2004 Grape Juice Concentrate Summary Report and Future Projections

A paradigm shift in business philosophy is upon us.

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What Happened? What Can We Learn From the Past?

- Basic commodity principles in effect.
- Supply vs. Demand = Greed vs. Fear.
- The best cure for low prices are low prices.
- We can’t make up for losses by selling more volume.

Principle of Diminishing Returns

- Banks are in the business of lending money with the expectation of a repayment with interest.
- When in doubt, pull them out.
- Newton’s Law prevails. For every action there is an equal and opposite reaction.
Results of Diminishing Returns

- 100k+ acres of vineyard land in the Central Valley are pulled or abandoned.
- Banks stop lending to grape growers.

Where Were We?

Domestic Concentrate Producers until 2003:
- SJVC
- Canandaigua
- GrapeCo
- Vie-Del
- Delano Growers
- Guimarra
6 Major California Producers

- Total production ability for world wide grape juice concentrate demand was 25-32 million gallons.
- Imported concentrate demand in the USA was 8-14 million gallons: (predominantly from South America).
- Total domestic demand was approximately 22-27 million gallons.

Where Are We Now?  
2004 and Beyond

Major processors still manufacturing:

- SJVC
- Vie-Del
- Delano Growers (White Concentrate only)

- Total gallons available for world wide concentrate demand: Approximately 18-22 million gallons.
Where Are We Now? (continued)

- 100k+ acres of vineyard land pulled or abandoned.
- Current sustainable farming practices not realistic at $150. per ton on Thompson’s.
- $175. per ton sustainability not realistic for Ruby Red grapes.
- Ag lending institutions will not lend on vineyard land unless they can show long term profitability.
- Farmers continue to pull out vineyard land and replace with more profitable crops.

Where Are We Now? Processors

- Canandaiuga: Closes commodity concentrate facility.
- Guimarra: Closes concentrate facility.
- Approximate domestic gallons out of production: 12-16 million gallons.
Alternative Uses for Grape Juice Concentrate

- Past glut of white and red grape juice concentrate necessitates their utilization as a cheap blender for the value added wine category.
- Overall demand increases in the wine industry will sustain this new use.
- Better cost return than as commodity GJC.
- Both Thompson’s and Ruby Red now have new added demand in the industry.

Imported Fruit Juice Concentrates

Argentina:
- Lobbying to get rid of import tariffs to the USA. Continue to be limited on their success because of internal government regulations and constant economic instability.

Chile:
- Excellent business climate and improving quality standards. Limited in ability to import mass quantities to USA market because of domestic wine demands and no export duty to Pacific Rim countries. Imports to the USA could increase as domestic duties diminish over the next 10 years.
Imported Fruit Juice Concentrates (continued)

China:
- Wine consumption continues to increase in China.
- Actively planting grapes for wine. Only a matter of time before they enter the GJC market.
- Chinese Apple Concentrate: Increasing exports to the USA by 90% this year. This is followed by an increase of 96% last year.
- 45% of all Chinese Apple Concentrate is exported to the USA.
- Landed price average for this year: $5.00 per gallon compared with $7.25 domestic WGJC FOB CA.

Import Issues

- Freight prices have increased over 40% in the last year from Chile and Argentina.
- China’s growing market has moved many container routes from South America to China.
- Fuel price increases have gone up at least 25%.
- Post 9/11 regulations have added increased paper work and inspections causing major delays and back-ups at ports of entry.
- South American product has little, if any, lot traceability. Field to Bodega to processing plant offers little safety against product adulteration.
Paradigm Shift
Domestic Advantages

USA Grape Juice Concentrate must now be considered a value-added product for the following reasons:

- Lot traceability: California has the ability to trace its Grape products from a specific field, to the processor, through the transportation system, to the manufacturer, and all the way to the finished product on the grocery store shelf.
- Just in time delivery: Modern domestic juice manufacturing facilities are built on the premise that they will hold as little excess inventory of raw material as possible. California product can be delivered without delay to the specific plant in bulk trucks. Cost and time savings.
- No duty paperwork or port of entry delays.
- No warehousing issue.
- Product quality guaranteed.
- Replacement product shipped within days not months.
- Product safety limits product liability lawsuits.

Paradigm Shift (continued)

California GJC is now shifting from a commodity filler and natural colorant for the fruit juice market to a Premium, Safe, Reliable, Superior, Value-added, Made in the USA, 100% Juice Product.

Juice processors can no longer afford to speculate on excess gallons, hoping for a profitable spot market.

They will only crush what they can sell.
How Do We Work Together?

- Long term contracts between farmer, processor and manufacturer.
- Sustainable farming practices.
- Innovative farming techniques.
- More profitable processing practices.
- Profitable value-added end use production.

It is up to all of us to work together to ensure our long term success.