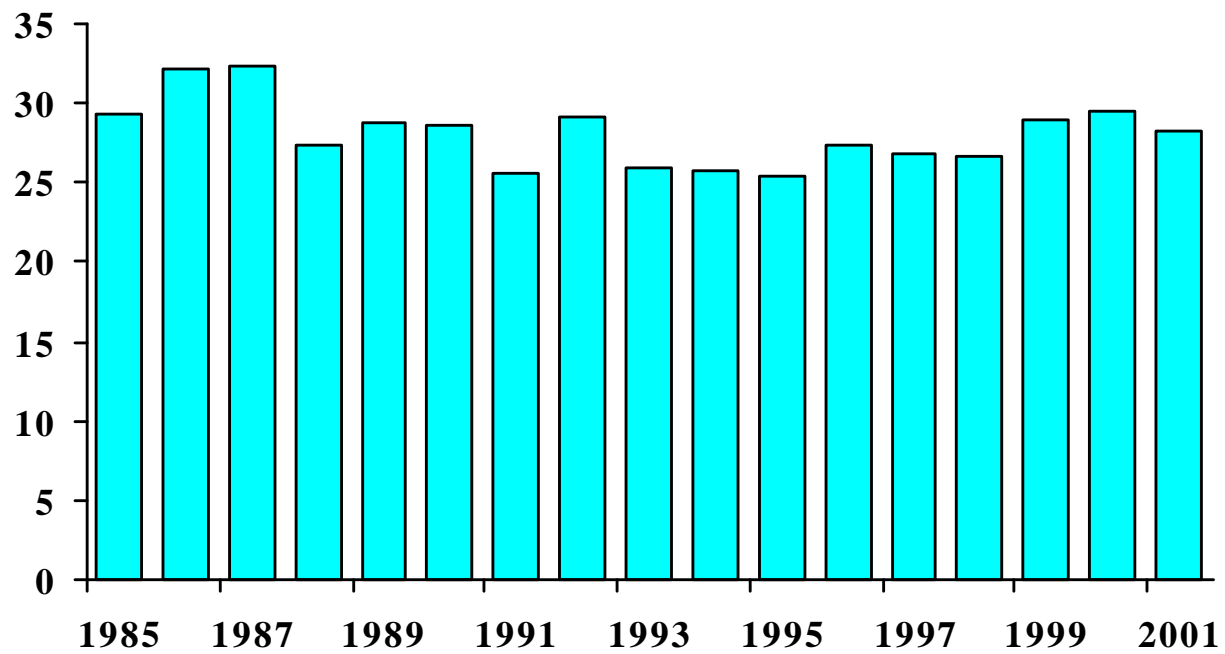
Appendix 1

The World Wine Scene⁵

In the last 15 years, as world wine production has remained fairly stable.....

World Production

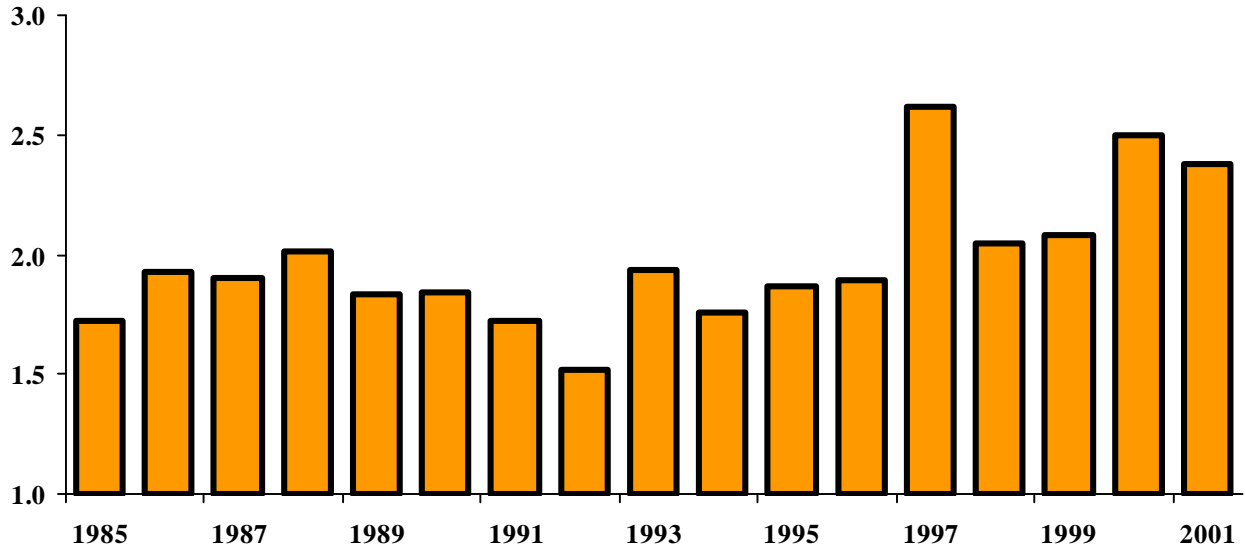
Millions of Metric Tons



US and Australian production has surged....

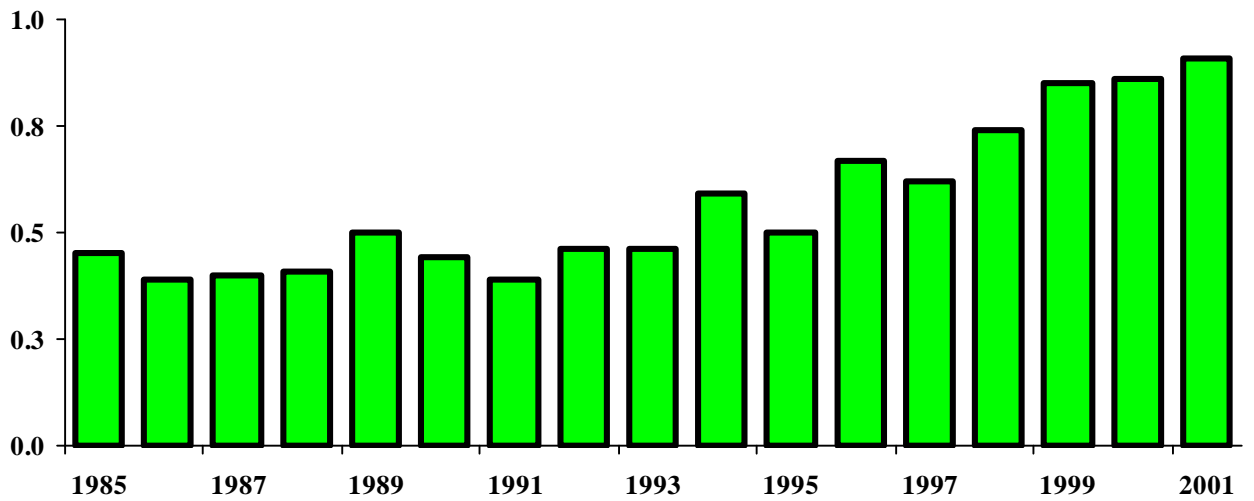
US Production

Millions of Metric Tons



Australian Production

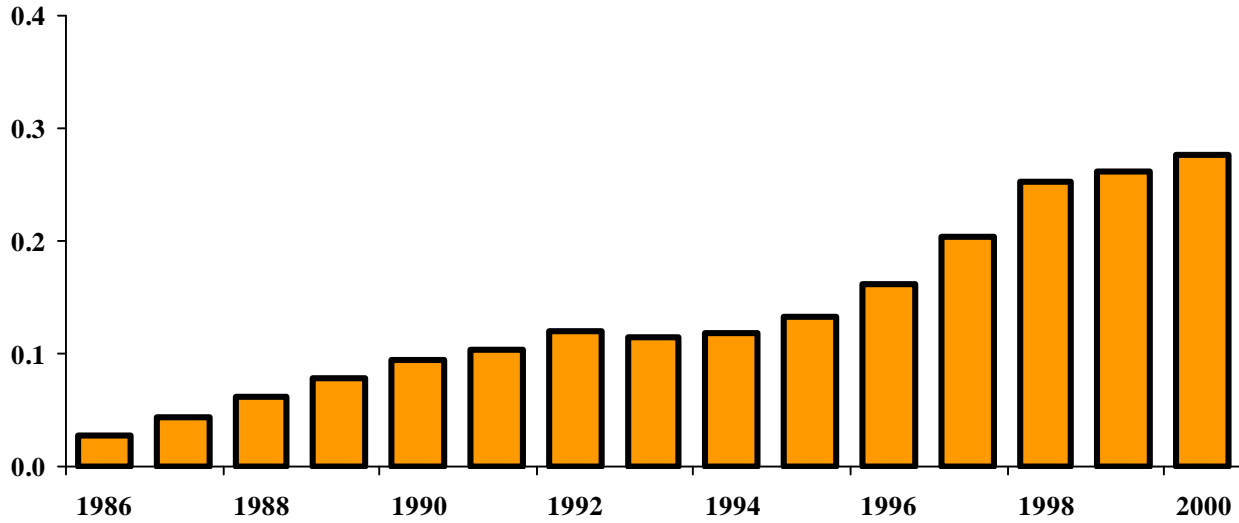
Millions of Metric Tons



As have their exports.

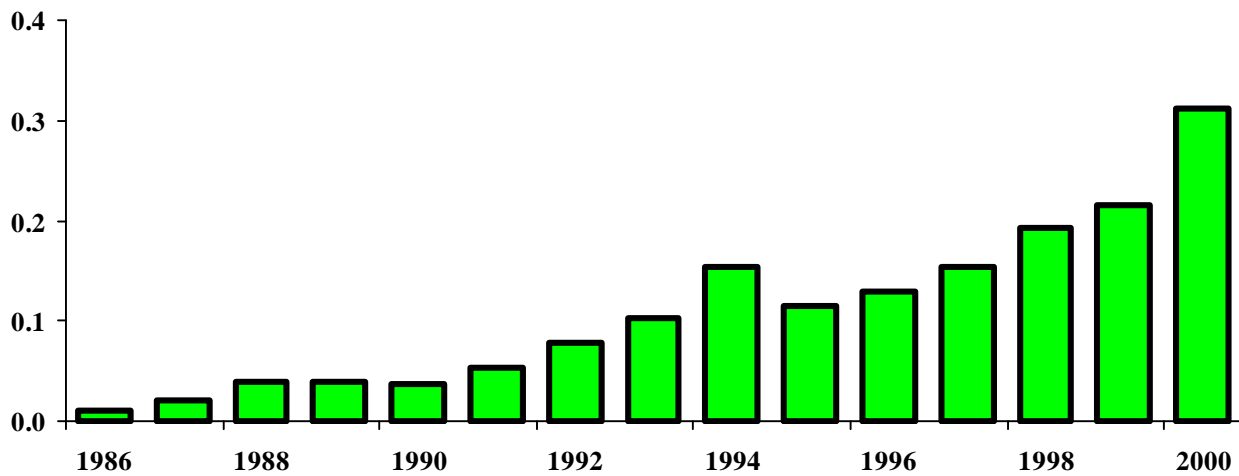
US Exports

Millions of Metric Tons



Australian Exports

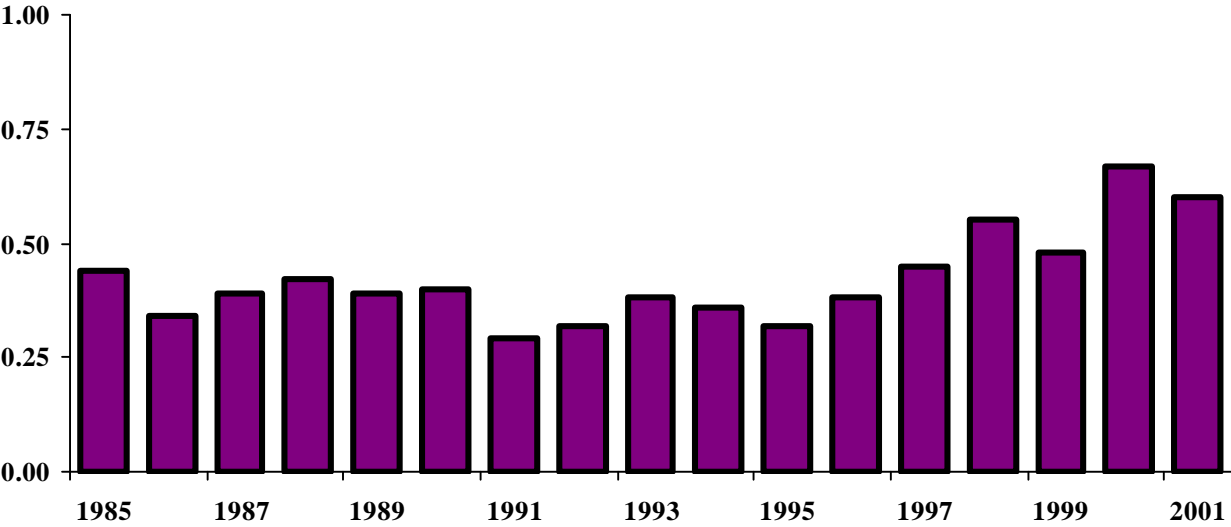
Millions of Metric Tons



During the same period, other new world producers have increased their production or exports, or in Chile's case, both.

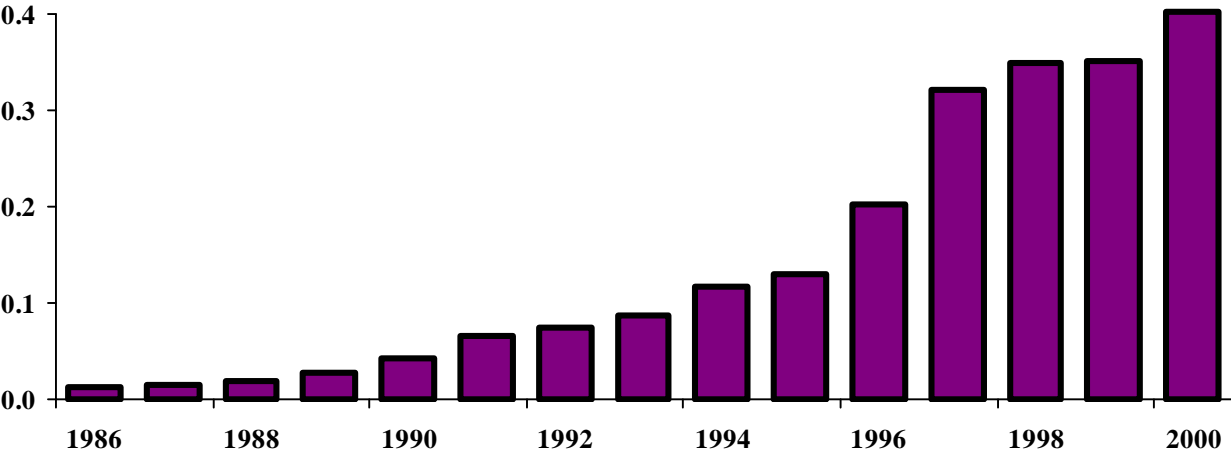
Chilean Production

Millions of Metric Tons



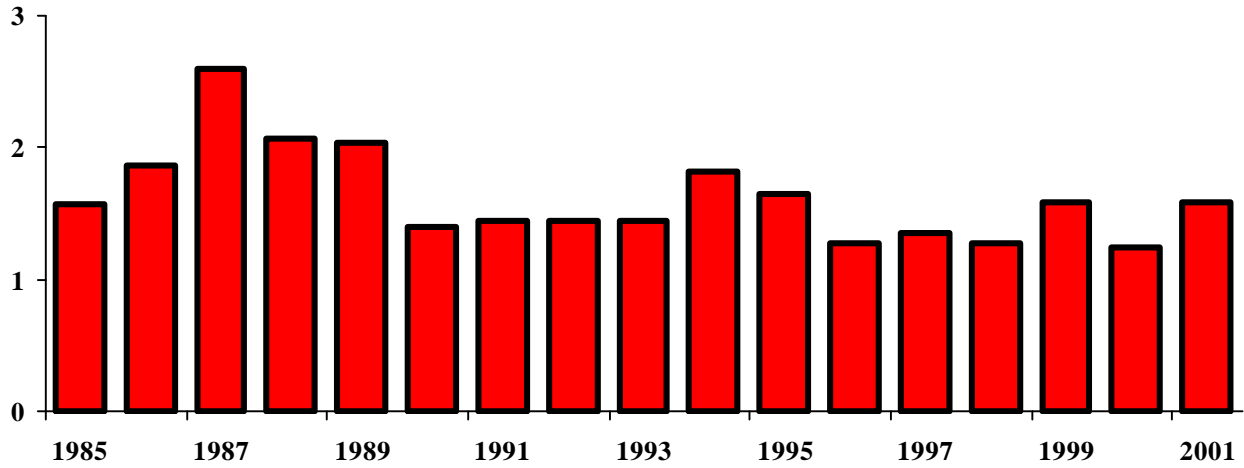
Chilean Exports

Millions of Metric Tons



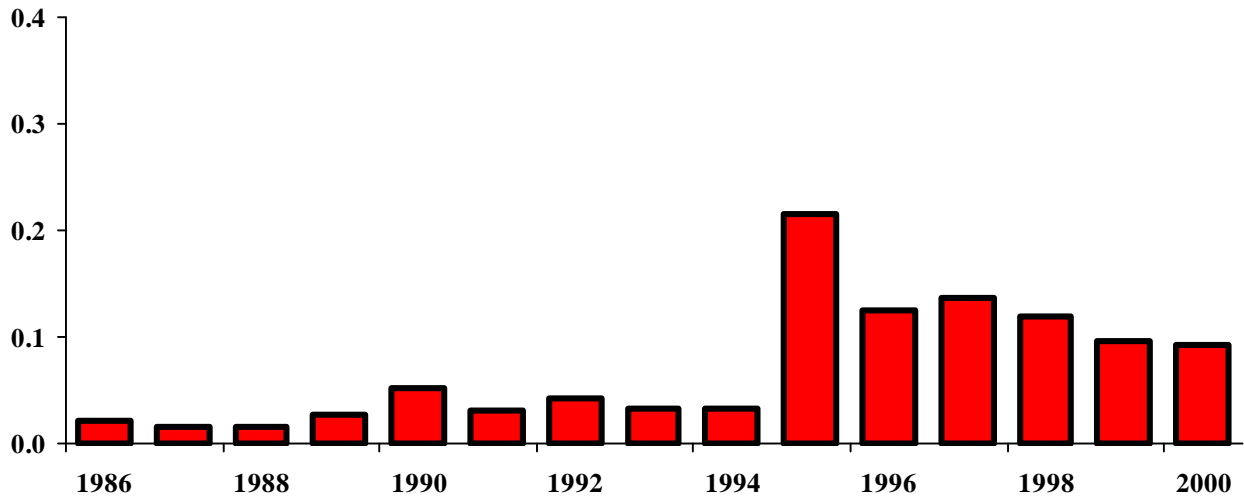
Argentinian Production

Millions of Metric Tons



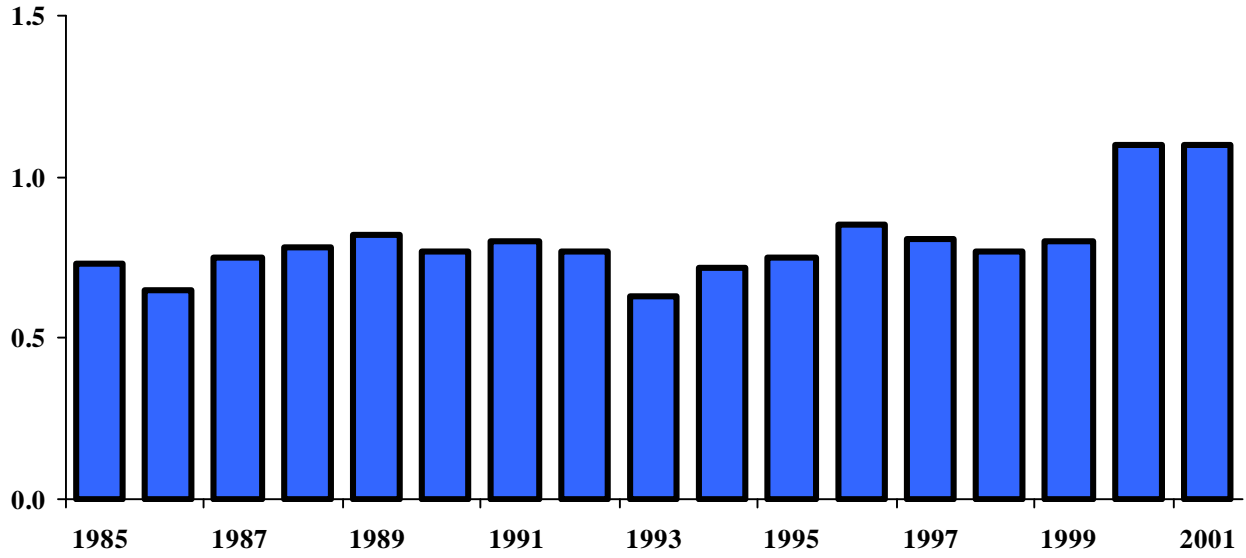
Argentinian Exports

Millions of Metric Tons



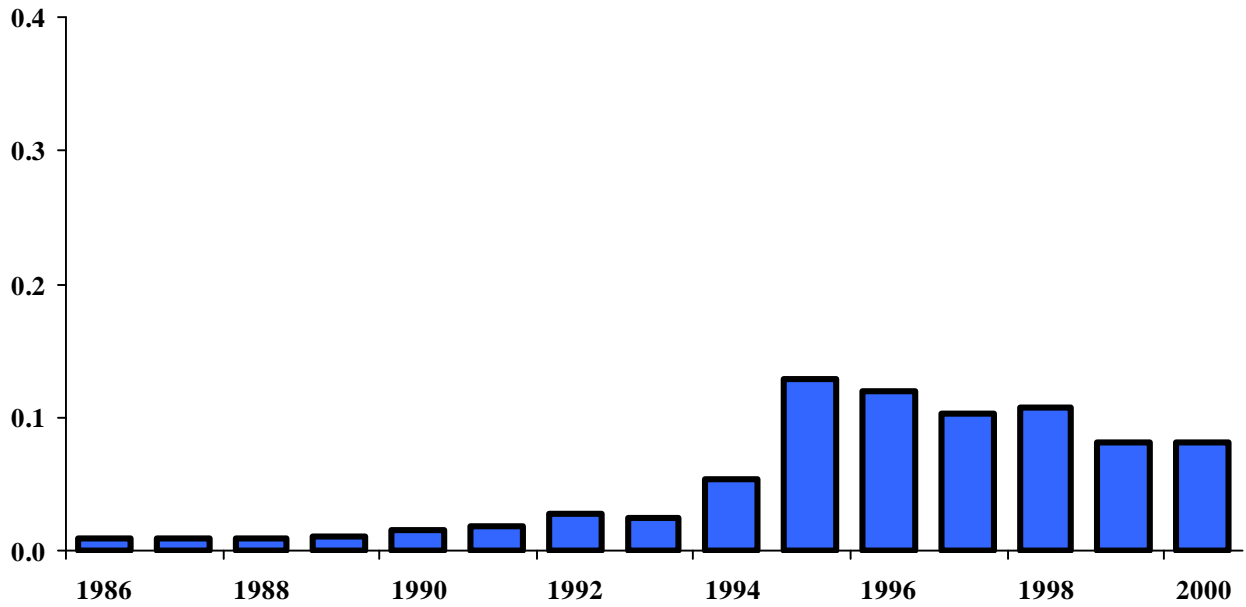
Millions of Metric Tons

South African Production



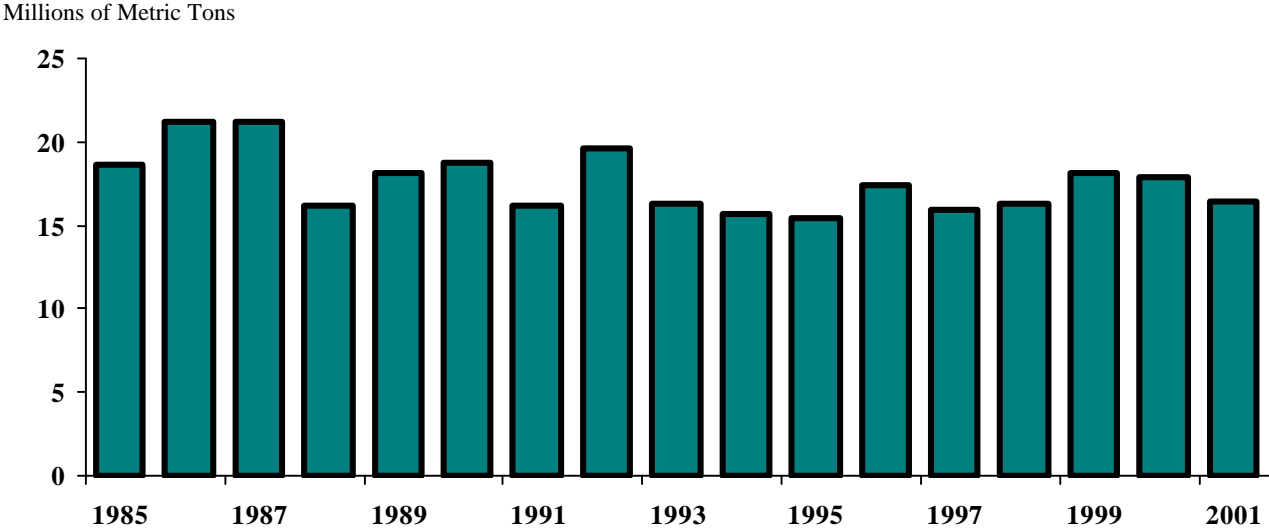
Millions of Metric Tons

South African Exports

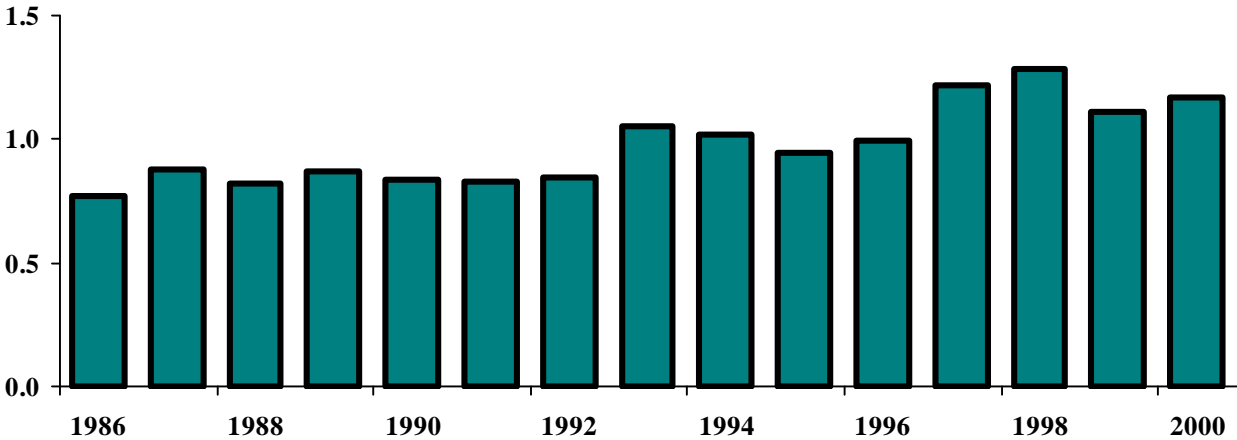


Meanwhile, EU production has decreased slightly, while EU exports have increased (though not as quickly as some new world producers).

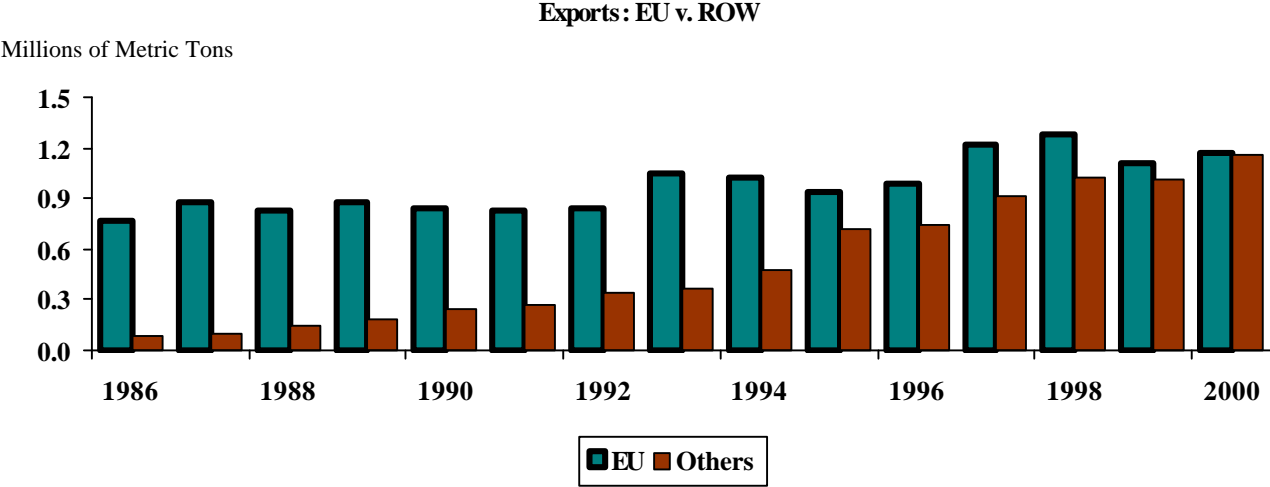
EU Production



EU Exports



The result is an international wine market where new world exports are quickly surpassing their EU counterparts.



The Consumer Wine Market: Changes 1996-2001

The chart below shows that higher priced wines (the final destination for most Sonoma County grapes), have increased both their market share and value since 1996.

		1996	1996	2001	2001
		Cases	\$ Sales	Cases	\$ Sales
Jug	Below \$3	58%	31%	36%	12%
Popular Premium	\$3-\$7	30%	37%	36%	27%
Super Premium	\$7-\$14	9%	23%	18%	28%
Ultra Premium	Over \$14	3%	9%	10%	33%

Appendix 2

2002 SONOMA COUNTY GRAPE GROWERS SURVEY

In terms of ownership, is your organization (please check all that apply):

- Family Owned Sole Proprietor Publicly Traded Privately-held Investor Group
 "S" Corp "C" Corp "LLC/LLP"

Approximate Number of employees in Sonoma County Operations: _____

- How would you describe your business? organic sustainable conventional
- What type of grape grower is your organization? Independent Winery-Owned
- What is your operation's approximate annual production in tons?
 ___ <100 ___ 101-350 ___ 351-500 ___ 501-750 ___ 751-1000 ___ 1000+
- Do you have a contract with a winery? Yes No
- What price per ton is considered essential to remain viable in regard to the following?
 (For this and following questions, "other" refers to the total, or average where appropriate, of acreage held that is not planted to the varieties specified)

Chard. \$ _____ Sauv. B. \$ _____ C. Sauv \$ _____ C. Franc \$ _____
 Merlot \$ _____ Pinot Noir \$ _____ Zinfandel \$ _____ Other \$ _____

- What are your organization's Sonoma County holdings by varietal (approximate planted acres)

Chrdnny Sauv. B C. Sauv. C. Franc Merlot Pinot Noir Zinfandel Other

- What percent of your planted acres are resistant root stock or non-resistant root stock?

	<u>Chrdnny</u>	<u>Sauv. B</u>	<u>C. Sauv.</u>	<u>C. Franc</u>	<u>Merlot</u>	<u>Pinot N.</u>	<u>Zin.</u>	<u>Other</u>
Resistant	_____	_____	_____	_____	_____	_____	_____	_____
Non-res.	_____	_____	_____	_____	_____	_____	_____	_____

- What are your average yields per acre?

Chardonnay _____ Sauvignon Blanc _____ Cab. Sauvignon _____ Cabernet Franc _____
 Merlot _____ Pinot Noir _____ Zinfandel _____ Other _____

- What percent of your production is sold:

	<u>Multi-year (long-term)</u>	<u>Annual (short term)</u>	<u>Bulk Wine Market</u>	<u>Other duration (please specify)</u>
	<u>Fixed Price</u>	<u>Sonoma County Average</u>	<u>Sonoma County Average +/-</u>	<u>Other price</u>
Chrdnny	_____	_____	_____	_____
Sauv. B.	_____	_____	_____	_____
C. Sauv.	_____	_____	_____	_____
C. Franc	_____	_____	_____	_____

Merlot _____
 Pinot N. _____
 Zin _____
 Other _____

10. In the *last year*, how many acres did you develop in regard to:
 (F=Fallow acreage you developed; R=existing acres you replanted)

Chardonnay	Sauvignon Blanc	Cabernet Sauvignon	Cabernet Franc
<u>F</u> <u>R</u>	<u>F</u> <u>R</u>	<u>F</u> <u>R</u>	<u>F</u> <u>R</u>
_____	_____	_____	_____
Merlot	Pinot Noir	Zinfandel	Other _____
<u>F</u> <u>R</u>	<u>F</u> <u>R</u>	<u>F</u> <u>R</u>	<u>F</u> <u>R</u>
_____	_____	_____	_____

11. In the *next year*, how many acres do you plan to develop in regard to:
 (F=fallow acreage you plan to develop; R= existing acres you plan to replant)

Chardonnay	Sauvignon Blanc	Cabernet Sauvignon	Cabernet Franc
<u>F</u> <u>R</u>	<u>F</u> <u>R</u>	<u>F</u> <u>R</u>	<u>F</u> <u>R</u>
_____	_____	_____	_____
Merlot	Pinot Noir	Zinfandel	Other _____
<u>F</u> <u>R</u>	<u>F</u> <u>R</u>	<u>F</u> <u>R</u>	<u>F</u> <u>R</u>
_____	_____	_____	_____

12. Do you think that the current General Plan is fair to Agriculture? Yes No

Why? _____

13. Does Sonoma County provide a sufficient pool of **manual laborers** to meet most of your employment needs? Yes No

14. How difficult is it for your operation to find manual laborers?

Very difficult Difficult Somewhat difficult Not really a problem

Why? _____

15. Does Sonoma County provide a sufficient pool of equipment operators and supervisors to meet most of your employment needs? Yes No

16. How difficult is it for your firm to find equipment operators or supervisors?

Very difficult Difficult Somewhat difficult Not really a problem

Why?

17. Do you plan to hire more employees over the next year?
(If "yes", please check all that apply)

Yes No

Production (Vineyard) Management Other: _____

18. In which areas do you feel local government could help to further assist grapegrowers?
(please check all that apply)

Education/job training Regulatory(licensing/permits)
 Worker housing permits

19. To whom are you selling your grapes? (please include buyer's location)

_____ _____ _____

20. What are the greatest challenges facing the local grape growing industry?

(Please rank top five, 1= Greatest challenge; 2= Second greatest; 3= Third greatest, etc)

___ Environmental laws/regulations
___ Price of land for expansion
___ Water availability/rights
___ Disease prevention

___ Distribution barriers
___ Labor availability
___ Available acreage
___ Adequate Capital/Financing
___ Land development issues
___ Farmworker housing

___ Family estate succession issues
___ Foreign competition
___ Higher cost of production
___ Urban encroachment
___ Other (please specify)

21. Do you provide housing for vineyard workers? Yes No

If yes, for how many? _____

If no, what prevents you from doing so? _____

22. Do you think local residents understand and appreciate the grape growing industry and its concerns?

Yes No

If not, what could the County do to help increase the understanding of the grape growing industry?
