

BY SEAN P. SULLIVAN

American Oak Supply Puts the Squeeze on Coopers

Competition for barrels from whiskey industry leads to cost increases for wineries

A shortage in American oak supply is putting a significant squeeze on many of the nation's coopers. "The supply is tight," said Jason Stout of Cooperages 1912 in Napa. "Not everybody is going to get through this and be able to meet all of their demands."

The reasons for the oak shortage are complex, but most agree that it starts with the

booming whiskey industry. "Whiskey is on a really good roll right now," Stout said "You have a lot of craft distillers and regional distillers that are getting into the mix. You've got this trend with bourbon especially coming back into the cocktail culture. So they are all needing barrels."

Danny Brager, senior vice president of Nielsen's Alcoholic Beverages division, said

that the increase in whiskey sales began in 2010 and has only intensified in recent years, with bourbon the largest sub-segment. "There is a rediscovery of whiskey, particularly among younger males," Brager said. He noted that double-digit dollar growth is expected to continue over the next 12 months.

Unlike wine, where there are a variety of oak options, bourbon is made exclusively in charred, new American oak barrels. The barrels typically are not aged for several years prior to use as they are in the wine industry. As a result, they are considerably less expensive – often one-third to one-half the cost. Still, as the whiskey barrel demand has spiked and supply has been squeezed, some spirits producers have even been seeking out wine barrels for their products.

"For the first time, we've started to have spirits companies coming to us saying, 'Hey, can you supply us with any American oak whatsoever?'" said Michael Mercer of Charlois Cooperage USA, based in Cloverdale, Calif.

In addition to a surge in whiskey production and sales, wet weather has also played a role in the shortage. "The wood cutters tell me that there are plenty of trees available," said Chris Hansen of Seguin Moreau in Napa. "But in some



Chris Hansen of Seguin Moreau says wet conditions in certain logging regions have prevented trees from being harvested.

areas, in Minnesota and Wisconsin, it's been wet all year, so they can't get into the forest to get the trees because they can't get their equipment in there."

The aftershocks of the Great Recession have also played their part. "In 2008 when the economy went down, everything stopped," Stout said. "It wasn't just wine that slowed down. It was housing and lumber and pallets. Nobody wanted logs. So after a while, the loggers had to go find different jobs. Then three years later when all of a sudden everybody needs wood, we've got half the (labor) force to pull the trees out." Three successive bumper crops for wine grapes have also contributed to the problem.

COOPERS BEAR THE BRUNT

Due to the increased demand and availability, cooperages have seen log prices increase by as



AT A GLANCE

- + There is currently a shortage in American oak supply.
- + One reason for the shortage is believed to be increased whiskey production.
- + As a result of the short supply, log prices have increased dramatically, which has led to higher prices for American oak barrels.
- + The situation is expected to continue at least through 2015.

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much as 20% to 40%. Depending on the size of the cooperage and other factors, some have been modestly affected by these increases, others more significantly.

"We've been investing in infrastructure for the last five years, so we've kind of been preparing for this," Stout said. "We have four American oak stave mills and we're constructing enough in them right now. But I wouldn't be surprised if some people that weren't as prepared for this situation had problems supplying customers."

"You've had to really fight, negotiate and secure wood, and plan your American oak strategy going forward," Mercer said. "Some coopers can't get their hands on wood. I know some coopers that are out of the business because of this. It's been kind of scary."

Still, the majority of coopers said they have been able to supply their customers. "Are we



Jason Stout of Cooperages 1912 says his company has been preparing for a supply shortage for the last five years. Photo: Cooperages 1912 Napa

able to buy what we need to fulfill our orders? Yes," said Hansen. "Would we like to buy more? Sure we would. Are we able to buy more? Probably not as much as we would like, but we haven't had any instances where we've had to tell a customer that we can't supply an American oak order."

BUSINESS PRACTICES AFFECTED

While Hansen has been able to supply his customers, he noted that he has had to alter the way that he has done business. "We used to place our orders a quarter at a time and it was no problem for the suppliers," he said. "Now we place P.O.s more on a yearly basis."

Most coopers have worked to satisfy existing customers first before taking on any new business. For some new customers, this has meant waiting for product. "We've got a waiting list of people that want

to get in our regular production schedule and we're gradually working on those people," Stout said.

At Charlois, Mercer agreed that it's been difficult to take on many new clients. "Say I have a referral that needs one or two barrels," he said. "It's easy to say yes. But if I have someone who has a new program and needs 50 barrels, the answer is 'No, let's talk next year.'"

Mercer said at times he's tried to satisfy demand with some of the company's other products. "We've made the Hungarian oak product that we make here in the United States very price-attractive for the wineries," he said. However, Mercer said for some wineries the difference in price is still too great. "Some customers are very price sensitive," he said.



Alain Pousson of Nadalie USA says the company tries to keep barrel prices low.

While the cost of American oak logs has soared, many coopers have tried to absorb as much of this cost increase as possible. "We try to hold prices steady for our customers or at the very least make them reasonable," Stout said. Depending on the cooperage, however, this can be a challenge.

"We try to stay as low as possible, but at the end of the day, we've got to survive," said Alain Pousson of Nadalie USA in Calistoga, Calif.

WINE BARREL PRICES IMPACTED

Wineries have certainly taken notice of the increased prices. At Milbrandt Vineyards, one of Washington state's largest wineries and which uses mostly American oak on its wines, winemaker Josh Maloney said he has seen barrel prices increase by as much as 30% for some coopers over the past two years. He said the company is keeping a close eye on the numbers.

"We are taking a much closer look at our cost of goods to make sure we can absorb these increases and still be profitable," Maloney said. Although he said part of the reason is stylistic, Maloney noted

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that Milbrandt has decreased the amount of new oak it is using for its wines. This has helped offset some of the increased barrel cost. "As the price of the oak started going up and we're using less of it, we're basically holding the cost of goods in the same place," Maloney said.

At Ste. Michelle Wine Estates, which owns wineries in California, Oregon and Washington, Doug Gore, executive vice president of winemaking and vineyard operations, said he's noticed the price increases. "It's definitely been significant," he said. "In most years, you see the price go up about 3 to 4%. This year, it's been 5 to as much as 30%."

Still, Gore said it hasn't affected how the winery does business or the cost of wine to its customers. "It's spread out over such big volumes for us that I think we'll be OK," he said.

HOPE ON THE HORIZON?

While the supply issue has created a significant amount of pressure on the spirits industry and notable price increases in the wine industry, things may be improving.

"It's started to loosen up," Stout said of the oak supply. "The weather has been great in the Midwest. There are more loggers getting back into the business because prices have gone up. We're starting to get a good flow of logs coming in."

Still, he said that it will take a while for these changes to filter through the system. "Wineries are going to see more increases in their American oak pricing," Stout said. "They saw it last year and they are definitely going to see it again in 2015, maybe even 2016."

Hansen, meanwhile, said he expects the squeeze on American oak to continue for the foreseeable

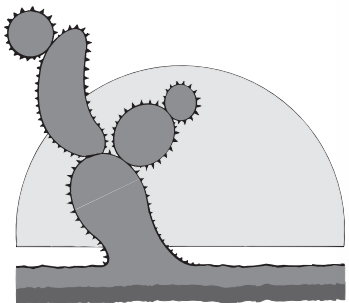


As prices go up, more loggers are likely to get into the American oak business. Photo: Cooperages 1912 Napa

future. "I was just in Minnesota and Wisconsin and the log supply is still very, very low," he said. "Will there be another price increase in 2015? Yes, absolutely. It's a challenging time for everybody."

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Sean P. Sullivan is a contributing editor for *Wine Enthusiast* and is also the founder of *Washington Wine Report*, an online publication dedicated to the wines and wineries of the Pacific Northwest. Sullivan also writes regularly for *Seattle Metropolitan*, *Washington Tasting Room* and *Edible Seattle*. He lives in Seattle, Wash.

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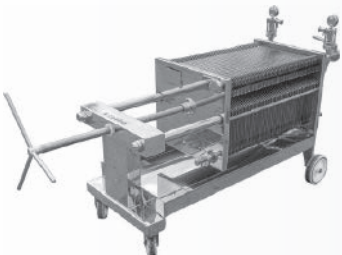
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