

SEVENTH ANNUAL BARREL ISSUE

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No Bull Barrel Market

How winemakers can stave off bearish times

By Kerry Kirkham

A French oak barrel undergoes *bousinage*, the toasting of the barrel, which breaks down the monosaccharoses on the surface of the wood, imparting specific organoleptic qualities.

Imagine that you're a winemaker, and the boss hands you an annual budget demanding a 10% reduction in costs without a decrease in production or a compromise in quality. How would you choose what to cut? Wine industry professionals across the board are faced with similar requests to do more with less, and many barrel suppliers find themselves grappling with how to help winemakers achieve their goals on a budget.

For the overall 2010 barrel market in North America, sales were down as much as 35%-40%, depending on the supplier. However, pricing has remained virtually the same for two straight years, and many barrel suppliers are saying that the worst appears to be over.

Jérôme Aubin, owner of Oakland, Calif.-based Artisan Barrels, echoed the comments from many suppliers. "Our agency has been pretty much flat from the big slump in 2009, which was down from 2008. At least the hemorrhage has stopped," he said.

While the economy remained down and many wineries' sales did, too, decreased yields from the 2010 harvest helped winemakers keep their barrel expenditures down. Aubin noted a 10%-15% drop in barrel sales for Bordeaux varietals such as Cabernet and Merlot. Barrel sales for Chardonnay and Pinot Noir were less affected.

As for 2011 barrel market conditions, Jim Boswell, owner of The Boswell Co. in

San Rafael, Calif., cautioned, "Our expectation is for another very tough year. This is the most difficult barrel-selling environment in my 35-year history. The good old days are gone. Winemakers need to be careful about how they choose barrels in this unstable era."

According to cooperage industry data, average barrel prices for American oak (\$360), French oak (\$853) and European oak (\$625) were flat in 2009 and 2010, and they are expected to stay flat well into 2011.

All this begs the question: With the economy still soft and barrel prices holding firm, can winemakers do more with less without compromising quality? Ultimately, a trusted cooperage or barrel broker can guide clients through various cost-saving options. Here are a few to consider:

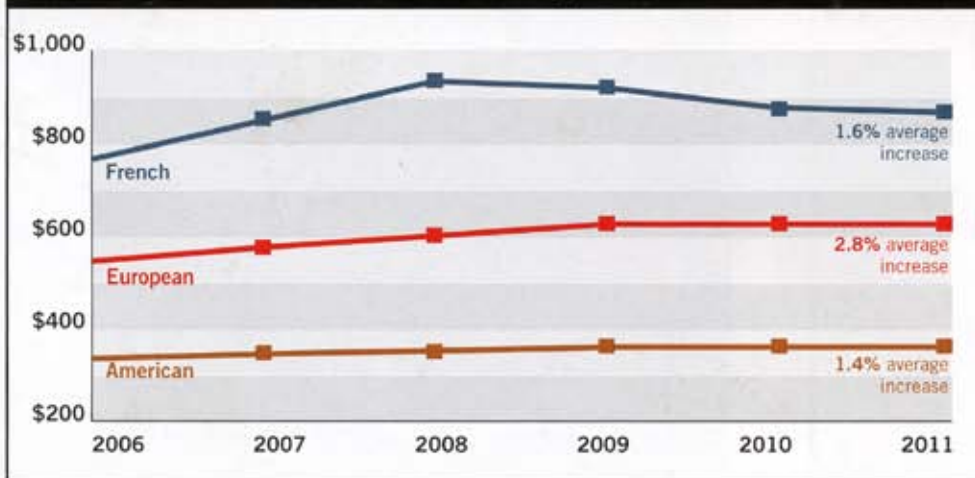
Follow the euro

Suppliers reported that the price of barrels in euros has been practically unchanged for the past two years. The rise and fall of the euro is what has driven barrel price fluctuations, unfortunately not in the favor of American buyers.

Highlights

- With the economy still soft, winemakers looking to purchase barrels have options for cost savings that won't compromise quality.
- Puncheons, hybrid barrels and Hungarian oak can all help achieve budget reductions.
- Few price changes are expected for 2011, but "buy forward" contracts can moderate euro fluctuations.

Oak Barrel Pricing 2006-11



In 2010 the average euro to U.S. dollar exchange rate was \$1.33. The euro peaked in January 2010 at \$1.45, only to see the U.S. dollar rally to \$1.19 per euro in early June of that year.

Phil Burton of Barrel Builders in Calistoga, Calif., remarked, "I think that most people have gotten used to the exchange. What was horrible two years ago is now the 'norm.' Just like when gasoline went to \$3 per gallon several years ago; now \$3 is considered a bargain here in California."

For those who have some liquidity and the desire to fight the norm, one suggestion for barrel price relief is to invest in euros when the U.S. dollar rallies. (See chart "Exchange Rate Dollars per Euro.")

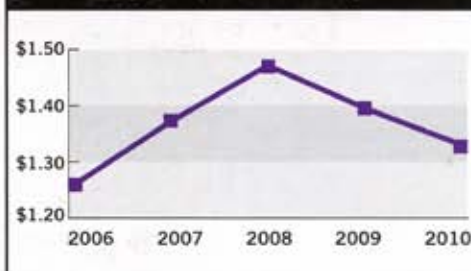
Todd Stanfield of Tonnellerie Remond in Sonoma, Calif., mentioned that some of his clients use foreign exchange services such as Commonwealth Foreign Exchange (Comflex) in Oakland, Calif. Other

wineries elect to pre-purchase euros with forward contracts to lock in favorable euro rates when the dollar rallies. Stanfield said, "Not many people do it. Some lock in half their barrel budget to cut their risk a little."

Comflex founder Wil Krekel said, "Comflex specializes in middle-market companies, so our rates of exchange are always lower than the traditional foreign exchange providers. Buying forward contracts allows winemakers to lock in a euro exchange rate. They pay 10% down to hold the right to pre-purchase their euros at a specified rate for delivery when they're ready to purchase their barrels."

The minimum total amount required for a corporation to purchase a forward contract is \$10,000. Krekel explained, "We deal with approximately 800 wineries for euro exchange. Of those clients, 80%-85% just want direct exchange from U.S. dollars to euros, which is debited via ACH

Exchange Rate Dollars per Euro



(Automated Clearing House) to pay European coopers. Approximately 15%-20% will actually buy forward contracts."

Comflex is familiar with the wine business and all the major cooperages in Europe. "It's very rare that I come across a cooper in Europe that we haven't paid," Krekel said. Comflex has seven offices across the U.S. and has been in the foreign exchange business for 13 years.

Order early

Stanfield at Tonnellerie Remond also suggested that the best way to save money is to place barrel orders early to take advantage of lower pricing. "Early delivery, early price," he said. "You could potentially save approximately 40-60 euros per barrel." Early purchasing yields savings rewards due to coopers not getting overloaded, rushing to build a sudden influx of barrel orders at the last minute.

"There aren't enough ships, containers and manpower to get barrels built, shipped and distributed all at once in a short time," he said.

Waiting to purchase barrels at the last minute, aside from the possible loss of savings, is not without the potential risk

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Hungarian and French oak are the same species, *quercus petraea*.

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of logistical logjams. Stanfield cautioned, "French truckers or American longshoremen could be on strike, which, in the past, resulted in a few close calls on timely deliveries."

Barrel futures

Jason Stout, global sales director of Cooperages 1912 in Napa, Calif., represents both World Cooperage and T.W. Boswell. He discussed the option of buying barrel futures one to two years in advance.

"When a client purchases barrel futures, it locks the current price in—or, in some cases, even reduces the price—with a minimal investment that is fully refundable. By making this commitment with our clients, we can reduce costs and minimize risk," he said.

According to Stout, the practice is uncommon. Only a few family-owned wineries with stable budgets exercise barrel futures options. Minimum orders range from 50 to 100 barrels. The result is typically around a 5% savings. Considering that the current annual percentage yield on typical money market savings accounts is barely more than 1%, this can be appealing to those with liquid assets and worries about the strength of the U.S. dollar in the volatile currency market. To date, Stout said that no one has asked for a refund prior to delivery.

Puncheons

Francois Peltreanu-Villeneuve of Seguin Moreau Napa Cooperage reported, "We sold more large—500 liters and above—barrels than in previous years."

Though Peltreanu-Villeneuve and other coopers all insist that the recent surge of winemakers skipping down the puncheon path is strictly based on a change in winemaking style, however, the cost-saving potential is undeniable. The higher wine-to-oak ratio, resulting in less oak impact, can be as appealing to some winemakers as the diminished impact on winery budgets. Simply put, a two-barrel capacity puncheon ends up costing 20% less than two barrels.

Kent Rasmussen, winemaker at the 20,000-case Kent Rasmussen Winery based in St. Helena, Calif., has used puncheons for Chardonnay in his wine program for 20 years. "The one issue is that they're backbreaking, even when empty. What puncheons do give you is less oak and a nice aged character. All the good without any of the bad."

Rasmussen aged his Chardonnay for two years in 100% new American oak puncheons. "At nine months it would taste very

oaky, but at two years it mellowed. It was consistently not woody, to the point people would accuse me of not putting it in oak at all."

American oak and hybrid barrels

Stout, from Cooperages 1912, noticed a recent increase in sales of American white oak barrels. He attributes this to the increase in the quality of American white oak, scientifically known as *quercus alba*. However, Stout noticed that some winemakers aren't using it as a primary means of oak expression. Rather, winemakers who have predominantly French oak programs are incorporating a few American oak barrels into their blends. With the cost of American oak barrels typically 60% less than French oak, it makes you wonder: Which came first, a desire for a new style or the need to lower costs?

Hybrid barrels with American oak staves and French oak heads are another way to stretch barrel budgets. For the sake of comparison, a French oak Bordeaux barrel at one cooperage costs \$810. An American oak barrel of the same size costs \$380. A hybrid barrel costs \$445. Considering that the head represents 25%-30% of the surface area of a barrel, it's an option worth



Machinery is used to precisely place hoops around a Hungarian oak barrel.

looking into for some—especially considering the potential 45% savings in cost. The heads can be toasted or untoasted depending on the winemaker's style and variety destined for the barrel.

Clay Mauritson, winemaker from 9,000-case Mauritson Family Winery in Healdsburg, Calif., sources his hybrid barrels from Seguin Moreau in Napa. "Though we purchase more Seguin Moreau hybrid barrels than any other single barrel, they only represent about 15% of our annual

barrel purchases. For our Rockpile Zins, the hybrid barrels represent about 40% of the oak used," he said.

When asked what led to his decision to bring hybrid barrels into his wine program, Mauritson replied, "The only consideration was stylistic, but the 'value' is a great plus. If you were to take 33% of the cost of the average French barrel we are using and add that to 66% of the cost of our American barrels, it is substantially more than what we pay for the hybrid barrels."

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A cooper splits French oak at Taransaud mill in Segonzac, France. Hungarian oak must be split in the same manner.

Hungarian oak

All Hungarian oak is European, but not all European oak is Hungarian. European oak can be of Russian, Romanian, Slovakian or Hungarian origin.

Hungarian oak typically costs 30%-40% less than French oak. Both are the

same sessile oak species, *quercus petraea*. As winemakers know, the longer you age your wine in oak, the tighter the grain of the barrel should be. Since Hungarian and French oak are both *quercus petraea*, their tightness of grain is potentially the same.

Paul Frommelt, sales director of Trust

International Corp. from West Palm Beach, Fla., who also represents Treuil, Marc Kennel and AP John Barrels, said that Trust focuses on specific wood sourcing and consistent toasting regimes. Trust also has significant investments in all the equipment and people involved from the tree in the forest to the finished barrel. According to Frommelt, "Hungarian oak is truly a no-brainer for any winery."

Aubin of Artisan Barrels says great care is taken when Hungarian oak is milled. "We focus on tree age and grain when purchasing wood. Split or quarter-sawn makes a difference. Hungarian staves should be split rather than quarter-sawn, because that's the way the French do it. Since Hungarian oak is the same species as French, there is more leaking potential if it's quarter-sawn," he said.

Sandor Vadai of Barrel's Best-Vadai World Trade Enterprise in San Gabriel, Calif., attributes the quality of Hungarian oak from the Zemplén forest to how the trees grow. He selects wood from higher elevations in the steep and rocky Tokaj mountains. "You need to select wood that grows slow and straight and has to struggle," he said. "The harsh conditions cause these oak trees to grow approxi-

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Barrel Suppliers

COMPANY	PHONE	WEBSITE
Alain Fouquet French Cooperage Inc.	(707) 265-0996	alainfouquet.com
Artisan Barrels	(510) 339-0170	artisanbarrels.com
Barrel Builders Inc.	(707) 942-4291	barrelbuilders.com
Barrel Depot	(612) 290-7427	barreldepot.com
Barrel Mill/Oak Infusion Spiral	(800) 201-7125	infusionspiral.com
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Barrels Unlimited Inc.	(562) 438-9901	barrelsunlimited.com
T W Boswell	(707) 255-5900	twboswell.com
Boswell Co.	(415) 457-3955	boswellcompany.com
Bouchard Cooperages	(707) 257-3582	bouchardcooperages.com
Brick Packaging LLC	(231) 947-4950	brickpackaging.com
Canton Cooperage Co.	(707) 836-9742	cantoncooperage.com
Carolina Wine Supply	(336) 677-6831	carolinawinesupply.com
Cooperages 1912 Napa	(707) 255-5900	cooperages1912.com
Demptos Napa Cooperage	(707) 257-2628	demptosusa.com
H & A Financing and Services	(707) 812-0195	halocation.com
Heinrich Cooperage	(707) 738-8670	heinrich.com.au
Heritage Barrels LLC	(707) 598-3285	heritagebarrels.com
I D L Process Solutions Inc.	(604) 538-2713	idlconsulting.com
Kadar Hungary	(415) 751-6306	knoxbarrels.com
Kelvin Cooperage	(502) 366-5757	kelvincooperage.com
G W Kent Inc.	(734) 572-1300	gwkent.com
Mel Knox Barrel Broker	(415) 751-6306	knoxbarrels.com
Laurence Cheffel	(707) 259-5344	
Magrenan Cooperage	(707) 795-1800	magrenan.es
Mistral Barrels Inc.	(707) 996-5600	mistralbarrels.com
Nadalie USA	(707) 942-9301	nadalie.com
Oak Tradition	(707) 318-0002	oaktradition.com
Pickering Winery Supply	(415) 474-1588	winerystuff.com
Premier Wine Cask	(800) 227-5625	premierwinecask.com
Rapidfil Pty. Ltd.	(408) 540-6131	rapidfil.com.au
Seguin Moreau Napa Cooperage	(707) 252-3408	seguinmoreaunapa.com
Snyder Industries Inc.	(888) 422-8683	snydernet.com
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Tonnellerie de Jarnac USA	(707) 332-4524	tonnellerie-de-jarnac-16.com
Tonnellerie Ermitage (Groupe Charlois)	(707) 968-0664	tonnellerie-ermitage.com



For more on barrel suppliers, see *Wines & Vines' 2011 Buyer's Guide* in print or online at winesandvinesbuyersguide.com.

mately 30% slower than in France," he said. "Therefore, the barrels will be a tighter grain slower in oxygenation, which releases oak flavor to the wine more slowly." Vadai cautions that because of grain tightness, winemakers should leave red wine in the barrel for 14-24 months, and white wine for eight-14 months.

James Hendon, winemaker at the 20,000-case Pear Valley Vineyard in Paso Robles, Calif., said his 11-year use of Hungarian oak is strictly for style. He remarked that though the cost savings are nice, "It's hard to quantify how much it's worth. It provides me with something I can't get anywhere else."

At Hendon's winery, almost every variety gets at least a small percentage of Hungarian oak. The inspiration he described is a unique Hungarian oak flavor profile, particularly a mild and pleasant nutmeg spiciness. Pear Valley Vineyard Chardonnay is aged in 100% Hungarian oak for eight months, and Zinfandel is aged in 70% Hungarian and 30% French oak.

Hungarian oak really excels on Pinot Noir and Chardonnay, according to Frommelt of Trust International. A synergistic flavor between Hungarian oak and Pinot Noir was mentioned by Kent Rasmussen, who sources his Hungarian oak barrels from Kádár Hungary. Rasmussen described himself as a winemaker who enjoys buying two of anything new and interesting. Eight or nine years ago, when a barrel salesperson brought him samples of Pinot Noir aged in Hungarian oak, he gave it a try.

"The wine was a stunner of the year," he said. Today Hungarian oak makes up 50% of Rasmussen's Pinot program; the other 50% is French oak.

Some barrel suppliers said that Hungarian oak is catching on slowly, and others reported that sales are totally stagnant.

Aubin of Artisan Barrels said, "The overall stigma for European oak is unfortunately not going anywhere soon. They work for different markets, but French oak still has the premium appeal that Hungarian oak doesn't have. I think once more winemakers try it, they can find a niche in their winemaking programs alongside French oak-aged wines. Hungarian oak is not a mainstream niche right now, but it is a growing market. I wish it would be different because the quality of Hungarian oak is there."

Jim Boswell of the Boswell Co. amusingly sums up the resistance to Hungarian oak: "Winemakers have a very strong allegiance to French oak barrels. They cling to French oak like teddy bears." **W&V**

Barrel Suppliers (continued)

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Tonnellerie Quintessence	(707) 935-3452	tonnellerie-quintessence.com
Tonnellerie Radoux USA	(707) 284-2888	radouxcooperage.com
Tonnellerie Remond	(707) 935-2176	
Tonnellerie Sirugue	(310) 452-8147	sirugueusa.com
Tonnellerie Sylvain	(707) 259-5344	tonnellerie-sylvain.fr
Trust International Corp.	(561) 540-4043	barrelmakers.com
VinOak USA	(707) 746-5704	vinoak.com
World Cooperage	(707) 255-5900	worldcooperage.com
Rich Xiberta USA Inc.	(707) 795-1800	xiberta.com



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