



CALIFORNIA
ASSOCIATION
of WINEGRAPE
GROWERS



May 19, 2020

The Honorable Sonny Perdue
Secretary of Agriculture
U.S. Department of Agriculture
1400 Independence Ave., SW
Washington, DC 20250

Dear Secretary Perdue,

The California Association of Winegrape Growers and the California Farm Bureau Federation represent and serve the interests of the 5,900 California growers of wine grapes. We wish to bring to your attention the very serious current and future economic challenges confronting California's wine grape growers, and we urge you to allow wine grape growers to participate in U.S. Department of Agriculture direct assistance programs.

For 2018, the California Department of Agriculture reported all forms of grapes (wine, table and raisin) were the state's most valuable crop, with a total farmgate value of \$6.25 billion. Grapes destined for wine, worth over \$3 billion, contributed the single largest share of total farmgate value for grapes, and in many California counties where wine grapes are produced it is the single most important agricultural crop.

Often, wine grapes represent the best and highest use of farmland. Wine grapes are adaptable to a wide variety of soils, including rocky and sandy soils insufficiently productive for annual row crops. Also, many farmers rely on wine grapes to diversify their agricultural operation against market risk and weather, since grapevines are tolerant of flood conditions and are relatively drought resistant.

The unprecedented closure of restaurants, entertainment and hospitality businesses in the wake of COVID-19 has affected many agricultural commodities, including wine grapes. The cessation of wine sales in key market channels has disrupted supply chains and forced wine grape growers to swim against a tide of deteriorating prices. Wine industry analyst Jon Moramarco, BW166, estimates the revenue losses for the nation's 10,000 wineries and 8,000 growers, due to COVID-19, could reach \$5.94 billion (an April 14 statement is attached). California accounts for approximately 81% and 85% of the nation's wine and wine grape revenue, respectively. Thus, the overwhelming portion of revenue losses projected to occur for wine grapes will fall on California's growers.

Surveys of California wine grape growers reveal their top concern is getting paid for this year's crop, and for good reason. California wine grape growers anticipate widespread losses this fall when growers harvest and ship their grape crops. It's a near certainty many California wineries will either decline to accept grapes for which they have contracted, unilaterally discount agreed upon prices or simply be unable to pay growers for grapes received due to severe and ongoing disruptions in cash flow.

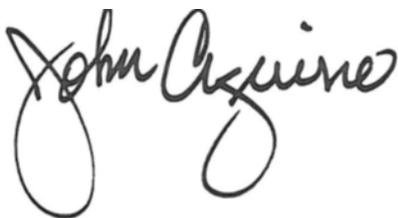
The resulting economic losses growers will experience are profound. Moramarco expects national wine grape revenue for 2020 to decline by 25%, resulting in a \$1.4 billion decline in the farmgate value. Such a decline will mean \$1.19 billion in lost revenue for California's wine grape growers. However, growers' losses are not only prospective in nature, but are occurring now.

Allied Grape Growers, a Fresno-based producer marketing cooperative for wine grapes, can confirm a total of 35,000 acres of wine grapes have been removed from production this year, out of a total of 590,000 bearing acres. This is well above normal pullouts of 15,000 – 20,000 acres annually. Allied anticipates growers will remove an additional 5,000 – 10,000 acres before end of year. We are certain the increased rate of vineyard pullouts is directly linked to wineries hesitating to either renew grower contracts for the current year or who are unwilling to pay sustainable prices. In other words, growers are ripping out vineyard acres because there is no market for those grapes and they can no longer afford to farm the crop.

We are working to update our economic analyses of COVID-19 related impacts on California's wine industry. We will share that information with you as it becomes available. In the meantime, we strongly urge you to allow wine grape growers to participate in programs of direct assistance.

We the undersigned appreciate your attention to the serious concerns we have regarding the tenuous economic position our growers find themselves in as a result of the COVID-19 pandemic.

Sincerely,



John Aguirre
President, California Association
of Winegrape Growers



Jamie Johansson
President, California Farm Bureau Federation

Attachment: Economic Impact of COVID-19 (Apr 16, 2020)



April 16, 2020

U.S. Wine Losses from COVID-19 Could Reach \$5.94 Billion

Lost Revenue of 36 to 66 Percent Projected for Most Wineries

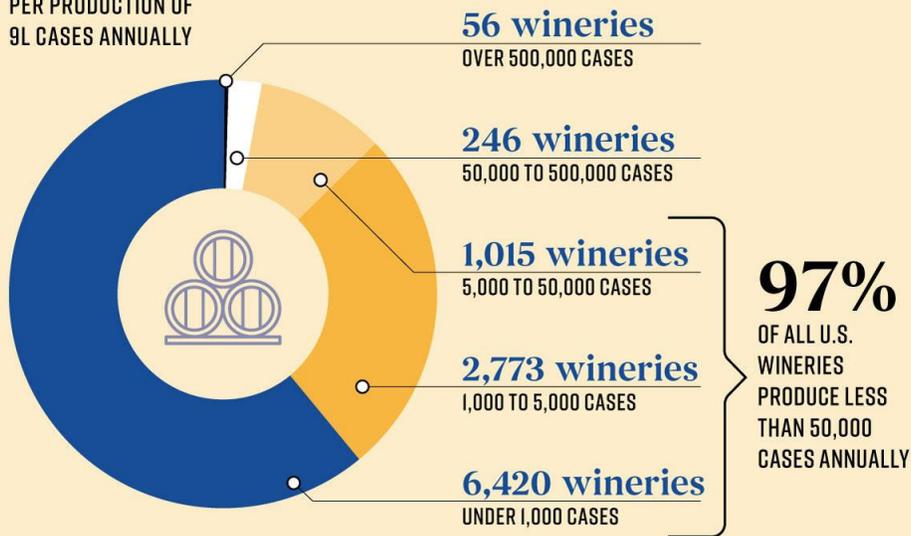
SAN FRANCISCO -- Revenue losses for the nation's more than 10,000 wineries and more than 8,000 winegrape growers due to COVID-19 could reach \$5.94 billion on an annualized basis in 2020, according to a new analysis by wine industry expert Jon Moramarco, managing partner of bw166 and editor of the Gomberg-Fredrikson Report.

"Despite recent news of consumers increasing wine purchases from grocery stores and other outlets, the impact of on-premise and tasting room closures plus projected declines in direct-to-consumer sales will offset any short-term sales gains when taking into account all sales channels," said Moramarco. The COVID pandemic is altering consumer buying patterns in areas such as off-premise and e-commerce in ways that won't be fully clear for some time.

Ninety-seven percent (97%) of all U.S. wineries produce less than 50,000 cases and are estimated to experience annual revenue losses of between 36% to 66% with smaller wineries most impacted. Projected losses increase as winery size decreases with wineries producing 1,000 to 5,000 cases expected to see lost revenue of 47.5% and wineries producing under 1,000 cases or less expected to lose 66% of revenue.

Number of U.S. Wineries by Size*

PER PRODUCTION OF
9L CASES ANNUALLY

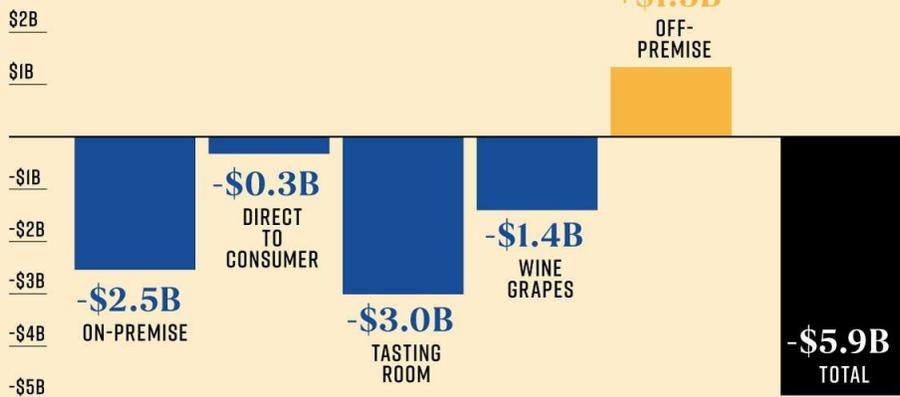


*Number of wineries sourced from Wines and Vines Analytics. Sources: bw166, Wine Institute

Individual U.S. wineries will be impacted differently depending on their primary channels of distribution. The annual revenue loss for U.S. wineries and growers is based on the following projections by channel and Moramarco's assumption of a 50% recovery of restaurant, tasting room and other on-premise wine sales within three months of the lifting of shutdowns which is estimated to be late May 2020. Moramarco does not anticipate full revenue recovery until three to six months after a vaccine is widely available.

U.S. Wine Industry Annual Revenue Impact*

IN BILLIONS OF DOLLARS



*Estimated. Sources: bw166, Wine Institute

- **On-Premise:** With social distancing and mandated closures of restaurants, winery tasting rooms, hotels and other on-premise businesses, estimated losses will be 80%. **Down \$2.54 billion**
- **Direct-to-Consumer (DTC):** Winery DTC shipments for wine club (long-term subscriptions for limited availability wines) and allocation sales are estimated to decline 10%. **Down \$323 million**
- **Tasting Room Sales:** Cellar door sales to consumers visiting wineries where the wine is delivered to consumers at the time of sale are estimated to decline by 80%. **Down \$3.0 billion.**
- **Winegrapes:** In addition to direct impact on winery revenues, the shortfall in sales will also create an excess of winegrapes as inventories will be more than required. This is the impact on winery owned grapes and third-party growers this year. Estimated lost winegrape sales total will be 25%. **Down \$1.40 billion**
- **Off-Premise Sales:** The off-premise retail sales (grocery stores and other outlets) will be less severely impacted and are benefiting from the decline in on-premise sales during shutdowns. While the initial response to shutdowns has been a large jump in off-premise sales, more recent trends show a moderation. Estimated annual impact increase of 10%. **Up \$1.33 billion.**

“Wineries, like all other hospitality businesses, are feeling the impact across the board,” said Robert P. Koch, President and CEO of Wine Institute. “Our wineries rely heavily on their tasting room and restaurant sales which have been decimated. While we are confident in the long-term consumer demand for California and U.S. wines, we anticipate a long recovery period.”

“Grape prices were bad before the COVID-19 pandemic hit, but now we are confronted by the prospect of a financial disaster for growers,” said John Aguirre, President of the California Association of Winegrape Growers. “We are grateful that winegrowers continue to operate with extra safety protocols in place, but there is a direct link between the success of tourism, hospitality, events and restaurants and the financial health of the many growers who supply grapes for wines sold in those segments of the wine market.”

###

Contact:
 Nancy Light or Gladys Horiuchi of
 Wine Institute
Communications@wineinstitute.org
 415/356-7525