



TURRENTINE

GRAPES & WINE

Rising Above the Adversarial Groove

Thirty-three years ago, Turrentine Brokerage put together a fiercely negotiated processing agreement between a crusty and volatile winery owner and a large, corporately owned winery. After several rounds of negotiation, we finally reached an agreement regarding the tons to be crushed of each variety, the processing protocol for each variety, the base price, the cost of various extras, the details of storage, shipment, insurance and etc. The owner, in danger of being left with nothing to argue about, began to question the buyer's credit-worthiness. We assured him that they were fine - after all, they were owned by Seagram, which had just sold its oil and gas properties to Sun Oil for 2.3 billion dollars. Without missing a beat, the owner shot back: "Well then, they can afford to pay more for this processing!"

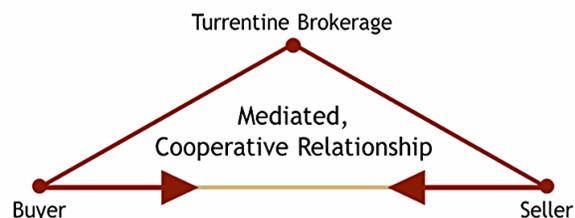
Buyers, of course, want the lowest price, the longest terms and the best quality and service. Sellers want the opposite. This opposition makes it easy to get stuck in an adversarial groove, which is not necessarily a problem in many businesses where there is little need for on-going cooperation. Buyers and sellers in such businesses can battle it out, finally reach agreement, exchange cash for goods, and have nothing more to do with each other. In the wine business, one time bulk wine sales can be like that. You buy a wine "conforming to the samples submitted" and, once the wine is shipped and paid for, the relationship ends. But most wine business supply agreements, including grape sales and long-term bulk wine deals, require an on-going relationship of cooperation and trust. If a winery contracts in February for grapes to be delivered in the fall, for example, that winery is depending on the grower to farm in the right way and to produce grapes that meet their quality needs. The grower, on the other hand, is depending on the winery to be reasonable and, among other things, to take the grapes when they are ready and need to be harvested.



Experienced players know that, in these kinds of complicated, longer-term relationships, a reliable, knowledgeable and trusted intermediary like Turrentine Brokerage can add great value. This is true even, or perhaps especially, when buyer and seller are friends or relatives, as often happens in the tight-knit world of wine. Turrentine Brokerage

offers knowledge of the different perspectives of each company, of standard practices in the wine business and of the market context, in addition to an ability not only to mediate disputes but to anticipate and deal with problems in advance. Turrentine Brokerage helps buyers and sellers, competitors and friends, to move out of the adversarial groove into a long-term, business-like relationship that is efficient and rewarding for both parties.

The market and the individual players, of course, change constantly and even signed, long-term agreements need to be revisited to achieve maximum advantage for both parties. Turrentine Brokerage specializes in this kind of agreement optimization over the course of long-term contracts. What happened, you might ask, with the complicated processing agreement mentioned above, involving two companies with vastly different cultures? The first year came off without major problems. We then negotiated adjustments for future years that improved the agreement for both parties.



The Joker is Wild

Playing the supply game in the wine business has always been complicated. Growers and wineries alike have been striving for some time to figure out the best long-term strategies in the face of strong yields, new plantings, foreign competition, a slowly improving economy and upscale growth in consumer demand. The short term, however, was looking pretty clear. Large crops in 2012 and 2013 set the stage for an abundant supply on the bulk wine market and for a relatively slow start to the 2014 grape market. This increase in supply has convinced many buyers that, this year, time should be on their side, especially given the amount of bulk inventory that needs to sell before the 2014 harvest.



Some sellers, however, are hanging fairly tough, gambling on Mother Nature's wildcard, water, or the lack thereof. Grapevines are relatively drought resistant and there is still time for enough rain to have a reasonably normal 2014 crush. Rainless day after rainless day, however, slowly but steadily increases the chances of a significant impact due to drought; and drought brings with it the danger of frost due cloudless days, (which maximize sunlight and encourage early bud break) and dry soils and low humidity (which facilitate low nighttime temperatures). Water reserves, for many growers, are not sufficient to protect against sustained low temperatures. Drought can also effect soil and water quality and cause vine stress, reducing crop loads. And, of course, there is the problem of enduring potential summer heat waves with inadequate irrigation resources.

The problems with drought, of course, are never spread equally. The South Valley, for example, is more vulnerable than the North Valley. Paso Robles and Santa Barbara have more exposure than Monterey County. Individual vineyards, even within the same areas, can have very different water supply situations which makes it is hard to quantify the likelihood of any particular outcome. With a wet February and March, the drought nightmare could dissipate like a bad dream; however, with continued drought these problems could intensify and even extend into 2015.

So, how do you play the game well with a big unknown that could break in either direction? Experienced buyers and sellers often plan around their best guess regarding what is likely to happen but also seek to reduce risks by hedging their bets so that they can come out alright regardless of how the year actually turns out. This includes carefully evaluating their own exposure and perhaps dollar cost averaging by making deals at different times as the market develops.

Right now, the most active item on the market for wines in bulk is 2012 Cabernet Sauvignon from Napa Valley. We have also been closing deals for 2012 Cabernet Sauvignon from Sonoma County, Lake County, Mendocino County, and even have had early interest in 2013 North Coast Cabernet Sauvignon. Pinot Noir demand also remains relatively strong, especially for Sonoma County and Monterey County wines, although the more extensive selection available has resulted in higher quality standards. Pricing, and the overall market conditions for Pinot Noir, are about the same as the end of last year. Lately interest for Sauvignon Blanc has increased - but there is still a lot more for sale - and that market tends to peak early as the new wine is bottled and rushed to market.

On the grape side, a higher percentage of vineyards are already under contract for the upcoming crush than was the case last year at this time. Buyers are active with resins but new sales are still seasonally slow as both buyers and sellers try to get a handle on crop size and consumer demand.

There are many moving parts shaping the markets for grapes and wines in bulk (for more details, go to <http://www.turrentinebrokerage.com/newsletter/> to review last month's market analysis). And call your broker at Turrentine in order to get the most recent information on changing supply and demand dynamics, to evaluate your risks and perhaps to hedge your bets in a market where the joker is wild.



Stop by and say "Hi"!

Turrentine Brokerage will be at **Booth #1211** at this year's Unified Symposium January 28-30. The following friendly brokers will be there!

Steve Fredricks
Brian Clements
Erica Moyer
Audra Cooper
Michael Robichaud
Steve Robertson
Marc Cuneo
Mike Needham
William Goebel

Unified 2014: Bulk and Grape Markets from Other Countries Business/Operations Breakout Session

Ever wonder what the grape and wine market situation is like in other countries? Ever wonder how our competitors view us as a major producer of wines for the world or even as a major market for their products? In the United States we have an abundance of good, reliable domestic market information from analysts, brokers, industry associations and others, but what about information on our counterparts in other wine-producing regions of the world? Steve Fredricks will be moderating a panel bringing together industry



experts from Australia/New Zealand, South America, and Europe to provide their "State of the Industry" addresses.

Included in the panel are Stephen Strachan of Gaetjens Langley of Australia and Stephen Rannekleiv of Rabobank. Learn more about their domestic supply and demand situations as well as their perspective of where they fit into the world scene, including their interest in the United States as a major market for their wines.

Our aim is to make this a dynamic and interactive session. If you have any questions you would like answered please e-mail them to Daniel@turrentinebrokerage.com. It will help us to prepare an exciting session. See you **Wednesday January 29, 2014 at 1 pm!**



Lodi Grape Day

California interior Grape Broker, Erica Moyer will be the Keynote speaker at the Lodi Chamber of Commerce Annual Grape Day luncheon on **February 4th** at Hutchins Street Square in Lodi. Erica will give an update on the grape and bulk wine market for the Northern Interior. Grape Day is in its 62nd year. It is the largest gathering of its type in the Lodi region and 450 Growers and affiliated industry members are expected at this year's event. Visit www.lodichamber.com for more information, or call Sandi at 209-367-7840 x105.



Publications

Grape Crush Report

Please keep an eye open for our upcoming reports and insight analysis of the *Preliminary Grape Crush Report* for 2013 immediately following the release on February 10th. We will analyze key topics facing the industry, any surprises, and what is likely to affect the market moving into 2014.

The California Department of Food and Agriculture's Preliminary Grape Crush Report for 2013, is a critical barometer for the wine and grape industry, containing prices and tons of wine grapes crushed during the 2013 harvest. Don't forget to contact your broker if you have any questions regarding the 2013 crop.



Wine Industry Benchmark Survey

We're pleased to provide you with the results of our 2013 Wine Industry Financial Benchmarking Report. Moss Adams LLP, the Farm Credit Alliance, and Turrentine Brokerage are committed to continuing to serve as thought leaders in the wine industry, and we

view the report as an opportunity to provide wineries, grape growers, and negociants with comparative and insightful information. This survey builds on the results published by Moss Adams in 2009 that analyzed a range of topics including general industry trends, sales and production data, viticulture data along with operating and financial metrics by region. The goal of the survey? To bring you valuable, insightful data and analysis that will help you benchmark your operating and financial results against industry leaders. We believe the information gathered in the 2013 Wine Industry Financial Benchmarking Survey is an important tool as you measure your results and consider future business strategies. Here is the link to purchase the report:

<https://www.turrentinebrokerage.com/products-page/wine-industry-surveys/2013-survey/>

Market Opportunities



Bulk Wine Available

- 2012 Sonoma Chardonnay: 20 lots, 120,000 gallons
- 2012 Sonoma Zinfandel: 32 lots, 202,000 gallons
- 2012 Lodi/CA Merlot: 28 lots, 966,000 gallons
- 2012/13 Central Coast Pinot Noir: multiple lots, truckload quantities
- 2012 California Cabernet Sauvignon: 31 lots, 610,000 gallons
- 2012/13 Central Coast Chardonnay: multiple lots, truckload quantities
- 2013 Statewide Sauvignon Blanc, various



Bulk Wine Needed

- 2013 Central Coast Pinot Grigio: truckload quantities
- 2012 Napa & Sonoma counties Cabernet Sauvignon: 1,000 gallons +
- 2012/13 California/North Coast Petite Sirah: truckload quantities
- 2012/13 Lake & Mendocino counties Cabernet Sauvignon: truckload quantities



Grapes Available

- Paso Robles Chardonnay, Cabernet Sauvignon & Merlot: truckload quantities
- Santa Barbara County Chenin Blanc: 200 tons



Grapes Needed

- Russian River/ Sonoma Coast Sauvignon Blanc
- Central Coast Petite Sirah
- Paso Robles Cabernet Franc: 10 ton lots
- Westside Paso Robles Rhone varieties

load sizes

Bulk Broker Contacts

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throughout California and International

Michael Robichaud: (415) 686-0858
Bulk wine throughout California

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Bulk wine throughout California

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Bulk wine throughout the North Coast

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Bulk Wine throughout the Central Coast

Grape Broker Contacts

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Grapes throughout the Central Coast and Interior

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Grapes throughout the Central Coast

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Grapes throughout the North Coast