To the typical layperson, when one thinks of "California grape vineyards," the mind conjures images of elaborate tasting rooms or cellars where you can sample the finest fruit of the vine.

In fact, however, this is an industry that is as complex as any agricultural practice, the future of which is murky. Complex, in that "California grape vineyards" must be dealt with as three separate entities. This is because California has three primary types of vineyards: fresh, wine and raisin.



# Understanding California's Grape Industry

by:
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## Fresh, or Table, Grapes

With that basic understanding in place, let's take a look at the differences, starting with fresh market, or table grapes, as they sometimes are called.

California has two growing regions capable of producing some of the finest table grapes in the world, these being the Coachella Valley region in southern California and the San Joaquin Valley encompassing Kern County at its south end up to Madera County at the north. Both areas offer the warm climate and suitable soils types to grow high-quality grapes that are consumed fresh. The most common varieties are the Thompson Seedless, Red Flames and the smaller green Perlettes.

Because of its geographic location, the Coachella Valley has an earlier harvest, usually in May. The harvest then continues northward, coming to an end by July or August in Madera County. From a competitive standpoint, Coachella Valley has been pressured recently by South America, primarily Chile and Mexico. Both of these regions are harvesting at the same time as Coachella. Because of significantly lower expenses in these countries, grapes can be grown, harvested and shipped at a much lower cost than what California produc-

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ers can achieve.

This has put a great strain on the fresh grape growers in the Coachella area, specifically those growers with older and later maturing varieties. An ag lender serving this market should look for growers who have early maturing varieties and a strong hold on their market window.

Fresh grapes in the San Joaquin Valley experience some of the same pressures as their Coachella Valley counterparts, but it is not as intense. Producers here still have some competition from other countries producing table grapes, however, most of the pressure comes from other types of fresh produce. As farmers have become more adept at growing crops in different locations, and with the advancement of storage techniques and improved transportation, most types of fresh produce are available year round.

At the risk of dating myself, I can remember when seasons were eagerly anticipated because that was the only time of the year you could purchase certain types of fresh fruits and vegetables. For example, oranges at Christmas, strawberries in the spring and grapes in the spring and summer. Now, I can go to the market in December and select anything from apples to zucchini!

Today's consumers have an abundant variety of choices for their fresh produce dollar, and that has strained the table grape market. Still, if a grower has a strong market base and is an efficient farmer, the future is good. Lenders should pay attention to production budgets and become familiar with the grower's marketing contracts.

**Wine Grapes**

The second type of grapes are grown in wine vineyard. Most everyone remembers the now famous episode of CBS' *60 Minutes*, which ran the segment on the French Paradox. That segment did more to boost sales of red wine than any single marketing effort in the history of the industry. And as we recall from Economics 101, as demand grows, so does supply. There was a tremendous growth of wine grape vineyards in California during the last decade. In the haste to expand, many vineyards were planted without long-term winery contracts, some, in fact, without wine contracts at all.

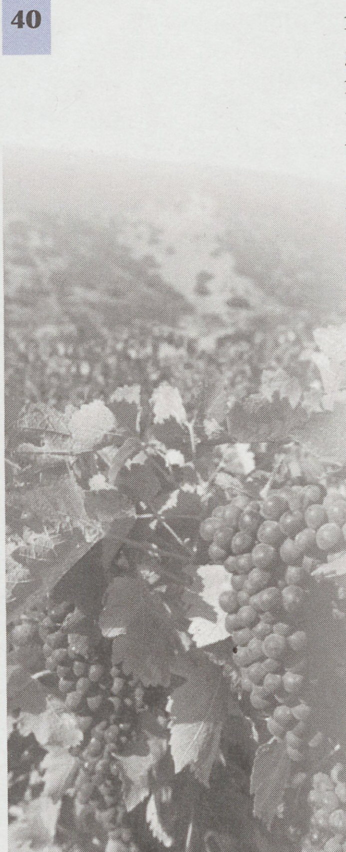
Land values for wine grapes skyrocketed in all regions suitable for wine vineyards. According to the American Society of Farm Managers and Rural Appraisers' *Trends in Agricultural Land and Lease Values 2002*, in 1994 values for vineyards on resistant rootstock in the Napa Valley were running at $50,000 per acre. In 2001 this same land was valued at $180,000 per acre and is still rising. In San Luis Obispo and Santa Barbara counties these values were $15,000 per acre in 1994 and more than doubled to $33,000 per acre in 2001. The wine industry seemed to be experiencing a never-ending positive market.

But applying one of the basic laws of physics – what goes up must come down – we are now seeing a downturn in the market due to oversupply. This is felt most strongly by wine grape growers in the Central San Joaquin Valley. This area has long been the supplier of grapes needed for blending purposes. However, with so much supply from areas considered to be better growing regions (central coast and north valley), wineries could purchase these higher quality grapes at lower prices and therefore had no need for the Central Valley product. Many Central Valley growers had no place to deliver their grapes and those that were able to deliver received $85 per ton. This is insufficient to cover production costs.

So, with Central San Joaquin Valley grapes being turned away for winemaking, these grapes are now going onto the ground to be dried as raisins, intensifying the surplus.



Values of wine grape vineyards in the Central Valley have dropped from $10,000 per acre in 1998 to $5,000 per acre in 2001, and the market is still declining. The inability to sell grapes to the wineries leads to an interesting relationship with the raisin industry. Ag lenders involved in this market need to have confidence that their borrowers have a strong winery contract in place and are efficient farmers watching all costs very closely.



**California Raisins**

The third and final category of California's vineyard industry is raisins. Despite the cute "claymation" characters and marketing efforts, this is a very troubled industry and is probably of greatest imminent concern to lenders. California has long been the predominant world supplier of high-quality raisins. More specifically, the Central San Joaquin Valley has supplied raisins to most of the world.

However, other countries are now in competition for this market and are competing at a much lower price. Turkey, Iran and other Middle Eastern countries, as well as Mexico and some South American, countries are producing a comparable product at a much lower cost.

One major obstacle for California growers is the cost of labor. Raisin production is highly labor-intensive during the process of pruning and tying and, especially, harvest. Total labor costs have nearly doubled since 1990, a problem unknown to offshore sources.

Some raisin farmers are considering mechanical harvesting or conversion of their vineyard to a dried-on-vine operation. While both of these options do in fact decrease labor costs, significant costs are involved in developing a vineyard to a dried-on-vine system. After three years in a rapidly declining market, most growers do not have the ability to expend this type of money and most lenders are not in a position to lend the money when they have not been paid for the prior year or two of farming expenses.

To make a bad situation even worse, the two organizations that oversee the raisin industry, the Raisin Bargaining Association, which sets the raisin price, and the Raisin Administrative Committee, which oversees the federal marketing order for raisins, are often at odds on many issues. As a whole, the raisin industry appears to be in trouble. Farmers cannot continue to grow raisins when the price they receive will not cover growing costs. Lenders cannot continue to lend when they do not get paid back.

In the meantime, the industry sits with a surplus of a crop very few consumers seem to be interested in purchasing. When was the last time you bought a box of raisins at the market? More importantly, when was the last time you saw an advertisement to prompt you to buy a box of raisins?

### A Murky and Complex Industry

In summary, the future of California vineyards is murky and complex. It seems that there is a place for fresh table grapes in the marketplace, but the growers, packers and shippers need to continue to be vigilant about reducing costs and expanding market share. The wine grape growers in the established wine grape regions will continue to prosper, as long as they also watch expenses and remain efficient.

A new marketing plan to increase the visibility of California wine would be helpful. Growers who are located outside the prime wine grape growing regions are facing an uncertain future. As long as demand can be met by supply from the prime areas, growers in the Central San Joaquin Valley will struggle.

And, finally, the raisin industry faces a bleak future unless significant changes are made quickly. Many acres of raisin grapes will be removed, and hopefully, with more diligent marketing efforts, those that remain will find a profitable future.

In short, ag lenders involved with these sectors of California production agriculture need to be especially cautious when lending to vineyard owners. Many factors affect each individual grower's ability to succeed, including water issues, disease, soil types, past production and farming techniques and government regulations.

If there is ever any doubt or questions, a lender can always turn to a consultant or professional farm manager for guidance. In many instances, this guidance has more than paid for itself in assisting the lender in avoiding foreclosure and protecting their asset. jal