



## Washington Week

My son John, aged 13, and I had the great privilege of participating in the Wine Institute's Washington Week this past May. John, it is true, grew a bit bleary-eyed as we met with TTB officials. He also sat through two days of individual meetings with 13 members of Congress, intriguing to me, perhaps less so to him. These meetings included Speaker Nancy Pelosi, Majority Leader Steny Hoyer and Representatives George Miller, Mike Thompson, and George Radanovich. They discussed wine business issues such as immigration reform, the farm bill, and estate taxes, as well as general issues, such as the war, global warming and the 2008 elections. The meetings clearly demonstrated the high level of engagement and respect that the Wine Institute has established in the nation's capital. We also had a great visit to the White House, where John and the other kids in our group got to kick around a soccer ball on the south lawn, the site of so many press conferences and helicopter arrivals and departures. Soccer was followed by a group picture with the President and Condoleezza Rice as well as a picture with former President George H. W. Bush and Barbara Bush. The President and Secretary of State Rice had just come from a meeting with restive Republicans about the Iraq war and were on their way to a meeting with the President of Haiti. The elder President and Mrs. Bush were on their way to lunch with Queen Elizabeth II.

It was fun and fascinating. But this is also serious business. Many folks deeply involved in grapes and wine have no idea exactly how vulnerable the wine business really is to political and regulatory mayhem. In federal, state, and local politics there is a constant stream of schemes plotting to reduce total alcohol consumption, and to raise revenue, at the expense of our product and our customers. Many of these schemes would be extremely injurious to the wine business, as well as unfair to the majority of American consumers who enjoy wine as part of a healthy lifestyle. With a budget that is tiny in comparison to some anti-alcohol groups, Wine Institute stands as the foremost bulwark against these schemes. Under the leadership of Bobby Koch, Wine Institute uses a wealth of relationships to leverage the positive story of moderate consumption, the sustainability initiative that has made even red and white wine green, and the intriguing character of the product itself, into a highly effective advocacy program. This program defends and promotes the interests of everyone who grows grapes or makes wine, as well as the interests of responsible consumers who want ready access to good wine at a reasonable cost.



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One of the most exciting possibilities currently on the table is an opportunity to win significant financing for grape and wine research, an area in which the United States lags behind some global

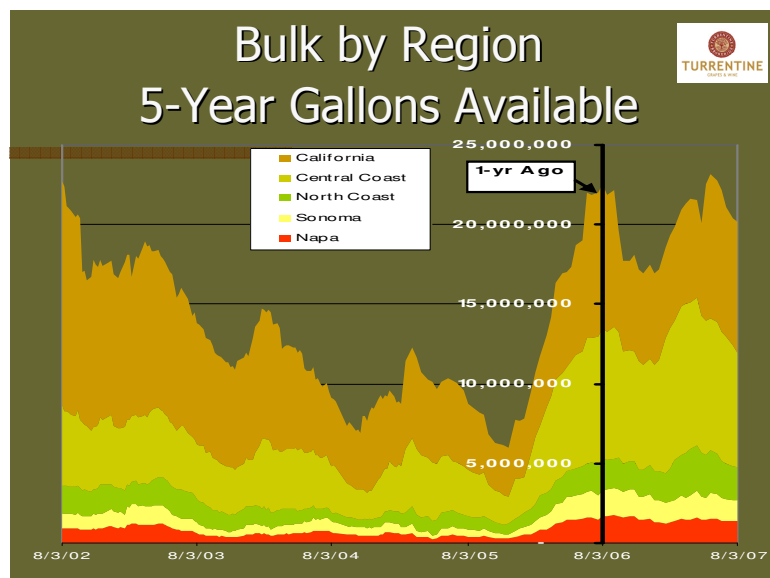
competitors. The vast majority of government research funding in the United States goes to so-called program crops (mostly corn, wheat, and soy beans), partially because the producers of program crops have been better organized than specialty crop producers. But the total value of specialty crops, with grapes and wine leading the way, is now about equal to the value of program crops. Current proposals would make an important start on the job of securing a fair share of federal research funding for specialty crops. This research could prove vital to the future success of the wine business in America.

## Gettysburg & the High Ground

While in the D.C. area, John and I visited the Gettysburg battlefield. It reminded me of selling grapes and wine in bulk. Not that the wine business is all that bloody, but success in this business often goes to those with the best information and information is what decided this great battle. Virtually everyone agrees that Robert E. Lee was a better general than George Meade, his opponent at Gettysburg. Lee's strategy was to bring the war into the North, threatening Harrisburg and Philadelphia and creating a panic that could lead to a negotiated peace. Lee's cavalry - meant to be his eyes and ears that kept him informed about troop movements and the ground ahead - had gone on a long ride around the Union flank and were missing when Lee needed information the most. When a Confederate brigade encountered Union cavalry around the town of Gettysburg, Lee's cavalry was not there to tell him whether these were a few insignificant militia units or the advance of the main Union army. If Lee had known that he was in fact coming up against the main Union army, he would have immediately secured the high ground and dug in for a fight in an advantageous position, as he had done so successfully during the Battle of Fredericksburg. Nearly blind, however, without his cavalry, he hesitated to halt his march and that hesitation cost him the battle - and the war. The better informed Union cavalry seized the high ground, which they held heroically until they were relieved by infantry. This position allowed the Union artillery and infantry to pour down devastating fire upon the Lee's Army of Northern Virginia as he tried in vain to dislodge them.

In the world of grapes and wine in bulk, Turrentine Brokerage functions like an effective cavalry. Constantly active in the grape market all over the state, and in the bulk wine market all over the world, Turrentine Brokerage helps clients to understand and respond to the incessant changes that constantly reshape the business. The moral of Gettysburg is applicable to the California wine business: the best informed are often able to seize an advantageous position while others hesitate, and therefore it pays to stay in close contact with the cavalry.

## Executive Summary



The 2007 harvest has started in the Interior and, for sparkling wine, along the Coast. The bulk wine market has entered its harvest lull. There are still plenty of sellers who would like to free up room for grapes. A few buyers are still trying to wrap up blends before the full onslaught of grapes. To our surprise, we have sold more Merlot, of all things, in the last three weeks than in the preceding seven months. It looks like several buyers waited until the days before harvest to make their move. While the bulk market is still well supplied with wine, the total volume of wine for sale is lower now than last year at this time, as the chart shows.

**Chardonnay:**

The massive mountain of 2005 Chardonnay has shrunk to a mere hillock. Activity is now slowing down but prices firmed at the end of the season for 2006 Chardonnay, especially for Napa Valley and Sonoma County wines, which have recently brought between \$9-\$14 per gallon. Monterey County 2006 Chardonnay has been mostly \$6-\$7. Mendocino County still has a substantial supply of 2006 Chardonnay going into harvest and activity has been slow. The market for 2006 Interior Chardonnay has been slow but supply is limited. Asking prices have been firm in the \$2.50 to \$3.50 range.

**Cabernet Sauvignon:**

Although the supply is large, bulk market activity for Cabernet Sauvignon has picked up steam, reflecting strong sales growth in the casegoods market. Recently we have sold several Napa Valley 2005 and a few 2006 Cabernet Sauvignon lots in the range of \$14-\$24. A few reserve lots have spiked higher. All regions of Sonoma County Cabernet Sauvignon have been in demand, with prices for 2005 and 2006 going from \$8 to \$17. There are a few buyers still in need of 2005 Sonoma County Cabernet Sauvignon. The markets for Cabernet Sauvignon from Mendocino County, Lake County, the Central Coast and the Northern Interior are all still characterized by excess supply, but demand has increased in these areas as well.

**Merlot:**

The Merlot market has been surprising the last few weeks with new interest from Buyers for Sonoma County and California appellation wines. While volume jumped, most of the wines have sold at a price considerably below the average grape price plus processing. But it is encouraging, at least, to get some significant gallons moving in what had been a stagnant market.

**Pinot Noir:**

There are still many more buyers than sellers when it comes to Pinot Noir, but the buyers are being more selective than they have been. Buyers would like to increase the volume of their blends but most are not willing to do so at the expense of the quality nor at totally uneconomic prices.

**Pinot Grigio:**

Most 2006 Pinot Grigio is already in the bottle and the action has moved to 2007, which is now fermenting away in tanks in the Interior regions. Some wineries are reporting yields below expectations and yields are certainly below demand. Demand, furthermore, has been surging due to growth in sales and to a marked increase in prices for Italian Pinot Grigio, (yes, they do make Pinot Grigio in Italy too).

**Market Opportunities**

**AVAILABLE:** Monterey Gewurztraminer 2007 juice (or wine) in truckload quantities.

**AVAILABLE:** Good selection of quality Zinfandel grapes from the North Coast

**AVAILABLE:** Last minute storage in various tank sizes, 6 to 12 month contracts. Smaller lot storage available starting October 1.

**AVAILABLE:** Red & White processing space available in the North Coast, Central Coast and Interior.

**AVAILABLE:** Viognier grapes from the North Coast and the Northern Interior.

**AVAILABLE:** High quality Cabernet Sauvignon, Napa and Sonoma, Mendocino and Lake County

**AVAILABLE:** A range of bulk wines from France, Italy, Spain, Australia, Chile and Argentina. Call for details.

**NEEDED:** Central Coast Grenache grapes and Central Coast White Rhone grapes.

**NEEDED:** Top quality Coastal 2005 Cabernet Sauvignon bulk wine.

**NEEDED:** Monterey County 2006 Chardonnay bulk wine.

**NEEDED:** Pinot Noir, grapes and bulk wine, all regions.

**NEEDED:** Casegoods of all kinds, both labeled and shiners.