

U.S. WINE INDUSTRY – 2008

INDUSTRY SUMMARY

According to the U.S. Department of Commerce 2006 Annual Survey of Manufacturers, the value of industry shipments of the U.S. wine and brandy industry (NAICS 31213) reached an estimated \$11.8 billion.¹

This industry employed 24,093 individuals, with a total payroll of \$1.24 billion. Between 1997 and 2002, employment grew 47 percent and industry shipments grew 52 percent. Since then, while employment has fallen 10 percent, industry shipments grew over 25 percent.

The U.S. Department of Commerce estimates that in 2007, these industry shipments rose to about \$12.5 billion.

The remainder of this report will be analyzing a subsector of this industry--sparkling and non-sparkling wines (table wines) made from grapes, as well as wine grape production.

U.S. VINEYARD AND WINERY INDUSTRY

There are more than 23,000 farms that grow grapes, of which 90 percent are on plots smaller than 100 acres. In 2007, while total U.S. grape bearing area rose a modest 0.5 percent to 939,250 acres (380,109 hectares), total grape production rose 5.7 percent to 6.73 million tons. About 60 percent of total grape production is wine grape production and that portion rose 3.5 percent to 3.76 million tons.

Since 1999, the number of wineries has increased by 81 percent from 2688 to 4867. According U.S. Treasury's Alcohol and Tobacco Tax and Trade Division (TTB)², these 4,867 wine producers produced a total of 2.44 billion liters.

- At 2.18 billion liters, **California** accounted for 89.25 percent, followed by
- **New York** with 106.8 million liters (4.37 percent),
- **Washington** with 75.9 million liters (3.11 percent),
- **Oregon** with 15.6 million liters (0.64 percent),
- **Florida** with 6.6 million liters (0.27 percent),
- **New Jersey** with 6.3 million liters (0.26 percent),
- **Kentucky** with 4.7 million liters (0.19 percent),
- **Ohio** with 4.2 million liters (0.18 percent),
- **Virginia** with 3.7 million liters (0.15 percent), and
- **North Carolina** with 3.5 million liters (0.14 percent).

¹ 2006 is the latest Annual Survey of Manufactures available. Definition of NAICS 31213:
<http://www.census.gov/epcd/naics02/def/NDEF312.HTM#N31213>

² TTB figures based on wine grape production on premise and also include facilities that could produce non-grape wines, cider and other fermented beverages, excluding beer.

In 2007, the number of active wine producers rose to 5,430.

Percentage of Wineries and Wine Production by Geographic Region-2006

Region	Wineries	Production
Northeast	11.3	4.79
Southeast	8.4	0.81
Midwest	12.5	0.73
Southwest	5.2	0.19
West (excl CA)	2.5	0.14
California	44.0	89.25
Northwest	16.1	3.76
Total	100.0	99.67*

Source: Based on data obtained from U.S. Treasury Alcohol and Tobacco Tax and Trade Division
*Data doesn't total to 100 percent due to incomplete state data.

U.S. WINE MARKET

According to the Wine Institute's news release, total shipments to the United States in 2007 from all production sources--California, other states and foreign countries--increased 4 percent over the previous year to 745 million gallons (2.85 billion liters) for a total retail value of \$30 billion. This value makes the United States the largest retail wine market in the world.

Of the 745 million gallons of wine sold in the United States in 2007:

- Table wine sales were 650 million gallons (2.46 billion liters);
- Desert wine 62 million gallons (234.7 million liters); and
- Sparkling wine 33 million gallons (124.9 million liters).

The U.S. Department of Commerce estimates that California accounted for 61 percent of all wines sold on the U.S. market; imported wines account for 26 percent; and other U.S. state wines account for 13 percent.

According to supermarket data from ACNielsen, more consumers are now drinking red wines than white or blush. Reds now account for about 43 percent of wines sold at retail, whites, 42 percent and blush, 15 percent. This change is more dramatic when comparing figures from 10 years ago, where reds only accounted for 25 percent, compared to whites with 41 percent, and blush with 34 percent.

GLOBAL WINE INDUSTRY TRENDS

European vs. Non-European Wines

The international importance of non-European wine producers is growing at the expense of

Western Europe. According to industry sources, while total vineyard acreage fell 5.5 percent from 1996-2000 average to 2006 in the European Union to about 9.61 million acres, total vineyard acreage for WWTG members grew 16 percent to 2.78 million acres.

Wine production mirrored similar results within those two regions. While wine production in the EU fell 4 percent to 173.6 million hectoliters in 2006, wine production among the WWTG grew almost 30 percent to 72.9 million hectoliters. Total world wine production grew 4.1 percent to 281.9 million hectoliters between 1996-2000 average and 2006.

Between 2002 and 2006, while total wine consumption in the EU grew a modest 0.8 percent to about 140.9 million hectoliters, total wine consumption among the WWTG grew 9.2 percent to 53.9 million hectoliters.

In 2006, total world exports of wines are estimated at 91.5 million hectoliters, a 17 percent increase from 2002. In 2006, the European Union accounted for about 61 percent of the total world wine production and 68 percent of world exports. Wines from the World Wine Trade Group (WWTG) accounted for about 26 percent of world production and about 26 percent of world exports.

GLOBAL WINE MARKET PROSPECTS

U.S. Wine Exports

In 2007, total value of U.S. sparkling and non-sparkling wines exports rose 7.7 percent to \$860.4 million compared with 2006, as quantities rose 10 percent to 407 million liters. Between 2002 and 2007, U.S. wine exports grew 66 percent in value and 56 percent in volume.

Between 2006 and 2007, in dollar value, U.S. wine exports to the European Union remained flat at \$405.1 million (but grew 6 percent in quantity to 257.8 million liters). On the other hand, U.S. wine exports to our WWTG members grew in value to \$208.5 million (25 percent increase) and 11 percent in volume (to 70 million liters). Most of this gain came from U.S. wine exports to Canada and Australia.

In 2007, the top five countries accounted for 72 percent of the value of U.S. wine exports.

- The United Kingdom (31 percent),
- Canada (24 percent),
- Japan (6.2 percent),
- Italy (5.7 percent), and
- Germany (5.4 percent).

U.S. Wine Exports to EU and WWTG Member Countries: In years past, the European Union has been our major wine export market. In 2002, the European Union accounted for 70 percent of total U.S. wine exports. Now, they represent less than half (47 percent). On the other hand, U.S. wine exports to our WWTG members accounted for only 16 percent in 2002, but now

in 2007, they account for almost one-quarter (24 percent).

Besides increases of U.S. wine exports to our WWTG members, the United States has witnessed major increase to a variety of other countries. Those countries include Switzerland, Korea, China, Mexico, Singapore, Hong Kong, Bahamas, Russia, Philippines, and the Cayman Islands.

U.S. Imports

U.S. wine consumers still depend on imports to fully satisfy their demand for wines. Imports of table and sparkling wines account for more than a quarter of U.S. domestic consumption.

Between 2006 and 2007, the value of U.S. wine imports rose almost 12 percent to \$4.57 billion (quantity rose 8.5 percent to 837 million liters). Between 2002 and 2007, U.S. wine imports grew 74 percent in value and 53 percent in quantity.

In 2007, wine imports from the top five countries accounted for almost 87 percent of the total value of wines imported into the United States:

- France supplied 31 percent
- Italy with 28 percent,
- Australia with 17 percent,
- Spain with 5.8 percent, and
- Chile with 4.5 percent.

The next five major U.S. suppliers of imported wines combined accounted for another 12 percent of U.S. wine imports (New Zealand, Germany, Argentina, Portugal, and South Africa).

Although the EU is the largest regional supplier of imports to the United States, its share has declined in recent years. In 2007, the EU accounted for about 70 percent of the value of all imports, down from 77 percent in 2000.

On the other hand, imports from WWTG members have garnered a larger share of the U.S. import market. In 2007, U.S. imports from WWTG members increased 12.8 percent, reaching \$1.3 billion or 28 percent of imports, compared to 22 percent in 2000.

***THE FOLLOWING PAGES INCLUDE INDIVIDUAL STATE HIGHLIGHTS WHICH ARE
BASED ON REPORTS RECEIVED FROM EITHER U.S. FEDERAL AGENCIES,
OFFICIAL STATE AGENCIES AND/OR WINE ASSOCIATIONS IN THOSE
PARTICULAR STATES.***

California, the largest wine producing state in the United States and the fourth leading wine producer in the world, accounted for close to 90 percent of total U.S. wine grape production. In 2006, there were more than 2,447 wineries producing over 576 million gallons of wine.

According to USDA, in 2007, California grape production, which accounts for 89 percent of the U.S. grape production, rose 3.1 percent to 5.9 million tons. California wine grape production which accounts for about 54 percent of total California grape production grew 3.2 percent to 3.24 million wine grape tons.

Of the grapes crushed, it is estimated 20 percent will be marketed as grape concentrate. Red wine varieties which accounted for the largest share of all grapes crushed in 2007 at 1.87 million tons was down slightly from 2006. On the other hand, white wine varieties at 1.37 million tons grew about 9 percent from 2006.

In 2007, of the top five wine varieties crushed which accounted for over 63 percent of all grapes crushed, three were red varieties and two were white varieties:

- Chardonnay was again the leading grape crushed at 589,260 tons, followed by
- Cabernet Sauvignon at 422,545 tons,
- Zinfandel at 406,825 tons,
- French Colombard at 319,195 tons, and
- Merlot at 303,446 tons.

According to the Wine Institute and MKF Research, two out of three wine bottles sold in the United States are California wines. In 2007, California wine sales within the 50 states totaled 192 million cases (1,728 million liters), up 21 percent from 156 million cases in 1990. The retail value of these wines is estimated at almost \$19 billion.

Washington, the 2nd largest wine grape producing state, accounted for more than 3 percent of total U.S. wine grape production. In 2006, there were more than 460 wineries, up from 163 in 2000. These wineries produced over 20 million gallons of wine (76 million liters).

In 2007, Washington wine grape production totaled 127,000 tons, up 6 percent from 2006 and 15 percent above 2005. Of the total wine grapes harvested, 64 percent were red and 36 percent were white varieties. The top four major varieties accounted for 75 percent of the total state production:

- While Chardonnay was again the top variety grown in the state at 26,700 tons, or 21 percent of the total state production, it was a 7 percent less than in 2006.
- White Riesling ranked second, at 26,000 tons (20.5 percent of the total) experienced a 9 percent increase over 2006.
- In third place was Cabernet Sauvignon with 21,800 tons (17 percent of the total)—also 9 percent increase over 2006.
- Finally, Merlot at 21,300 tons (16.5 percent of the total) experienced the greatest growth in production (11.5 percent).

Oregon: Vinifera wine grapes have been grown in Oregon since 1825, around the same time that wine grapes were being introduced into California, Australia and New Zealand. Due to a number of factors (dominance of California, Temperance Movement, Prohibition and the Depression) put an end to this chapter of Oregon winegrowing. It was not revived until the early 1960s.

Now, Oregon is the 4th largest wine producing state with more than 370 wineries in 2006, up from 135 in 2000. These wineries produced almost 4.14 million gallons of wine (15.67 million liters). Red wines accounted for 60 percent of production and white wines, 40 percent of production.

Following a ten-year run of vintages favored with full ripening and relatively minor weather problems, 2007 was plagued by intermittent periods of rain throughout the harvest, most particularly in northern Oregon. With that being said, it is still evident that wine continues to be a dynamic growth commodity around the state.

Between 1997 and 2007, total wine grape acreage planted leapt from 7,300 to 17,400 acres, a 238 percent increase, accompanied by a 198 percent increase in tons crushed, from 18,669 to 37,000 tons. The disparity between the two percentages is owing to a decrease in harvested tons per acre. Growers have purposely thinned crop yield to achieve higher quality.

Four grape varieties made up almost 82 percent of Oregon's wine grape production. Those included:

- Pinot Noir with 55 percent of the total at 20,317 tons,
- Pinot Gris with 17 percent at 6,244 tons,
- Chardonnay with 5.6 percent at 2,076 tons, and
- White Riesling with 4.2 percent at 1,550 tons.

New York, the 3rd largest wine grape producing state, accounted for about 2 percent of total U.S. wine grape production. In 2006, there were 219 wineries, up from 125 in 2000. These wineries in 2006 produced over 28.2 million gallons of wine (106.8 million liters).

Total grape bearing area has been steady at 31,000 acres (12,545 hectares) between 2003 and 2006. In 2007, the number of bearing acres rose almost 10 percent to 34,000 acres (13,759 hectares). After a number of bad years, production has started to increase, from 145,000 tons in 2004 to 155,000 tons in 2006 and another 16 percent increase in 2007 to 180,000 tons.

Based on industry estimates, New York growers produced more than 30 different varieties of grapes for grape juice, wine and fresh fruit. Over two-thirds of New York's total grape production is used for grape juice, almost one-third, and 2 percent as fresh fruit.

New Jersey's wine industry dates back to 1767 when London's Royal Society of the Arts recognized two New Jersey vintners for their success in producing the first bottles of quality wine derived from colonial agriculture.

In New Jersey, today more than 2,000 acres are dedicated to wineries and vineyards and many of these acres are in farmland preservation, compared to 1,000 five years ago. In 2006, there are 49 wineries producing an estimated 1.672 million gallons (6.33 million liters) of wine. Seven years ago, there were 21 wineries. The five top varieties were Cabernet Sauvignon, Cabernet Franc, Chambourcin for the reds; and Seyval Blanc, Chardonnay and Vidal Blanc for the whites. A larger portion of New Jersey wine production is wine made from fruits other than grapes than wines produced in Virginia.

Virginia's wine industry dates back to the early 1600. By 1609, records show that efforts to plant vines and make wine in the Jamestown Colony had begun in earnest. All through early American history, Virginia was the site of experimentation and commercial interest in viticulture and enology. Thomas Jefferson, George Washington and James Madison contributed to promoting the development of an American wine industry.

Today, Virginia has 168 registered wineries (up from 64 in 2000) and over 260 independently-owned vineyards that produced 980,257 gallons of wine (3.71 million liters).

Virginia ranks 8th nationally in commercial grape production and 8th for bearing acreage. Virginia's grape producers harvested 5,600 tons of commercial grapes in 2007, down 10 percent from the 6,200 tons in 2006. The reduction could be in part contributed to colder than normal winter temperatures as well as a major spring freeze that killed some early buds, especially Chardonnay, Viognier and Chambourcin varieties. Virginia bearing acreage increased from 2,100 acres in 2006 to 2,400 in 2007.

Six varieties accounted for almost 60 percent of grape production:

- The Chardonnay variety held the number one position with 822 tons (14.7 percent of total), followed by
- Cabernet Franc with 815 tons (14.6 percent of total),
- Merlot with 646 tons (11.5 percent of total),
- Cabernet Sauvignon with (8.8 percent of total), and
- Vidal Blanc with 475 tons (8.5 percent of total).

Pennsylvania has a long and significant history with wine and wine grapes dating back to 1683 when William Penn planted the first *Vinifera* vines in the state. It was also the home of the Pennsylvania Vine Company, which was reportedly the first commercial vineyard in the United States when it opened in 1793.

In 2005, there were an estimated 1,800 acres of vineyards in Pennsylvania producing grapes for use in wine. These vineyards are tended by about 150 growers that produced 16,300 tons of wine grapes, for a total market value of \$6.7 million, thus making Pennsylvania the 5th largest producer of wine grapes in the United States.

Pennsylvania's wine industry has grown substantially in the past few years. In 2006, Pennsylvania had 137 wineries in Pennsylvania, up from 105 in 2005. These wineries produced 601,927 gallons of wine (2.3 million liters). Compared to other major wine producing states, Pennsylvania is unique in that there are no large wineries dominating the state's production statistics. The vast majority of Pennsylvania's wineries are very small.

Missouri has been quietly perfecting the art of growing grapes and making wine here in America's heartland for over 160 years. Before Prohibition, Missouri produced over two million gallons of wine annually, ranking second in the nation in wine production. Restoration and revitalization of the Missouri wine industry began in the 1960's with the re-opening of several original wineries. Today the industry is thriving, experiencing incredible growth as well as world-wide recognition. Major wine grape varieties grown in Missouri include Norton, Vignoles, and Catawba.

Today, Missouri has over 1,350 bearing acres producing 2,800 tons of wine grapes at a value of \$2.3 million. The number of wineries has continued to increase from 47 wineries in 2003 to 72 wineries in 2007. Total wine production, based on TTB figures, was 894,391 gallons with a value estimated at \$31 million.

Texas's wine industry has experienced tremendous growth in recent years. In 2000, there were only 40 wineries, now there are 170. Nearly 90 percent of the growth is from small wineries—wineries producing less than 5,000 gallon per year. Texas has had to rely upon wine products from other states to satisfy the needs of the wineries. While Texas wineries produced 462,739 gallons according to TTB data from its own wine grape production on premise, total Texas wine production is estimated at over 2 million gallons.

Idaho, although considered by many as part of the new frontier of wine-growing areas, had it start at the end of the Civil War (1865). But due to Prohibition and the Depression, the wine industry all but ceased. And it wasn't until 1970 that wine grapes were again planted in Idaho; and the industry has continued to grow from only 820 vinifera acres in 1998 to over 2,000 today. In addition, the number of wineries has also grown from 13 in 1998 to 32 wineries today. Oregon grape wine production was 648,670 gallons in 2006.

Michigan's wine industry has grown in size and evolved in the quality of wines produced since the 1970s. Wine grape acreage has increased over 500% since 1973. In 2007, grape bearing acreage was 14,100 acres. From these acres, about 100,000 tons of grapes were harvested, ranking it 4th in the country. While Michigan wineries (136 in 2006) produced 836,330 gallons according to TTB data from its own wine grape production on premise, total Michigan winery production is estimated well over 3.3 million gallons.

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