TURRENTINE Market Update
GRAPES & WINE

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Fantastic Life Forms

Dive into the sea of wine and you will discover a fantastic variety of life forms. This sea is constantly evolving. Each life form seeks its own niche and each influences all the others. It is a Darwinian jungle of wine amid the kelp forests.

At the bottom of the food chain, you will find everyday wines that constitute the majority of worldwide production. For hundreds, if not thousands, of years, these everyday wines exhibited distinct flavors from region to region due to the use of different grape varieties and production techniques. California revolutionized everyday wines in the 1960s and 1970s with scientific varietal selection, temperature controlled fermentations and other technological innovations that resulted in fresh, fruity and usually sweet jug wines. California also produced a second wave of change in the 1980s, taking much of Connie and Conrad Consumer's everyday consumption upscale with inexpensive 750 ML bottles of Chardonnay, Cabernet Sauvignon and White Zinfandel. Dubbed "Fighting Varietals", these wines steadily replaced much of the Chablis, Burgundy and Rosé sold in jugs. Australia initiated a third wave in the 1990s and early 2000s, transforming warm climate grapes into more flavor-filled premium varietal wines that deliver lots of moxie for the money. Production of these **Moxie-for-the-Money Wines** has since spread across the globe. Wine writer Matt Kramer has fittingly called them the Wines-of-Anywhere because, wherever they are made, they feature mostly the same handful of grape varieties, similar production techniques and comparable flavors. Parts of California, Chile, the South of France and much of Italy are busy transforming their own warm climate grapes into the nectar of, at least, the lesser gods.

But for all of the innovation, profits have been hard to come by in recent years for many producers of these wines. Initial successes stimulated massive plantings in both Australia and California. In the meantime, consumption of everyday wines has dropped precipitously in France and Italy, leaving orphaned vines competing for new homes. The combination of increasing production in the New World and declining consumption in the Old World generated a massive, worldwide oversupply. The

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oversupply, in turn, stimulated marketing creativity and further winemaking innovation. The best of the Moxie-for-the-Money Wines are now competitive with some lower tier wines from even the most prestigious appellations around the world. The quality of a wine from Burgundy, Bordeaux, Sonoma or Napa no longer automatically trumps the quality of a wine from Sicily, Lodi, Australia or Argentina.

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These surges from the depths below have diminished, but not eliminated, the importance of place in marketing wines. In the meantime, the lost continent of the United States will soon claim the title of the largest market for wines in the world – and it is one of the markets that has the weakest connection to the storied history of wine. Wine quality is no longer defined mainly by history but by recent scores on the 100 point scale. Innovation continues to challenge tradition but yesterday's innovation can become today's commodity. And commodities do not offer the kinds of profit margins that justify such a capital intensive and risky business.

Brands from around the world are trying all kinds of gambits to find their niche in this sea change. Some brands emphasize their scores. Others are exploring innovative packaging. Another angle is to promote lesser known varietals. And the claims of a special place still have pull. Smaller wineries may try to make personal visits by consumers to their winery the basis of an on-going relationship. Every means of distinguishing a brand is up for grabs. Areas of California's Central Coast were given an unexpected gift with the movie *Sideways* and the resulting Pinot Noir craze. Other Central Coast brands are betting on Rhone varietals. The wines of Spain are hot for the counterintuitive reason that no one in the rest of the wine world has heard of their varieties or their appellations. They are a fresh, and often tasty, challenge to the homogeneity of the Moxie-for-the-Money Wines. The downside for these conquistadors is the daunting task of teaching Connie and Conrad Consumer to pronounce Albariño and Monastrell, Extremadura and Castilla y León.

At the very top of the food chain, there is a different world, a world with beautiful, sunlit margins, great stories and some lessons for the rest of market. Cruising many leagues above the everyday wines are the powerhouse brands that rule the rarified realm of luxury wines. We might call these powerhouse brands the **Wines of Person, Place and Belief**. These wines are not only tied to a place but the place is usually full of history. And there are people behind these brands who understand theater, in the broadest sense, and use it artfully to enhance their story. Furthermore, these brands tap into a belief system that resonates with their customers. Oh, and by the way, as the fourth element, they also put some pretty luscious liquids into the bottle. The luscious liquids support and confirm the Person, Place and Belief elements of the brand.

Take Chateau Lafite-Rothschild for example. Except for a few hectares in neighboring Saint Estèphe, the vineyards, as well as the beautiful aging chai and the magnificent chateau, are in the famous Medoc region of Bordeaux. The Rothschild family, with Baron Eric de Rothschild at the head, is famous in their own right. Over hundreds of years, the story of the brand threads it way among Royalty (the wine greatly pleased King Louis XIV and the Versailles court) and Revolution (an owner lost his head when he failed to please Maximilien de Robespierre and the Committee of Public Safety). This is not just a glass of really good fermented grape juice. This is a glass that speaks of a near-sacred place and of near-sacred times. It makes one feel elevated, sophisticated, elite. This fermented grape juice ennobles your blood. At $125 to $250 per glass, this stuff is a steal in comparison with how you feel about yourself when you drink it.

A few brash New World brands have crashed this exclusive soirée. In a single generation, a Caymus Vineyards, for example, became a brand of Person, Place and Belief. No wonder the French scorn us - and enjoy us. It is absurd to the European mind that a winery that crushed its first grapes in 1972 (Caymus) could be compared to a winery that began in the late 1600s (Lafite). But America remains a land of opportunity. Caymus' Charlie and Chuck Wagner, père et fils, had the good fortune to be in the right place at the right time and they deftly developed the opportunity with remarkable wines and great marketing. Along with a few other upstart brands, they tapped into the excitement over California wines, wines that shocked everyone by competing with the world's best. This shock created a supernova of consumer enthusiasm that instantaneously created the luster it took European brands centuries to develop.

Excellent reviews are still required for any brand that aspires to become a Wine of Person, Place and Belief, but high scores no longer have the same ability to shock the world and glorify a brand as they did when the Napa Valley was young. Now other elements are pretty much required from the beginning, in addition to excellent wine. Francis Ford Coppola's three steps to success make a good pattern for other aspirants. First, direct several of the greatest movies ever made. Second, buy superb vineyards and a winery in Rutherford. Third, make great wines. The first step is, admittedly, a big one. But after that, it's really pretty simple.

The market for established Wines of Person, Place and Belief is amazingly strong all over the world and especially in the U.S. Most of these brands, including top brands from Bordeaux, Burgundy, Italy, Germany, Napa, Sonoma, Santa Barbara and other leading wine regions, are making more money than ever before. The rest of the market has been more difficult. But the chances are that the varietal wine market will improve over the next six or eight years as the surplus of the last seven years is consumed by increasing demand. Most brands will attribute their improved fortune to their great marketing plans, completely forgetting the critical contribution of the supply side. The real reason the market will improve is that sales are growing and vineyard acreage is not. But those marketing plans remain important. Despite a favorable turn in the supply and demand cycle, each brand will need to deftly cultivate those elements that give it preferential distinction in the vast Darwinian sea of wine.

Crush Contest Winners
Everyone guessed way too low for the 2005 Crush Contest but the estimates were much closer for 2006. No one stole the show this year but we did notice that almost 50% of the winners hail from the Lodi area. Erica Moyer claims that is because she has been giving these guys excellent information. We should also note that Turrentine partner Steve Fredricks and broker Matt Turrentine actually had the closest estimates in Napa Cabernet Sauvignon and Lodi Chardonnay, respectively. But tough luck guys, employees are not eligible to win.

So, without further ado, the 2006 Crop Prophets are: Kurt Kautz, Kautz Farms; Matt Goehring, Clos du Bois; Warren Bogle, Bogle Vineyards; Chuck Hammond; Scott Johnsen, E. & J. Gallo; Duane Wall, Tonnellerie Francaise; Gregg Lewis, Lewis Vineyards; Johnny White, Pina Vineyard Management; Michael Boer, Stipp Ranch; Joe Hurliman, Herzog Wine Cellars; Dr. Joseph Greene, Argyle Vineyard; Michael Blaney, Paragon Vineyards; and Will Nord, Nord Coast Vineyards. Congrats to all and a fine bottle of sparkling wine is on its way!

Grapes & Wines in Bulk
January and February passed in a blur of activity at Turrentine Brokerage. Wineries kept us working overtime re-signing grape contracts and purchasing large quantities of bulk wine. The activity slowed a bit in March and April. Cluster counts look surprisingly good in many parts of the state. Some growers think the lack of rainfall may impact actual crop size. But many winery grape buyers are now moving slowly, except of course, for the hot items, such **Chardonnay** from Russian River, Sonoma Coast, Alexander Valley, Carneros and Napa Valley; **Pinot Noir** from Mars and everywhere else; and high-end **Napa Cabernet Sauvignon**. Even though the bulk market has remained active, several wineries have recently offered new, significant volumes of 2005 red wines, so the total volumes for sale in bulk have actually increased over that last two months. Even Pinot Noir, while still strong, is no longer absolutely vaporizing the moment it hits the bulk market. And Mountains of Marvelous Merlot are unexplored by all but a few, relatively small, buyers. Most wineries are still reporting strong sales growth. But right now there still seems to be plenty of supply.

London Trade Fair
If you are hopping the pond to the London International Wine & Spirits Fair May 22 through May 24th, keep an eye out for Steve Fredricks. He will be making deals from four continents and occasionally touching base at our booth, #S5.