

BRONCO'S PRESENT AND FUTURE VIEW
OF THE SAN JOAQUIN VALLEY GRAPE INDUSTRY

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ASSOCIATION
WINE GRAPE INDUSTRY FORUM

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Thank you for viewing ABC's *Nightline* segment on California wines.

Bronco Wine Company is very bullish on the future of our California Wine Industry. We should all keep in mind that 90% of the wines produced in America in 2008 were from California grapes and over 70% of these varietal wines were produced from San Joaquin Valley vineyards.

Today I will discuss a few topics, that in my opinion, are having an impact on today's grape growing environment.

I. FAMILY HISTORY

A. FAMILY VINEYARDS

When my grandfather Giuseppe migrated from Italy to California in 1893, his final destination was to San Joaquin County, which is in the northern-most part of our San Joaquin Valley. My grandfather purchased his first vineyard in San Joaquin County in 1906, over 103 years ago. Today our family's California vineyards are located in 7 counties throughout the San Joaquin Valley; from the slopes of the Tehachapi Mountains to the gentle rolling foothills in southern Sacramento County. Therefore, we have some awareness and knowledge of the different growing conditions that prevail in most regions of the San Joaquin Valley.

B. FAMILY WINERIES – SINCE PROHIBITION THAT WAS REPEALED IN 1933 IN THE UNITED STATES

Franzia Brothers Winery in Ripon was founded in 1933 by my father and his four brothers. In 1973 Franzia Brothers Winery was sold to Coca Cola Bottling Company of New York and is now owned by The Wine Group.

My brother Joseph, cousin John and myself founded Bronco Wine Company in January of 1974 in Ceres, California. We now own five wineries located in Madera, Stanislaus and San Joaquin, Sonoma and Napa Counties. Our main wine grape crushing facility and winery is in Ceres, California.

But enough about our family history; let us discuss topics that should be of more interest to all San Joaquin Valley grape growers.

II. IMPORTS/IMPORTED WINES

The main competition to San Joaquin Valley wine grape growers today is from vineyards growing wine grapes in Australia, Chile, Argentina, South Africa, and Italy, as well as France. Every wine grape grower should be aware that for some California wineries, wine sourcing has become global. In fact, imported bulk wine and imported case goods market share this year will be in excess of 1/3 of all wine sold in America.

Claims about imported wine having better quality are largely a myth. However, there are cost advantages regarding imported varietal wines and that is the main reason imported bulk wine numbers have been rapidly growing.

(SLIDE 1)

This slide shows an editorial in *Wine Business Monthly* titled "*U. S. Bulk Wine Imports Seen Tripling as Global Producers (wineries) Seek Low Cost Supplies (grapes)*".

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Because imported wines have relatively greater exposure in restaurants and bars, their sales have been hurt more by consumer cutbacks in this economic downturn. In fact, recently American wines outgrew imports for the first time in 13 years. In order to keep driving down imports and to stop this growing flood of foreign wines, San Joaquin Valley grape growers will have to grow better quality wines grapes at a more competitive price.

Keep in mind that over 33% of the United States Wine Market will be wine supplied by foreign grown grapes. We must remember that the total foreign owned wine sold in America in 2008 would equal 70% of the grape crop picked in the San Joaquin Valley. The impact of all imports, bulk wines and imported case goods, is estimated to being in excess of 107,000,000 cases. It would take about 187,500 acres or 1,500,000 tons of California grapes to replace all the imported wines consumed in the United States.

IMPORT WINE CASES SOLD IN THE UNITED STATES

- A. 1/3 of the table wine market in the United States**
- B. 107,000,000 Cases**
- C. 187,500 acres at 8 tons/acre**
- D. 1,500,000 tons of grapes**
- E. Equals 70% of the wine grapes grown in the San Joaquin Valley**

To win back this foreign wine share of the U. S. market should be the main target for all California grape growers and wineries.

*** 8 tons per acre**

III. FARM WORKERS AND IMMIGRATION ISSUES CONCERNING THE SAN JOAQUIN VALLEY

Is there any grape farmer in this room that will say that he can operate his vineyard today without Latino labor? Without “Latinos” there would not be a California Grape and Wine Industry. There are an estimated 47 million known Latinos living in the United States today, making them the largest single minority group in America.

It has been over 23 years since the Immigration Reform and Control Act of 1986 was signed by President Ronald Reagan on November 6, 1986. This Act of Congress reformed United States immigration law. The Act also granted a path towards legalization to certain agricultural seasonal workers and immigrants.

It is commonly accepted that many of the workers who became legal residents through the 1986 reforms have moved from agriculture into construction, landscape, hospitality, etc. I am sure everyone in this room that permanently employs Latino workers knows that most Latinos are very good citizens and some of their children have graduated from college to become doctors and lawyers.

Now I know that reasonable people will agree that illegal immigration should be reduced. The question isn't whether illegal immigration is a problem, but how to solve it.

Historically, the best results have come from providing more legal ways for immigrants to enter the country. I am sure many of you can relate to how other ethnic groups such as Italians, Irish and Japanese were labeled as criminals and Mafioso and, in some cases, stripped of their rights and sent to internment camps due to ignorant discrimination and racism. Most immigrants are not predisposed to crime nor are they terrorists in waiting. They are economic migrants who would gladly use the front door if it were open to them. Painting Latino immigrants as violent criminals or Islamofascists won't make us any safer. Nor will enforcing bad laws and policies, as opposed to reforming them. I believe we should all oppose, in today's world, the excessive bashing and stereotyping of Latino immigrants by our politicians and the press. On the whole, our Latino immigrants are an asset to

America, not a liability. We benefit from their labor, they benefit from the jobs. Our laws should acknowledge and reflect this reality, not deny it.

* * * * *

The Immigration Reform and Control Act of 1986 was also designed to toughen sanctions against employers for hiring undocumented workers – because of this and other reasons, many more farm employers such as ourselves have opted to use the services of farm labor contractors to provide their vineyard workforce.

We believe the farm labor contractors must form stronger associations to protect themselves from health and safety issues, from government extremes and the current excessive migrant stereotyping. Farm labor contractors provide over 75% of the workforce in California’s agricultural production. Agricultural occupations continue to rate as one of the most hazardous in the nation. There are many challenges in managing a workforce composed primarily of non-English speaking immigrants in a highly regulated environment. Our company is committed to supporting the “**California Farm Labor Contractor Association**” (see brochure, Exhibit B - **SLIDE**) because the association members are dedicated to providing safe, healthful, and compliant workplaces for agricultural workers. To accomplish this, the California Farm Labor Contractor Association is providing education, advocacy, outreach and resources to their members. To date, the California Farm Labor Contractor Association has trained their members and their supervising staff on the following:

- (1) How to comply with Heat Illness Prevention regulations
- (2) How to deal with the Association members wage and hour regulations
- (3) On prevention of sexual harassment
- (4) First aid and CPR certification
- (5) Worker transportation requirements
- (6) How to conduct a safe grape harvest operation.

As a result, these farm labor contractors had no problem when Cal OSHA inspectors visited their operations, and their workers suffered no significant injuries or illnesses during this past harvest season.

We strongly suggest that for the benefit of the San Joaquin Valley grape growers and your work force, each of you should support the California Farm Labor Contractor Association.

Introduce The Managing Director of the California Farm Labor Contractor Association, Guadalupe Sandoval, is here today.

IV. CALIFORNIA'S SAN JOAQUIN VALLEY VARIETAL GRAPES-08 DATA

As I said earlier, California's San Joaquin Valley Vineyards produce over 70% of California's varietal table wines. Wine quality from California's San Joaquin Valley grapes does not have to take a back seat to ANY wine region in the world. The San Joaquin Valley is re-adjusting to the market place demands for the right grape varieties in the right region of the San Joaquin Valley that will produce good quality, affordable wines.

The California San Joaquin Valley counties described by the California Department of Food and Agriculture as Districts 11, 12, 13 and 14 are as follows:

- | | |
|-------------------------------|------------------|
| 1A. San Joaquin County | 5. Fresno County |
| 1B. Sacramento County (South) | 6. Tulare County |
| 2. Stanislaus County | 7. Kings County |
| 3. Merced County | 8. Kern County |
| 4. Madera County | |

SLIDE

Exhibit C. The redacted data on the screen is extracted from the final 2008 *California Department of Food and Agriculture Grape Crush Report*. This shows the tons delivered and crushed by the specific districts in 2008.

There is no doubt that California's San Joaquin Valley is the backbone of the American wine business and will continue to be the #1 quality supplier of varietal wines to the market place. My message to our San Joaquin Valley grape growers is that we have to become more price competitive to regain our share of the global market place. Imagine if we could replace all those foreign wines, we would have to almost double today's grape acreage in the San Joaquin Valley. I believe the reduction of import wine sales in America can be accomplished.

V. HOW WE CAN IMPROVE OUR SAN JOAQUIN VALLEY VINEYARDS

- A. We must all invest in research and education to insure the future success of our wine and grape industry.
- B. American Vineyard Foundation. . Over the last ten years, **\$12,413,070** has been voluntarily invested in the AVF. Our family has invested over \$1,000,000 to date in the AVF. We believe our investment, along with many other growers and wineries, in research and education will be a benefit for all grape growers throughout California. Hopefully each of you are or will be paying your fair share to the American Vineyard Foundation.
- C. San Joaquin Valley Specific Viticulturists – Our company knows there has been a lack of concentration in research for our vineyards in the San Joaquin Valley. Therefore, Bronco is investing for Viticulture Chairs at Fresno State and UC Davis for **exclusive** concentration in San Joaquin Valley vineyards.
 - ⁽¹⁾ Fresno State. Bronco is committed to provide up to \$1,000,000 for this program. The first Viticulturist appointed to the Bronco Wine Company Viticulture Chair at Fresno State University is Dr. S. Kaan Kurtural. (Introduce Dr. Kurtural). Both Nat DiBudeo and Dennis Metzler, as well as

myself, are members of the Viticulture and Enology Industry Advisory Board at Fresno State and can tell you that more changes will be forthcoming in the department.

(2) U.C. Davis – Bronco has committed \$500,000 for a San Joaquin Valley Viticulture Chair at UC Davis. This viticulturist will be located mainly at the Kearney Field Station, specializing in vineyards of the San Joaquin Valley. This viticulturist will be given the assignment to visit all the vineyards in the San Joaquin Valley. The University and a special committee of winery and grape growers are presently interviewing candidates for this position.

(3) Grape Farmer Innovation. All of us know that many innovations are discovered and perfected by individuals in our vineyards. The innovators should work with the San Joaquin Valley Viticulturists to share and expand opportunities.

D. Planting and rootstocks.

(1) Each grower must plant the right grape varieties on the correct root stock for their land. You may need to coordinate new plantings with research results and based on your winery requirements.

E. Growing grapes economically to compete in the world market place requires a complete review of vineyard activities.

1. Drip irrigation.
2. Mechanically aided pruning.
3. Machine picked grapes.
4. Grape hauling and scheduling.
5. Pesticide applications

F. Promote our California appellation emphasizing our quality and value. The “new normal” in the wine business will emphasize the price range of wines from our region, and we need to communicate our values to the wine

consumers of America.

G . Last, but not least, by eliminating wasteful government taxation on outdated programs,

(1) Because government is involved, the PD/GWSS board has no flexibility to switch funds to Vine Mealy Bug.

(2) Pierce's Disease, Glassy Winged Sharpshooter (PD/GWSS) tax is \$1.00/\$1,000.00 and has been a major waste of grower's money.

As I wrote to A. G. Kawamura, Secretary for The California Department of Food and Agriculture:

“Our Company and growers have paid several million dollars to the Pierce's Disease Control Program (GWSS) over the last several years. As a grape grower and winery, we do **NOT** agree that this has been an effective tax program. The California grape grower should be spending money on effective programs that will help make them more competitive in the global marketplace.”

FACTS

1. Funding by industry (growers), local, State and Federal for Pierce's Disease activities since FY 1999 is reportedly over \$371,348,569.00.
2. There is not one good business reason to continue this assessment. There has not been a report of one successful achievement utilizing these assessment funds that I am aware of.
3. Some PD/GWSS Board Members say that containment of Pierce's Disease was a major accomplishment. I say containment is not a legitimate claim, but is a red herring to mislead growers. In all the vineyards that we buy grapes from in the San Joaquin Valley, there has never been a Glassy Winged situation that needed containment.

4. Perception of the PD/GWSS Board Members that this is “free” or “leveraged” industry funding dollars is what leads to bankrupt thinking at all levels of the bureaucracies in Federal, State and Local communities.
5. Adding the pest (Vine Mealy Bug) to continue this assessment farce would be a disservice to the California grower community and waste of industry funds.

The facts are the facts. The PD/GWSS Assessment and PD/GWSS Board have not accomplished one positive result and at best it is a misguided, poorly managed program. We intend to strongly oppose any extension of this Act.

IT IS TIME TO END THE ASSESSMENT! VOTE NO, NO & NO!!

VI. WATER, RESEARCH

A. Water

This is the **one input** into vineyards that growers have a tremendous amount of control over. Advancements in drip irrigation hardware – tubing, emitters and filtration – plus new soil moisture monitoring equipment, allow us to precisely time our water applications and vary the rates of applications. This is all timed to the vine’s physiological needs.

One area that needs further research is the development of an affordable, easy to use **vine-based water monitoring system**. We need to be able to measure water stress and levels within the vine in real time. Soil moisture monitoring is great, but it’s like relying on the thermostat in your office rather than checking your body temperature to determine if you are ill.

Another area that we growers need to do a better job of is monitoring our **irrigation systems for maximum efficiency**. How many of you know exactly how well your irrigation system is performing? Is it 90% efficient? 75%? 25%? You would be surprised how poorly some systems operate. This is called **Distribution Uniformity or DU**. It not

only effects how well you supply water to your vines, but if you apply expensive pesticides or fertilizers through your system – and most of us do – you could be over-applying in some areas while under-applying in others.

Unfortunately, we foresee a future where our **water use may be regulated**. All growers should be proactive and documenting our good stewardship of this precious resource.

B. Research

- Develop **new rootstocks that need less water** for maximum yields.

- **Plant based water monitoring devices** in real time to compliment soil moisture monitoring.

- **Study vine fertility and how it decreases the needs for pesticides**. Nature works like this – sick plants attract insects and other pests. As in humans, if we don't eat right and neglect our bodies, we open ourselves to attack by pathogens and disease. Healthy soils support healthy vines. Healthy vines need less pesticide.

- **Develop variety specific nutrient levels and tissue interpretation values**. At our company we are developing our own interpretations for tissue lab analysis. We pull leaf samples for nutrient analysis at many different times during the season – pre-bloom, bloom, verasion and pre-harvest – then check to see how our vines' nutrient levels are doing. Currently most interpretive values are based on work done many years ago on Thompson Seedless at bloom. **You can't manage something until you can measure it and interpret that measurement correctly**.

- We need to look at **new varieties** that thrive in our warmer climate, giving our winemakers lower pH juice, better color and **premium wine quality**. We are

currently looking at **new varieties for blending** and attempting to work with the soils in each vineyard to improve and achieve our quality goal. For example, we have found that by working our soil's microbiology, we are able to keep our must pH much lower than would be expected. The results? No acid additions. Better wines. Less intervention.

- Our philosophy is to work with **Mother Nature, not against Her**. We feel agriculture needs to focus more on softer biological materials for fertility, soil improvement and pest control.

VII. HARVESTING

Harvesting

1. Custom harvesting relieves the grower's need for capital in underutilized harvesters and also the cost to safety train seasonal personnel. Also, the need for annual costly repairs to their grape harvesting equipment is eliminated. Our company works with grape harvesters that will utilize the same crew members for the better part of 90 days. Each winery's ability to process grapes determines the amount of loads that can be delivered daily or weekly throughout the grape season.

VIII. GRAPE HAULING

I believe that wineries having available specialized seasonal grape hauling equipment have proven the economic benefit for timely grape movement from vineyards to wineries.

Because of the cost efficiencies to San Joaquin Valley growers, we believe custom harvesting and trucking will be the normal practice for most vineyard owners in the very near future. Bronco will encourage both custom harvesting and grape hauling for all our growers.

IX. CONCLUSION

A. Your Association

Some grape growers associations do not currently devote their efforts to grower needs in the vineyard. Associations such as the San Joaquin Valley Winegrowers Association should not waste time and effort on appellation or wine promotions other than for the California brand. I believe your association should concentrate on the following goals:

(1) How each of you can protect your future by not allowing any authority to minimize or limit the San Joaquin Valley winegrower's use of the "California" appellation on our grapes.

(2) How can you protect the water rights that you have today in your vineyards?

(3) How can you increase your awareness of correct varieties to plant on your land?

(4) How can you grow wine grapes more efficiently to compete in the world market place?

(5) How can you best invest your dollars on your land in accomplishing #4 above?

B. San Joaquin Valley

It is my company's belief that **if** we can objectively and efficiently control our costs, then the **California San Joaquin Valley wine/grape growing industries will double over the next ten years.** In our opinion, the future for all California's San Joaquin Valley grape growers looks very promising.

Thank you.

**TOP TEN SAN JOAQUIN VALLEY GRAPE VARIETIES
CRUSHED BY CALIFORNIA PROCESSORS (WINERIES) FOR THE 2008 CROP**

Type and Variety	District	District	District	District	(1)	(2)	(3)	
	11	12	13	14	Total Dist 11-14	2008 State Total	SJV Tons % of Variety	
Zinfandel **	144,625.90	29,702.70	122,021.80	49,100.30	345,450.70	397,982.00	86.80%	*
French Colombard	5,592.70	9,600.90	246,567.10	56,814.50	318,575.20	319,086.70	99.84%	
Chardonnay **	116,322.00	60,417.00	60,880.80	41,086.20	278,706.00	565,427.90	49.29%	*
Rubired	744.40	6,278.70	130,645.90	39,373.10	177,042.10	177,683.60	99.64%	
Cabernet Sauvignon **	81,976.40	24,345.30	45,658.90	23,653.00	175,633.60	326,188.60	53.84%	*
Merlot **	56,287.50	25,089.10	48,899.70	17,736.40	148,012.70	225,764.00	65.56%	*
Ruby Cabernet **	284.20	2,911.10	49,974.10	17,182.80	70,352.20	70,356.30	99.99%	
Syrah **	17,846.00	8,700.60	33,134.40	5,595.00	65,276.00	102,228.40	63.85%	*
Pinot Gris **	20,800.50	16,086.80	3,324.60	24,372.80	64,584.70	90,234.90	71.57%	*
Sauvignon Blanc **	19,945.20	5,531.20	4,077.90	4,408.70	33,963.00	92,236.10	36.82%	
Total SJV Wine Varieties (4)	529,812.60	226,962.10	1,067,922.10	346,569.20	2,171,266.00	3,061,420.50	70.92%	

* Majority share of California total. French Colombard, Rubired and some Ruby Cabernet are major blenders in varietal wines.

** Competes with varietal grapes - both California and Worldwide.

Notes:

1. Total of Districts 11, 12, 13 and 14
2. Total State Tons
3. San Joaquin Valley % of California Total Crush
4. Total wine varieties are all varieties grown in District, not only top 10 varieties listed above

Top Story

U.S. Bulk Wine Imports Seen Tripling as Global Producers Seek Low Cost Supplies

Imports of bulk wine to the U.S. tripled during the first six months of 2009 compared to the same period of 2008, reaching the equivalent of roughly 13 million 9-liter cases and are on track to reach as much as 25 million cases this year, according to U.S. Department of Commerce data, as reported by Gomberg-Fredrikson.

"The big commercial producers are seeking lower costs of supply," noted Jon Fredrikson, who regularly analyzes wine import data in the Gomberg-Fredrikson Report. "It changes the supply demand equation when you have bulk wine of this magnitude coming in and offsetting what would have been Central San Joaquin Valley wines," he said. "It's definitely a shock to growers."

A simple check of the supermarket shelves reveals a shift among many leading low cost brands. The Wine Group's popular Franzia boxed wines feature Chardonnay from South Eastern Australia and Merlot from Chile. Constellation's Vendage has wine from Australia while the 1.5 liter Woodbridge Pinot Noir is from France and its Black Box Pinot Grigio is from Italy. A Gallo Turning Leaf boxed Pinot Noir is sourced with wine from Italy.

Big wineries have learned how to send wine around the world in polyurethane bladders that protect quality while large California wineries face new air-quality restrictions that could limit production capacity. Some of these wineries already owned inventory in Australia that they needed to move, so it is hardly surprising that they would bring the wine to California to make things work.

An influx of bulk wines from abroad started more than a decade ago when California experienced shortages and companies sought bulk wines to keep their brands on the shelves. At that time it was somewhat controversial that Robert Mondavi Winery went to France for Woodbridge Merlot when it ran short of supply. In the more recent past, such bulk imports filled shortages of Pinot Noir and Pinot Grigio, but now these imports include vast supplies of Chardonnay from Australia, red varietals from Chile, and bulk dry white and red wine from Argentina used for blending with "American" wines.

As far as bulk imports are concerned, Chile is a relative newcomer, accounting for the equivalent of some 3.2 million cases of bulk wines so far this year, Fredrikson said.

An Australian Wine and Brandy Corporation analysis shows that about 74 million liters of bulk Australian wine, or more than 8 million cases, were exported to the U.S. in the first six months of 2009.

"What manufacturing operation hasn't gone overseas?" Fredrikson asked. "It's a global world."