Tightening grape supply alters winery strategies

By Rudy Ruitenberg, Bloomberg News

U.S. wineries producing lower-cost wines face shrinking profit margins as a tightening supply of domestic grapes lifts prices for the fruit, Rabobank International said.

Rising grape costs are prompting some large U.S. wine companies to rethink supply strategies, Rabobank analysts Stephen Rannekleiv, Marc Soccio and Valeria Mutis wrote in a report published Wednesday. That may help vineyard prices "in the near future," they wrote.

U.S. wine consumption has risen for the past 17 years, while grape area has been "fairly flat," Rabobank said. Spot prices for Chardonnay grapes in the Napa Valley rose to between $1,300 and $2,000 a metric ton this year from $700 to $1,300 in 2010, San Rafael wine and grape broker Ciatti Co. said in a July presentation.

"Wineries that are more exposed to the spot market are most affected," the analysts wrote, adding that wine-merchant brands will be under "significant margin pressure. Estate-driven wineries that own their own production are currently in an enviable position."

Vineyard profits in California have been too low to attract more planting as imported wine created a ceiling on prices for the state's growers, Rabobank said. At the same time, bulk imports helped keep costs in check for Californian wineries, according to the report.

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