

U.S. WINE INDUSTRY – 2011

INDUSTRY SUMMARY

According to the latest U.S. Department of Commerce Census of Manufacturers - 2007, the value of industry shipments of the U.S. wine and brandy industry (NAICS 31213) reached an estimated \$12.3 billion,¹ employed 33,319 of which 14,863 were production workers, with a total payroll of \$1.4 billion. U.S. Department of Commerce estimates that 2010 total U.S. industry shipments for NAICS 31213 reached \$14 billion and employing 34,500.

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 approximately 23,000 farms that grow grapes, of which over 90% are on plots less than 100 acres (approximately 40 hectares). Of these 23,000 farms, it is estimated 14,000-16,000 are vineyards. In 2010, while total U.S. grape bearing area rose a modest 0.2% to 944,800 acres (383,438 hectares) from 2009, total grape production fell 6% to 6.86 million tons. About 58% of total grape production is wine grape production and that portion fell 10% to 3.955 million tons in 2010. The decline in wine grape production is primarily as a result of the 11% drop in California production which experienced weather issues during growing and harvesting season.

The top 10 wine grape varieties grown in the United States include Chardonnay, Cabernet Sauvignon, Zinfandel, Merlot, Pinot Noir, French Colombard, Syrah, Sauvignon Blanc, Pinot Gris and Rubired.

Between 1999 and 2010, the number of wineries increased dramatically from 2,688 to 6,668², an annual compound growth rate of just under 10%. California wineries accounted for 44% of total U.S. wineries and 89.5% of total domestic wine production (23.61 million hectoliters).

Percentage of Wineries and Wine Production by Geographic Region – 2010

Region	Wineries	Production*
Northeast	10.2	4.1
South	13.3	1.2
Midwest	12.6	0.8
Mountain	3.8	0.2
California	44.1	89.5
Northwest	16.0	3.7
Total	100.0	99.5

Source: Based on data obtained from U.S. Treasury Alcohol and Tobacco Tax and Trade Division

*Production may also include none grade wine production. Data doesn't total 100% due to incomplete state data

¹ 2007 is the latest Census 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.

U.S. WINE MARKET

According to the Wine Institute, total shipments to the United States in 2010 from all production sources--California, other states and foreign countries--increased approximately 2% over the previous year to 783.86 million gallons (29.7 million hectoliters) for a total retail value of \$30 billion thereby making the United States the largest retail wine market in the world.

Of the 784 million gallons of wine sold in the United States in 2010:

- Table wine sales were 678 million gallons (25.67 million hectoliters);
- Desert wine 69 million gallons (2.6 million hectoliters); and
- Sparkling wine 37 million gallons (1.4 million hectoliters).

The U.S. Department of Commerce estimates that in 2010 California accounted for 61% of all wines sold on the U.S. market; imported wines accounted for 31%; and wines from the other 49 states accounted for 8%.

Although published 2010 figures for per capita consumption of wine (based on total U.S. resident population) was 2.54 gallons (or 9.61 liters or just over 12 $\frac{3}{4}$ bottles of wine), if based on legal drinking age of 21 years, per capita would be 3.6 gallons (or 13.62 liters or 18 bottles of wine). In the past 5 years, per capita wine consumption grew over 9% (more than a bottle of wine increase between 2005 and 2010).

According to supermarket data from ACNielsen, more consumers are now drinking red wines than white and/or blush. Reds now account for about 47% of wines sold at retail, whites, 40% and blush, 13%. This change is more dramatic when comparing figures from 15 years ago, where reds only accounted for 25%, compared to whites with 41%, and blush with 34%.

Top Five Wines Sold Off-Premise - 2010

Red Wines	White Wines
Cabernet Sauvignon	Chardonnay
Merlot	Pinot Grigio/Gris
Pinot Noir	Sauvignon Blanc
Syrah/Shiraz	Moscato
Zinfandel	Riesling

Source: The Nielsen Company

U.S. GLOBAL WINE MARKET PROSPECTS

U.S. Wine Exports

Between 2009 and 2010, total value of U.S. sparkling and non-sparkling wines exports grew 24% to \$1.02 billion while quantities grew a modest 1% to 3.87 million hectoliters. The growth in dollar value resulted from a 38.5% increase in the unit value of wines in less than 2 liter containers (\$3.071/liter in 2009 compared to \$4.256/liter in 2010). Approximately 51% of U.S. wine exports were in containers greater than 2 liters and 49% in containers less than 2 liters. Between 2005 and 2010, U.S. wine exports grew 68% in value and 13% in volume.

[Total wine industry exports in 2009 were \$1.12 billion which also include other winery-type products, such as wine lees, vermouth, grape must and wine spirits.]

Between 2009 and 2010, in dollar value, U.S. wine exports to the European Union rose 13% to \$422 million and rose 10% in quantity to 2.44 million hectoliters liters. While U.S. wine exports to our WWTG members rose 31% in value to \$283.5 million, it declined 25% in volume to 539,710 hectoliters.

In 2010, the top six countries accounted for 73% of the value of U.S. wine exports.

- Canada (27%)
- The United Kingdom (21%)
- Hong Kong (8%)
- Japan (7%)
- Italy (6%)
- Germany (4%)

U.S. Wine Exports to EU, WWTG Member Countries, and Hong Kong

In years past, the European Union has been our major wine export market. In 2005, the European Union accounted for 53% of total U.S. wine exports. By 2010, EU's share of U.S. wine exports fell to 41%. On the other hand, U.S. share of U.S. wine exports to our WWTG has increased from 13% in 2005 to 28% in 2010.

Besides increases of U.S. wine exports to our WWTG members, the United States has witnessed major increase in wine exports to Hong Kong, China, Singapore, Switzerland, and Poland. Of particular interest are the U.S. wine exports to Hong Kong.

In 2008, Hong Kong eliminated its 80% excise tax on wine, contributing to Hong Kong's emergence as an Asian wine hub. Between 2007 and 2008, U.S. wine exports to Hong Kong tripled to \$19.1 million, then increased another 65% increase in 2009 to \$31.6 million, and then again rose more than 2 ½ times to **\$78.1 million** in 2010, thereby becoming the 3rd largest U.S. export market. *[On May 17, 2010, a Memorandum of Understanding on Co-Operation in Wine Related Businesses was signed by Secretary Locke, USDA Secretary, and Hong Kong.]*

U.S. Wine 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 30% of U.S. domestic consumption. Between 2005 and 2010, U.S. wine imports grew 13% in value and 32% in quantity.

Between 2009 and 2010, the value of U.S. wine imports rose 6% to \$4.2 billion; quantity of imports grew a modest 1% to 9.32 million hectoliters.

In 2010, U.S. wine imports from the top six countries accounted for 87% of the total value of wines imported into the United States.

- Italy (30%)
- France (24%)
- Australia (14%)
- Chile (7%)
- Argentina (6%)
- Spain (6%)

U.S. Wine Imports from EU and WWTG Member Countries

Although the EU is the largest regional supplier of imports to the United States, its share has declined in recent years. In 2010, the EU accounted for about 66% of the value of all imports, compared to 77% in 2000. On the other hand, imports from WWTG members have garnered a larger share of the U.S. import market. In 2010, U.S. imports from WWTG members at \$1.4 billion accounted for 33% of total U.S. wine imports, up from 22% in 2000.

THE FOLLOWING SECTION ARE 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, which accounts for almost 90% of U.S. wine grape production, experienced a 3% decline in the harvesting of wine grapes from about 3.7 million tons in 2009 to 3.6 million tons in 2010 with a farm gate value of \$2.06 billion. In 2010, the total crush of wine, raisin and table varieties was just under 4 million tons. The drop in production was a result of erratic weather that occurred during the spring and summer months. 2010 harvest started 10 days to over three weeks late compared to prior years in major wine producing areas. This being said, the 2010 crop delivered wines with lower-than-average alcohol, more vibrant flavors, plenty of color and more balance.

Of the total grape crush, Chardonnay accounted for the largest percentage with 16%, followed by Cabernet Sauvignon with 11%, Zinfandel with 10%, French Colombard and Merlot, each with 8%, Thompson Seedless with 6%, Rubired with 5%, Pinot Noir and Pinot Gris, each with 4%.

The number of wineries continues to climb in California. There are now more bonded wineries in California than the total number of wineries the United States had in 2001. In 2010, there were 3,364 bonded wineries, up from 1,562 in 2001. The Wine Institute estimates that in 2010 there were 197 million cases (approximately 492 million gallons or 17.96 million hectoliters) of California wines sold throughout the United States at a retail value of \$18.5 billion.

Washington's 2010 wine grape production totaled a record 160,000 tons, up 33% from 2006. Red and white varieties each accounted for about 50%. The top four varieties accounted for over three-quarters of total wine grape produced: Riesling, 21%; Cabernet Sauvignon, 20%; Chardonnay, 18%; and Merlot, 18%. The average price per ton for all wine grapes rose 5% to \$1,040 per ton (\$1,241 for reds and \$830 for whites).

Currently, there are over 700 wineries in the State of Washington and over 350 wine grape growers. According to industry sources, approximately 12 million cases (1.08 million hectoliters or 28.5 million gallons) of Washington State wines sold throughout the United States with a retail value of just under \$438 million.

In **New York**, of the total grapes harvested (172,000 tons), only 35% was wine grape production (59,305 tons) in 2010—a 17% increase over 2009 production. The farm gate value of the wine grapes was approximately \$23 million. Over 60% of total production was destined for juice manufacturers.

According to New York Wine and Grape Foundation, there were 306 wineries in 2010, compared to 113 in 2000. These 306 wineries produced over 36 million gallons of wine (1.36 million hectoliters). The 2010 wine grape harvest in New York State was considered the best in at least a decade according to both grape growers and wine makers throughout the state. The crop was early, large, and excellent in quality. Weather throughout the entire year was superb, and a long hot summer resulted in the grape harvest occurring two to three weeks earlier than normal (while California was two to three weeks later than normal). This is beneficial for several reasons, including minimizing the potential damage from an early fall frost. Fall harvest weather was dry, with warm sunny days and cool nights for flavor development, and the quality of grape varieties across the board was ideal.

In 2010, **Oregon** continues to see growth in the grape wine sector. In 2010, there were 419 wineries, up from 387 in 2009 and 849 vineyards, up from 835 in 2009. While bearing wine grape acreage grew 8% to 16,900 in 2010 from 2009, wine grape production fell 22% in 2010 to 31,200 tons, the lowest level since 2005. Decreased wine grape production was attributed to a variety of reasons including poor fruit set for some growers, a very cool growing season, mold, deer and birds. Also, while average yield fell 28% to 1.85 tons/acre price per ton rose a modest 6% to \$2,030/acre, resulting to a decline in value of production of 17.5% to \$63.3 million in 2010.

In 2010, of the 31,200 tons produced, wineries were able to crush 29,800 tons, down from 37,000 in 2009. The #1 variety crushed was Pinot Noir. Pinot Noir crushings accounted for 56% of total crushings, followed by Pinot Gris with 17%, Riesling with 5.3%, Chardonnay with 4.6% and Syrah with 3.3%.

In 2009, wine sales by variety mirrored similar to crushings. Total 2010 wine sales were estimated at 1,660,202 cases (3.951 million gallons or 149,561 hectoliters). Pinot Noir accounted for 50%; Pinot Gris, 21%; Riesling, 5%, red blends, 4%, and Chardonnay, 4%. Total

retail values of wines sales in 2010 rose almost 26% to \$253.7 million.

According to industry sources, Oregon is an established leader in sustainable viticulture, committed to sustainable winegrowing and earth-friendly practices. Almost one-third of Oregon's vineyards are LIVE Certified Sustainable, Certified Organic or Demeter Certified Biodynamic®. Currently there are 20 participating wineries and 2 million certified bottles.

In 2010, according to the **Virginia** Wine Board Marketing Office, there were 2,763 bearing acreage that produced 6,557 tons. Producers harvested a crop valued at \$10.5 million, received an average price of \$1,603 per ton. In 2010, the top four varieties accounted for over 60% of total production (Chardonnay, 15%; Cabernet Franc, 13%; Merlot, 11%; Vidal Blanc, 8%; Chambourcin, 7%; and Cabernet Sauvignon, 7%). In 2010, there were 193 wineries in Virginia.

Grape bearing acreage in **Missouri** continues to grow from 1,400 in 2007 to 1,600 in 2009. Total production has also increased between 2007 and 2009, from 2,500 tons to 4,400 tons. Lesser known variety is the #1 grape varietal grown in Missouri—Norton (The *Real* American Grape®)¹. Norton is also making a foothold in Virginia. Norton, a red variety, accounted for 19% of total bearing acreage, followed by Vignoles with 13%, Chardonnay with 12%, Chambourcin with 10%, and Concord with 9%.

¹ Norton (The *Real* American Grape®) is a registered trademark by Jennifer McCloud of Chrysalis Vineyards, Middleburg, Virginia. There are 40 acres of Norton vines planted at Chrysalis making Chrysalis the largest not only in the United States, but also in the world growing Norton.

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 2010, there are 39 licensed wineries producing an estimated 1.72 million gallons (65,109 hectoliters) of wine. Twelve years ago, there were 12 wineries. The five top varieties are Cabernet Sauvignon, Cabernet Franc, Chambourcin for the reds; and Chardonnay and Vidal Blanc for the whites. A larger portion of New Jersey wine production is wine made from fruits other than grapes such as blueberry, raspberry and cranberry.

In 2010, **Texas** had its best grape production since 2005. While acreage was down 9% to 3,000 bearing acreage, yields grew more than a ton per acre to 2.97 tons/acre. Average price per ton also match 2005 at \$1,250/ton giving the total value of production at approximately \$11 million. Five varieties accounted for half of total production (Cabernet Sauvignon, 14%; Chenin Blanc, 11%; Chardonnay, 10%; Merlot, 9%; and Muscat Canelli, 7%).

In 10 years the number of wineries grew from 46 in 2001 to 220 in 2011. Between 2001 and 2009 Texas wine production doubled from 600,000 cases to 1.2 million cases (2.85 million gallons or 108,000 hectoliters).

Michigan has 14,600 acres of grape vines of which 2,000 acres are devoted to wine grapes. Michigan is the home of 81 wineries producing more than 1 million gallons of wine annually. In 2010, Michigan wineries produced 1.325 million gallons of wine (50,217 hectoliters), up from 787,000 gallons (29,827 hectoliters) in 2005.

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