

CALIFORNIA LEGISLATURE

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95814

SENATE SELECT COMMITTEE ON CALIFORNIA'S WINE INDUSTRY ASSEMBLY SELECT COMMITTEE ON WINE

Joint Informational Hearing Summary Report

DATE: June 28, 2019

SUBJECT: Summary Report - Informational Hearing on “Cultivating the Next Generation of Wine Industry Leaders and Emerging Markets in California”

The Assembly Select Committee on Wine collaborated with the Senate Select Committee on California’s Wine Industry to hold an informational hearing on June 28, 2019 at Sonoma State University in Rohnert Park, California. A variety of stakeholder groups attended to hear the presentations of noted experts in the field discussing the next generation of wine industry leaders and markets.

The hearing explored several critical issues impacting the wine industry, with a focus on answering the following questions:

- *What are key emerging trends in the future of the California wine industry?*
- *How must the industry change to keep up with demographic shifts?*
- *Is the future of the wine industry direct to consumer sales?*
- *How has the international market affected the industry?*
- *What is California doing to promote research and education in the wine industry?*

Panel 1: State of Wine Industry Education & Research

- Ray Johnson, Executive Director SSU Wine Business Institute
- David E. Block, UC Davis Department Chair of Viticulture and Enology
- Claire Hobday, Chief Financial Officer C. Mondavi & Family
- Shannon Walker-Hyde, Estate Manager Hyde Estate Winery
- Tony Stephen, Board Chairman American Vineyard Foundation

Chief Concerns for the Wine Industry: Workforce, Water, Supply and Sourcing, Brand Proliferation, Margin Compression, and Natural Disasters.

North Coast Wildfires: Media hysterics caused tourist decline even though 99.8% of vineyard acres were unaffected by the fires.

Philanthropy: 99% of all North Coast wineries donate to local interests and communities.

Wine Scholar SSU- Provide scholarship for children of farmworkers in wine industry; does not have to major in anything related to wine.

Educational Institutions

Educational Opportunities in the region are top quality and relevant to the industry. Both bachelors and masters programs are available as well as continuing wine education classes.

- **Sonoma State University:** Focused on the business aspect of the wine industry. Executive Wine MBA
- **UC Davis:** Focuses on technical side of winemaking; has dedicated Viticulture & Enology Department. Has the most advanced and sustainable winery in the world.

Branding and Loyalty in the Wine Industry

- **Generation Z & Experience Economy**– The future and their interest in wine; how to reach target consumers. Younger generations are focused on the experience of wine tasting and direct to consumer sales is a large part of that revenue flow. Increasing use of digital platforms to engage audience.
- **Investing in Research of Millennials:** As they become more invested in the industry, how do we capture their loyalty? Looking for a well-rounded experience.
- **Sustainability:** Looking at sustainability from an ecological and economic perspective: creates a more wholesome brand attracting younger demographics. Very important on the international market: Sweden requires that grapes and also wineries must be sustainably certified.

Increasing Research Funding of the Wine Industry: American Vineyard Foundation

California wine industry is the best in the nation but has to go against sovereign funds; with a lot of direct competition. Two innovation trends that funding should be increased for:

- **Advancement in Genetic Research:** Unlocking the genome of cultivars, grape vines, grape vine pest and diseases thus making vineyards more economically viable. With increased funding comes the possibility of eventually eliminating the use of pesticides.

- **Use of Data:** Precision farming; there is now the ability to collect data at the individual vine level allowing them to see the yield from each vine. Using this data as well as other indicators such as soil to recalibrate systems without human oversight. Increased broadband in rural areas needed for wineries to access data.
- **Labor: \$6000 per acre – Increase in mandated labor will create another 40% increase by 2021. As this labor force is aging; new employees need computer skills to adapt.**

Panel 2: Emerging Markets and Appellations

- Debra Sommerfield, President Lake County Winegrape Commission
- Bernadette Byrne, Executive Director Mendocino Wine Growers Inc.
- Michael Haney, Executive Director Sonoma County Vintners
- Tim Schmelzer, Wine Institute VP California State Relations

Lake County: 70% of crop is purchased by winery buyers in Napa and other parts of the North Coast. There are 7 current AVA's with 2 additional pending. Shorter growing seasons along with colder winters allow for reduced use of pesticides and herbicides.

- Master Vignerons Academy – Development programs for Spanish speaking vineyard supervisors.
- Increased buyer demand and prices in a 5 year span of Lake County grapes

Mendocino County: Less than 1% of land is dedicated to grapes; vineyards are on average of 15 acres and family owned. There are 115 wineries and 65 are brick and mortar. Small and midsized wineries do not have the budget or marketing pull as larger wineries. 50% of grapes are sold outside the county to neighboring Sonoma and Napa.

- 2018 harvest has created a large surplus of grapes leading to industry instability

Conjunctive Labeling: Labeling on wine to show both the region and sub-region of origin. Conjunctive labeling improves county and sub AVA recognition.

Sonoma County: Within 5 years, 95% of vineyards became sustainably certified. Convenience and experience drive marketing to millennials. Permitting process is expensive and bureaucratic. Wine industry relies on direct to consumer sales.

- 61% of revenue from the average family owned winery in Sonoma County comes from direct to consumer sales.
- Wholesale distribution centers have decreased while wineries have increased.

International Markets for California Wines

- California is the 4th largest producer of wine in the world.
- 85% of wine in the US is produced in California.

- 95% of wine exported out of the US comes from California.
- Over the last 10 years, exports have increased 60%.
- Recent years has seen a decline; -4.6% in 2018

Top Markets: EU, Canada, Hong Kong, Japan, and China

Emerging Markets: Mexico, South Korea, India, Vietnam, and Germany

- The EU spent over \$1 billion in marketing promotions and grape subsidies each year and have strict regulation on outside wine and stringent test requirements.
 - They maintain a monopoly on hundreds of geographical indications such as “chateau”, thereby blocking California wine from the EU market. California only has 2 geographical indicators: Classic & Cream
- Tariff trade wars: Tariffs and other protective measures on wine exported not similar to measures of wine imported.
 - Bottle of wine imported to California faces a 5 cent tariff.
 - Bottle of wine exported from California faces higher tariffs depending on country. Example - Japan:15% , India:50%
- Brexit presents an opportunity for the California wine industry
 - Allows the industry to directly negotiate with the UK and create better trade deals than with EU.
- China tariff as of June are at 91%; potentially ruining years of groundwork on an emerging economy