

The Commodification of the Winegrape

Vineyard Views

By Cliff Ohmart

A commodity is defined by Wikipedia as ‘a largely homogenous product traded solely based on price’. Growing a commodity crop seems like a brutal business since the grower has no control over price yet price is the only thing that matters. When prices are up the grower makes money, when the prices are down the grower loses money. About the only thing a grower has control over is trying to lower the cost of production per unit of product. Since a commodity is homogenous in quality, a processor can buy it from anywhere and still sell it for the same price. If they can buy it from anywhere they are, of course, going to try their best to get it from the cheapest source. As a result, the pressure on the grower is to figure out how to cut the cost of production per unit of crop so they can become the cheapest source. Unfortunately, in the global marketplace there is always someone somewhere else who can grow it cheaper than you can so, as a colleague of mine has said many times, it becomes a race to the bottom. In other words someone does it cheaper, you figure out how to do it cheaper, then they do, and pretty soon you are out of business.

Commodification might be a real word. At least it is according to Wikipedia, but my Microsoft Word software says it is not. Nevertheless, I like it because when I read it an image forms in my mind of a process that seems to be happening to winegrapes. I am not suggesting that winegrapes will become a commodity in the true sense of the word, like corn, wheat, soybeans or cotton. However, I am sure most of you growing winegrapes in the major winegrape-growing regions of the US are aware of how the wine industry is changing and seems to be heading in that direction. The following are some of the signs. There was a monster crop in California in 2005 which filled all the winery tanks. Wine consumption in the US continues to grow making us a target for wine exporting countries from around the world. There has been a significant consolidation in wineries world wide reducing the number of winegrape buyers and increasing the number of large wineries with the ability make or purchase and move bulk wine around the world. In the US wineries are allowed to blend up to 25% of foreign wine with US wine and still call it ‘American’. With the recent passage of vintage dating, non AVA wines can contain up to 15% of the wine from a different vintage from what is on the label. This may not sound like much but the following numbers put it into perspective. Say you are a large winery and have made wine from 85,000 tons of grapes. With the new law you can blend wine from 15,000 tons from another vintage. That blending represents 3,000 to 7,000 acres of grapes, depending on the yield, that are now not needed if the winery has wine left over from a previous year.

Unfortunately, many of California’s specialty crops, such as citrus, apples, and cut flowers, have also been severely affected by the globalization of agriculture. With these crops the problem is not related as much to consolidation of processors as it is to the fact that it is cheaper to grow them in other countries, ship them to the US, and still sell them for less than the same crops produced in California. In these cases the main difference seems to be land and labor costs and possibly low cost inputs. Some would like to think

that many of these overseas farming operations may be cheaper but not very sophisticated. However, in talking to people who have visited some of these operations it turns out that they are using all of the latest knowledge and technology.

Is this scenario really sustainable? I would say 'No' because I see it as a mining operation rather than something that is renewable. They 'mine' land and human resources until the cheap supply runs out then they move on to other countries where these resources are still cheap. This scenario has repeated itself over and over since the beginning of the industrial revolution whether you look at textiles, steel manufacturing or agriculture. However, some day the cheap land and human resources will run out.

I realize that the problem of commodification of the winegrape is not an important issue for the wine communities in many states in the US because they are small and most of the wine sales are through tasting rooms. Furthermore, many growers in these areas grow winegrapes to make their own wine rather than sell them to a winery. Even though the dollar value of small wine communities is much lower than that of large wine communities in California, Washington and New York, the financial success of both is still based on the fact that their wine is a value added product. Tourists come to the wine region, visit the tasting rooms, see the scenery and when they buy the wine they are buying an experience, whether it is Texas, Ohio, Michigan, or wherever.

What is the answer to the commodification of the winegrape? Ensure that wine remains a value-added product, no matter what the price point. This may sound odd because wine has always been a value-added product. However, the consolidation and globalization occurring in the industry, along with the rule changes that some are pushing for, is creating a more and more homogenous product that can be grown and made anywhere. Growers who sell their winegrapes to large wineries are being squeezed financially. The dilemma was really brought to my attention the other day when I was listening to a grower talk about the price of grapes. He said "We have to figure out a way to grow winegrapes cheaper because the wineries just don't care". It struck me that the long term answer is not to figure out a way to farm more cheaply, because that is a losing battle. Someone else will always figure out a way to do it cheaper than you can. The long term answer is to somehow figure out how to make the wineries care, to make them want your winegrapes.

When one looks at the issues around the commodification of the winegrape the problem seems overwhelming. For example, how can a small grower in California who sells to a large winery with global holdings keep their grape prices from sliding even lower? Trying to grow winegrapes more efficiently is always going to be part of the equation but it is not the solution all on its own. A grower needs to figure out how to continue to add value to their winegrapes so the winery wants them over someone else's. This could be accomplished by growing the best quality winegrapes possible, or by promoting the uniqueness of the region's wines, by using non-conventional farming practices such as sustainable, organic or biodynamic, or by enhancing your region's wine tourism. Once one has figured out how to add value to their winegrapes they then need to market them aggressively. Any business that has something to sell has a marketing program that is

always a significant part of its overall budget. Maybe growers should emphasize the marketing their winegrapes to wineries to the same degree that wineries market their wine to consumers. Talk to anyone who has opened a winery in the last few years, they will tell you that success is all about marketing, marketing, marketing.

If one looks at any agricultural product grown in the US that has suffered from global competition or commodification you will see growers trying to figure out how to add value to their product to differentiate it from others as a way to survive. Since wine has always been a value added product our challenge is to keep it that way.