

# ■ The U.S. Cooperage Industry

## Minding Its “Chivs” and “Adzes”

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Wilson Forest Products, the winner of the Small Business Administration’s 2003 Small Business Exporter of the Year award, is helping wine producers worldwide to create the flavors that define their products. Have you ever encountered an adze or a chiv? Can you distinguish a *barrigue* from a *pièce*? Have you ever felt a *croze* along a stave? If these terms mean something to you, then you are probably familiar with the esoteric world of wood barrels and vats, or cooperage. These containers, once the mainstay of shipping and trade, gradually gave way to plastic and metal containers at the beginning of the 20th century. But they have retained their importance in a prestigious niche market throughout the world: wine and spirits distilling, where the wood used in the barrels that store these beverages—typically oak—imparts some of the elusive flavors that give today’s best wines and whiskies their distinctive tastes.

The market for the oak staves that are used in the manufacture of wood barrels is one that several U.S. producers have successfully exploited over the past several years, as world wine production has increased. This year, one of these producers—Wilson Forest

Products, of Jefferson, Pa.—has been recognized by the U.S. Small Business Administration, which named the company the 2003 Small Business Exporter of the Year.

### PROSPERING IN A GROWING WORLD MARKET

Founded in 1931, Wilson Forest Products is located in southwestern Pennsylvania, some 40 miles south of Pittsburgh. With 65 employees, the company’s plant includes a stave mill, a barrel plant, 30 acres of drying yards, and 55,000 square feet of manufacturing and warehouse space.

Since its inception, the company has specialized in the manufacture of high-end wood staves—the portion of the barrel that makes up the sides—and barrelheads. Each year, some 6 million feet of logs of American white oak are purchased from Wilson’s suppliers. The logs are quarter-sawn, then carefully cut into smaller pieces at the company’s plant. These staves are allowed to season, or age, for 18 to 24 months. Once the seasoning is complete, the wood is shipped to wineries or to the barrel makers who will build the barrels for them.

The company also sells completely assembled barrels through a subsidiary, Keystone Cooperage, which was established in 2001. This product

line came about largely in response to domestic demand for assembled barrels, according to company president Bill Wilson.

A crucial element in the production of both staves and barrels is the seasoning of the wood. This ageing process reduces the heavy tannic quality of the oak, while allowing other, subtler flavors to come forth. But there is a downside for the producer, since the seasoning process requires Wilson Forest Products to carry a sizeable inventory. According to Bill Wilson, at any given time there are 1 million feet of logs on the company’s property, and some 5 to 6 million feet of logs are processed each year.

### SELLING TO A WORLD MARKET

More than 90 percent of Wilson Forest Products’ sales are made to foreign buyers. Cooperage exporters like Wilson enjoyed a prosperous run in the 1990s. The expansion of wine production in so-called “New World” wine countries—such as Chile, South Africa, Australia, and New Zealand—during that decade gave U.S. companies a ready market for their wood and finished barrels. This was especially true in the case of wine producers who were seeking to go upmarket by replacing steel vats with oak. According to the U.S. Department of Agriculture’s Foreign Agricultural Service, the market for U.S. producers continues to



be good, though the export market for all kinds of cooperage products—including wood parts and finished barrels—has suffered a precipitous drop over the past two years, declining from \$104.7 million in 2000 to \$57.3 million in 2002.

By country, major buyers of oak staves and finished barrels in 2002 included Spain, Canada, the United Kingdom, and Australia. The end uses of these exports vary by country. According to economist William Bornsheim of the USDA, the exports to the United Kingdom have been almost exclusively for whiskey barrels, while those to countries like Spain are used in wine production.

#### EXPLOITING U.S. ADVANTAGES

U.S. producers of oak staves and wood barrels have a couple of competitive advantages in the world market. One is that American white oak has a tight grain, which makes it less porous and thus especially resistant to leakage. Another advantage is that the price of American oak is significantly lower than its main competitor, French oak. Barrels made from the latter typically cost more than twice what an American wood barrel would cost. Since oak barrels have only a limited reuse capacity in winemaking (they are typically replaced after three to five years, since the flavor-enhancing quality of the wood diminishes with each use), this cost advantage can be significant.

#### MEETING THE CHALLENGES OF EXPORT FINANCE

Curing and storing a large inventory of oak staves presents a formidable financial challenge. When Wilson Forest Products' larger accounts insisted on paying only upon shipment, the company faced a dilemma: finance a large inventory or lose clients. In early 2002, with the assistance of PNC Bank of Greenburg, Pa., the company was able to obtain a line of credit that came with a guarantee from the Export-Import Bank of the United States.

Under the Ex-Im Bank's working capital guarantee program (see related articles in the April 2003 and July 2003 issues of *Export America*), the bank will guarantee 90 percent of a commercial lender's loans that are used to meet the needs of pre-inventory build-up and accounts receivable. According to John Malone of PNC Bank, Wilson's lender, the company "would probably have had a difficult time" without the Ex-Im Bank guarantee. "They were better able to retain customers with the Ex-Im's assistance," says Malone, "and the approval process took only six to eight weeks."

#### FACING THE CHALLENGES AHEAD

What's on the horizon for oak stave and barrel manufacturers like Wilson Forest Products? According to Bill Wilson, his company and other suppliers to the wine industry are facing "a complete rearrangement of winery ownership around the world." Large conglomerates have been buying family-owned, medium-sized wineries that have good profit margins. "We now have to do business the way they want to do business," says Wilson.

Financing also remains a big challenge for an exporter like Wilson Forest Products. "Exporters need to have bankers who understand their business available to provide financing for plant and equipment," says Wilson. "Otherwise, we are going to get beaten in the world market." ■

## HONORING SMALL BUSINESS ACHIEVERS

The Small Business Exporter of the Year award is one of several awards that are being presented this year by the U.S. Small Business Administration to celebrate the dedication and success of small businesses across America. Other award categories include the Phoenix Award (for disaster recovery), the Small Business Advocate Award, the Special Achievement Award, and a Small Business Person of the Year from each of the states and territories. All of the winners in these categories—as well as seven "advocacy" awards presented by the SBA Office of Advocacy—will be invited to Washington, D.C., during the National Entrepreneurial Conference and Expo, where they will be honored at a number of events. The conference will be held September 17–19, in order to coincide with the 50th anniversary of the establishment of the SBA in 1953.

The selection of the winners is based not only on the financial success of the business but also on employee growth, innovativeness, and community involvement. For more information about the award process and the National Entrepreneurial Conference and Expo, visit [www.sba.gov/50](http://www.sba.gov/50).

