Winegrapes in the San Joaquin Valley

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Important Points

• Growers do choose across crops and future profits are a significant part of that choice
• Winegrape’s relative profitability has been challenged, especially by tree nuts
• Current and projected record-high prices for annual crops raise another challenge to winegrape acreage
• Higher winegrape prices will likely be needed to encourage planting of winegrapes
• Global competition offers winemakers and drinkers alternatives to higher-priced winegrapes from the southern San Joaquin valley
Grapes were promoted as the most profitable crop in California in the 1880s, leading to major plantings. Below a prosperous Fresno grape farmer (on left) is contrasted with a wheat farmer on the right.
About 85% of California’s almond and cotton acreage and 50% of winegrape acreage are in the San Joaquin Valley, (winegrapes down from 60% in 1980).
Topics to Cover

• Competition
• Acreage Trends
• Revenue and Average Returns per Acre
• Consumption Trends
• Implications for Winegrapes
Thinking about Competition for Winegrapes

• Competition from other growers of the same crop
  – Other areas of state?
  – Other countries growing winegrapes?

• Competition from other crops in your area for use of land
  – Farming expertise?
  – Water use of crop?
  – Land suitability?
  – Agglomeration effects?
Gross Revenue per Acre

Almonds
Cotton
Winegrapes

Almonds, Cotton, and Winegrapes revenue trends over time.
5 Year Weighted Average Returns per Acre San Joaquin Valley, 2005-2009

<table>
<thead>
<tr>
<th></th>
<th>Almonds</th>
<th>Winegrapes</th>
<th>Cotton</th>
</tr>
</thead>
<tbody>
<tr>
<td>Establishment</td>
<td>4839</td>
<td>6746</td>
<td>0</td>
</tr>
<tr>
<td>Total Cash Costs</td>
<td>2761</td>
<td>2603</td>
<td>1073</td>
</tr>
<tr>
<td>Gross Revenue</td>
<td>3747</td>
<td>2571</td>
<td>1190</td>
</tr>
<tr>
<td>Difference</td>
<td>986</td>
<td>-32</td>
<td>17</td>
</tr>
</tbody>
</table>

Costs do not include non-cash overhead expenses such as interest on land or depreciation of vineyard/orchard establishment. Gross revenue is derived from County Ag. Commissioner reports and is a 5 year (2005-2009) weighted average.
Consumption Trends?

got wine?

I'd rather be eating Almonds
California Domestic Shipments

Millions of Pounds or Gallons

- **Almonds**
- **Wine**

Source: Wine Institute and California Almond Board
Total California Shipments
(Domestic and Export)

 Millions of gallons or pounds

- Almonds
- Wine
The World Matters for Both Almonds and Wine

<table>
<thead>
<tr>
<th></th>
<th>Almonds</th>
<th>Wine</th>
</tr>
</thead>
<tbody>
<tr>
<td>% World Production</td>
<td>80</td>
<td>7</td>
</tr>
<tr>
<td>% California Production Exorted</td>
<td>70</td>
<td>17</td>
</tr>
<tr>
<td>% of World Shipments</td>
<td>90</td>
<td>4</td>
</tr>
</tbody>
</table>

Two ways of looking at these numbers:

1. Since there is a large demand for wine in the world, California producers have a major opportunity to increase volume if they can compete with other producers. In contrast, California almond producers may well face increased international competition and lose market share.

2. International demand is still growing for Almonds and California has brand recognition. In contrast, demand for wine is stable or shrinking and major old world producers dominate.
Future Demand for Wine in the U.S.

Also in this issue

Is the World Overflowing with Wine? The Global Context for California Wine Supply and Demand
Daniel A. Sumner

In conjunction with the 4th Annual Meeting of the American Wine Economics Association, the Agricultural Issues Center and the Robert Mondavi Institute for Wine and Food Science Center for Wine Economics held a one-day symposium on “Outlook and Issues for the World Wine Market.” Robert Smiley, wine industry expert and vintner, addressed the audience on the challenges and opportunities facing the wine industry.

James Lapsley brings the world wine situation back to California. He analyzes the growing demand for wine among different demographic groups in the United States. He also shows that competitive challenges, in part from the suc-
Lapsley’s predictions for 2030

• Population and per capita consumption will both increase—leading to a 45% increase in volume
• A 2030 market of 407 million cases is an increase of 125 million cases, requiring 1.75 million tons of grapes
• Assuming California supplies 60%, and that half sells at $5 a bottle or below, the San Joaquin valley needs to expand production by 500,000 tons, or 42,000 acres at 12 tons/acre
• Total acreage is down by about 50,000 acres
Bearing Winegrape Acreage
San Joaquin Valley

Graph showing the bearing winegrape acreage in San Joaquin Valley from 1995 to 2010. The graph compares Lodi and South SJ data, with Lodi showing a steady increase and South SJ showing a peak around 2000 followed by a decline.
So how will wineries meet demand?

Bulk Wine Imports and Price per liter

- Volume
- $/liter

1000's liters

- 2000
- 2001
- 2002
- 2003
- 2004
- 2005
- 2006
- 2007
- 2008
- 2009
- 2010

Graph showing bulk wine imports and price per liter from 2000 to 2010.
The future of Winegrapes in districts 13 and 14?

• With average yields of over 12 tons/acre, the region is very productive but is in competition with other bulk wine producing regions of the world.
• Of the 92,000 acres currently planted in districts 13 and 14, 91,000 are over 10 years old and will probably be pulled by 2030.
• Will those acres be replanted and another 40,000 added to meet my projected increased demand—or will wineries meet demand by importing bulk wine?
• Replanting is probable only if major wineries commit to long-term contracts and if California winegrapes can compete with winegrapes grown elsewhere.
Conclusion?

• San Joaquin winegrape growers are excellent farmers.
• They probably can out compete foreign producers in the long run
• In the short term, can perennial crops compete with annuals?
• When it comes time to replant, can grapes out compete nuts?