



Oak sales remain strong

Andrew Adams, writing for *Wines & Vines*, looks at demand for oak in the international market- with news out of France and the US. This article first appeared in the October edition of *Wines & Vines* and is republished with permission.

Oak

BARREL ORDERS from US wineries continue to bolster French oak sales, and the demand for American oak from outside the wine industry remains stronger than ever. About the only thing that could provide some relief for winemakers buying new barrels is

the lower value of the Euro, which could help mitigate increases in the prices of French and European oak barrels.

GOOD TIMES AT THE TOP

TEF Group, which claims to be the largest wine barrel producer in the world, is enjoying strong growth in both its wine and whisky divisions. The company includes Tonnellerie Francois Frères, and the public corporation's latest figures showed total sales of more than 200 million Euro (\$309 million), with wine operations accounting for 130 million euro (\$201 million), and whisky growing 39% to 74 million euro (\$83 million).

A significant portion of TEF's sales came from the North American wine industry, which posted 16% higher sales last year. It was TEF's third consecutive year of double-digit wine barrel sales growth in North America.

In addition to strong sales, the firm completed acquisitions of the French cooperages Maury Coopers & Son and Berger & Son Coopérage last year. TEF's roster of cooperages and barrel brands that it either wholly owns or has a stake in includes the two recent acquisitions as well as Francois Frères, Radoux, Trust, Demplos, Brieve, Bouyouf, Victoria, AP John, Alain Fouquet and Marc Kennell.

The company also owns the Pronektar, StAVin and Arobois lines of oak alternative products as well as three stave mills in France. TEF entered the spirits barrel industry in 2008 and has enjoyed strong growth ever since.

AT A GLANCE

- French coopers are enjoying strong sales in the US market.
- The demand for American oak from the spirits industry remains intense.
- A stronger US dollar could offer some relief US producers buying barrels from Europe.

The company, which expanded its American cooperage in Kentucky, is building a new whisky cooperage in Scotland that is expected to be operational in 2016. TEF owns Camlachie, Speyside and Isla spirits cooperages.

Sales grew by 30% in 2014, and in the near term the company expects that sourcing oak for spirits barrels could pose more of a challenge than selling them.

NEW FOCUS FOR RADOUX

As part of a few management changes, Louis Zandyliet joined Tonnellerie Radoux as general manager around the start of the year. TEF acquired Radoux in 2012, and Zandyliet is now focused on building market share for the company, which operates cooperages in France and Santa Rosa, California.

Zandyliet, who worked for the barrel-leasing operation H&A Financing for six years before joining Radoux, said he's brought on new staff to boost Napa County sales and build sales of the Pronektar alternatives line.

He said the large harvests in California have helped boost sales, but so too has the growth of the wine industry overall. That growth also has been driven by wines aged with either new barrels or tank staves, and that's good for the cooperage



trade. He said that Radoux plans to make some upgrades at the California cooperage to boost production, and part of a new marketing strategy is to stress the company has a production facility in the North Coast.

"A lot of people still don't know that Radoux is local," he said of the cooperage, which has been in operation for 20 years and produces about 10,000 barrels per year. "It's very, very important and a big advantage. Being local, you can produce almost on demand."

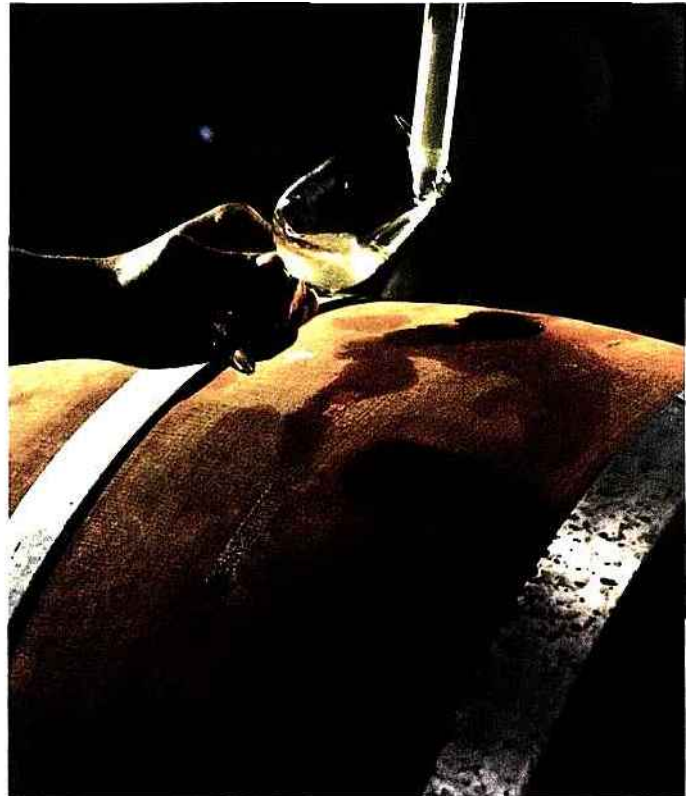
While acknowledging that he's still getting to know some of the trends that dictate barrel fashion, Zandvliet did say the intense demand for American oak stave wood for Bourbon barrels is still driving up prices and may cause some winemakers to rethink their barrel programs.

FRENCH AND AMERICAN OAK SUPPLY

The Fédération des Tonneliers de France released the findings of two studies it commissioned from the National Institute of Geographic and Forest Information and the National Forests Office on the future of France's oak supply for barrels. The IGN studied 25 French states that have traditionally been the source of oak for barrels.

The study found that the standing timber located mostly in the regions of Haute Saône, Nièvre, Marne and Allier comes to 15 million cubic meters. While the volume is substantial, the amount of haute futaie timber (the trees originally planted for naval ships) is declining, while tallis sous futaie (or coppice forest) with less tree density is increasing.

The ONF surveyed 47 forests covering 160,000 hectares (or nearly 400,000 acres) situated in the Loire region and interior of France. Most of the trees in these forests are of the sessile





Cooperage imports (into the US) have steadily increased over the years, and France has remained the dominant source of this product.

species. While the current amount of standing timber should provide a stable level of supply, the ONF also noted the amount of haute futaie trees are declining, and tallis sous futaie is on the increase.

The ONF also expects this trend to continue for the next 10 to 15 years. This trend could "aggravate the pressure on prices that has been quite noticeable over the last two years," according to the coopers' federation.

American oak is unlikely to get cheaper any time soon due to the demand for whisky barrels and because the supply of stave wood is unlikely to increase much despite that demand. Judd Johnson, editor of the trade publication Hardwood Market Report, said the American white oak logs used for stave wood are the "most premium quality" logs on the market, followed by those used for veneer and thick lumber.

In a typical stand of American hardwood forest, there's going to be a wide range of tree quality and tree species. About 80% of all hardwood forests in the United States are held by private owners and to make it worthwhile for them to harvest a stand, they need a market for all those trees.

"You have to have multiple markets working at a healthy level," said Johnson.

The demand for white oak for cooperage is strong, but barrels account for too small a market share to be a real driver in the US

hardwood industry. Johnson described the American oak supply situation as "static", explaining that the quantity of harvested timber is about equal to the amount growing.

The demand for staves, while strong, has not yet reached a point where it exceeds the number of barrel quality logs being harvested.

"That's a legitimate concern for the stave industry in particular, that it may be going the other way around," he said. "I do think there's been an increase in stave demand for the logs, but I don't think it's been enough to materially change the harvester-to-growth ratio. Obviously if it continues to grow, that rate could go the other way."

Due to the cost of harvesting equipment and the species mix in a typical American hardwood forest, Johnson said it would make little sense for a barrel supplier to buy tracks of forest to secure stave-quality logs.

"It's not economically feasible to buy timberland just to be able to get the logs to manufacture the product," he said. "The numbers just wouldn't make sense at all."

Bill Lappold, an economist with the US Forest Service Northern Research Station in Newtown Square, Pennsylvania, has authored numerous studies about the American hardwood market. In an article for the journal bioresources.com, he and co-author Matthew S. Bumgardner found that cooperage accounted for 4.5% of US hardwood exports in 2013.

The United Kingdom and the distilleries of Scotland continue to be top markets for US barrel exports.

Cooperage is the third-largest hardwood product imported to the US market, making up 9% of all hardwood imports.

France is the leading source of imported cooperage, with 86% of those imports fully assembled barrels.



"Cooperage imports have steadily increased over the years, and France has remained the dominant source of this product," Luppold wrote.

Matthew Meyer, winemaker and executive vice president of The Williamsburg Winery in Williamsburg, Virginia, uses barrels from a variety of coopers that produce oak barrels from France, the United States and Hungary.

He said he's yet to see the demand for American oak barrels drive up the cost of new barrels, but he has seen a huge increase in neutral, used barrels.

"I used to be able to buy used barrels at next to nothing," he

said. "Now those same barrels are over \$100 (A\$140) and are not easy to find."

Meyer said he tends to purchase more French oak, so he's less worried about American oak prices and happier about the drop in the value of the euro. He mentioned he's also begun to work with Tonnellerie Bossuet, which provides "superb" barrels at competitive prices.

"With that said, I would probably buy more barrels from France given the euro situation, even if I didn't have a new friend in the barrel-making business."

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