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Transparency of labor conditions for seasonal workers in the California wine industry

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The topic of this paper is focused on the issue of transparency in subcontracting migrant workers during the harvesting of grapes for the production of wine by wineries and vineyards in the Californian wine industry. The paper examines issues that subcontracted laborers face within the industry, consumer expectations for transparency, sustainable certification, and the effect of the labor environment on a vineyard or wineries business model. The paper finds that the California wine industry can increase transparency by developing and adapting their business models in response to the changing labor environment. The change and adaptation is likely to take different forms, such as implementing year round employment structures, increased amounts of mechanical harvesting, closer oversight and integration of farm labor contractors, and by adopting rigorous certification programs, such as SIP Certified.
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1 Introduction

According to the International Labour Organization (ILO), the U.N. agency that promotes social justice and international human and labor right, nearly 21 million people are victims of forced labor around the world. It is estimated that forced labor in the private sector creates 150 billion USD worth in illegal profits every year. The ILO identifies the sectors that are of the most risk to be: domestic work, agriculture, construction, manufacturing and entertainment; with migrant workers and indigenous people in particular being the most vulnerable to exploitation in the form of forced labor (ILO 2016). Global supply chains have come under increasing scrutiny in recent times. Exposure of forced labor incidents occurring in downstream production operations, often in developing countries, has galvanized consumers, governments, investors and media into expecting increasingly transparent and meticulously audited supply chain operations. It is common that the origins of goods are spread across the globe, resulting in long and often complex supply chains where raw materials and semi-finished products may consecutively pass through many different companies and handlers. Under such a situation it is increasingly problematic to determine the working conditions of all the people who contributed labor in the supply chain. This leads to the problem in which companies that do not have active and flexible risk mitigation processes could unknowingly be contributing to modern slavery in the form of forced labor through direct suppliers and subsequent sub-contractors operating beyond company visibility (Know the Chain 2016).

The topic of this report will be focused on the issue of transparency in subcontracting migrant workers during the harvesting of grapes for the production of wine by wineries and vineyards in the Californian wine industry. With the intent of identifying risks of unintentionally employing workers that may be subject to conditions of forced labor or other unethical labor practices and the potential negative consumer response in such an event.

One of the driving influences of forced labor in the supply chain is the consumption of goods and services of an increasingly globalized economy. This consumption perpetuates forced labor, by fueling demand. Unfortunately, in response to said demand there will be those that would exploit forced labor, in an attempt to reduce operating cost, and in order to generate greater profits. Therefore, there is an implied moral obligation on the part of consumers to insure that the cost of consumption does not result in the sub-
jugation of those unable to protect themselves. Furthermore, the wide spread scale of forced labor directly indicates that people are being treated as commodities, which is a clear and present threat to human rights and an affront to social justice. There are of course legal standards to adhere to, such as the 2012 California Transparency in Supply Chains Act, requiring companies to release their efforts to eliminate forced labor within their supplier chains (U.S.D.L 2016). Yet beyond the moral and legal arguments for the relevancy of forced labor as the subject of this paper there is also the perspective of forced labor as a business risk. Forced labor practices by suppliers endanger the performance of a company and unnerve the confidence of shareholders and stakeholders. Businesses with accountable and transparent supply chain practices protect vulnerable workers, safeguard against risk, preserve customer loyalty, and potentially attract investors. Companies that do not mitigate potential forced labor incidences in their supply chains run the risk of ruining the perception of their brand and ultimately confront a backlash from customers (Know the Chain 2016).

2 Research Method

As seen in the above introduction there are many issues with supply chain transparency and high levels of exploitative labor associated with agriculture, migrant and undocumented work forces. These issues lead the author to propose the following question that this report intends to answer:

How can and why should the Californian wine industry increase the transparency of labor conditions of subcontracted seasonal harvest workers?

The method that will be used to collect data in order to answer the above question will be literature based. This will take the form of an extended systematic approach to identifying, evaluating and integrating the findings of relevant information related to the above question. The literature review will be focused using the above thesis question as the defined boundaries and scope for the collection of relevant information. The objective will be to analyze the following areas.

- The current state of affairs in regards to transparency of labor conditions for seasonal harvest workers in the California wine industry.
• Identifying customer awareness trends for transparent supply chains in the Californian wine industry.

• The effects of sustainable agriculture in the California wine industry with a focus on practices concerned with subcontracting harvest workers.

• Assess the risk factors of hiring seasonal laborers for the purpose of grape harvesting

By analyzing these areas the intent is to ultimately build a case that will answer the previously proposed thesis question.

A literature-based method is deemed the most applicable approach of accomplishing such an analysis. Much of the needed information, theoretical concepts, and various applicable researches already exist in the form of industry journals, trade journals, articles, corporate researches, social studies, etc. Therefore, it seems most appropriate to conduct a review that will collect, analysis and synthesis information from said sources.

This research presented its own limitation and challenges. Given that many wineries and vineyards in California are relatively small and medium size operations they, obviously, do not disclose operational details in a systematic open manner. For instance, if one wanted to know about how a randomly selected vineyard in Paso Robles California selects and vets labor contractors. One cannot find that information in the public domain. One would have to contact the vineyard directly and hope they are willing to share such information. In lieu of systematically contacting and interviewing vineyards and wineries a continent away this research had to rely and studies that have already been conducted, such as studies by the California Institute for Rural Studies. Which, in-of-itself, can offer additional challenges. Sometimes these studies can be over a decade old or have such a broad scope that it can be challenging to isolate specific data and apply widely ranging conclusions.

Nevertheless, even with such challenges that dictate how the research is conducted, the author feels that the research question and proposed method remain valid and achievable. The author also has a personal attachment to the research, in that the author spent some years as an assistant winemaker in a private vineyard and winery in California. This work experience exposed him to the subject that there was potential for hidden labor abuses coupled to a product that consumers are willing to pay a premium for. Giving credence as to why this research is important and hopefully impactful.
3 The California Wine Industry

This chapter will provide a general overview of the wine industry in California. The industry may not be one that is inherently familiar to the potential readers of this paper. Often the perception of California wine and its industry is a perception that is influenced by Hollywood and a large amount of industry branding. Therefore, this chapter will try to highlight useful information that will give a bit of background context for the rest of the paper.

California’s wine industry can trace its origins back to the first European settlers, the Spanish Franciscan Missionaries. The Franciscans established their first mission settlement, Mission San Diego de Alcalá (modern day San Diego), in 1769. When the mission was founded vineyards were also planted in order to produce wine for communion (UC Davis Library, 2016:1). Over the centuries, as European immigration slowly grew, wine was mainly produced for local consumption. In the 1970’s the Californian wine industry started to grow as demand started to increase. The increase in the demand for Californian wines at this time is largely attributed to what is called the Judgment of Paris. The Judgment of Paris was a wine competition held in France in 1976 at which California wines were ranked the highest in all categories. This event was covered by Time Magazine and is said to have play a significant role in publicizing California as region that produces quality wine (UC Davis Library, 2016:4).

As of 2016 California was the fourth largest wine producer in the world and constituted 85 percent of U.S. wine production. The industry employs an estimated 786,000 people. As of 2017 California has 4,700 wineries, which attract about 23.6 million tourists each year. Additionally, as of 2016 California also has 5,900 wine grape growers (Wine Institute, 2016:1-2). Wine grape growers (or just growers), are vineyards that do not produce wine, they grow grapes and sale them to wineries who in turn produce wine from the grapes. Wineries also have their own vineyards, often referred to as Estate Vines, but often buy grapes from wine grape growers when the wineries themselves do not produce the necessary quantities or varieties. As of 2016 there were 602,000 acres (243621 hectares) of wine grapes planted in California (Wine Institute, 2016:1-2).

In 2016 the volume of California wine sales in the U.S. market was 238 million cases, which has a retail value of approximately 34.1 billion USD. The U.S. market is the main consumer of California wine with the European Union as the main export recipient. The baby boomer generation are traditionally considered the main consumer demographic.
but in recent years millennials have been contributing to the growths in California wine consumption (Wine Institute, 2017:2).

4 Transparency of Labor Conditions

This chapter will introduce the issue of labor condition transparency for seasonal workers in the California wine industry, with a particular focus on labor contractors and the general role that they have in providing large flexible short term labor forces. Transparency is a particularly important subject for this paper, in that less transparency, or one could say less information, has the potential to facilitate repercussions against vineyards, wineries and brands that do not recognize that consumers care about drinking wine that is produced under fair conditions.

4.1 California Transparency in Supply Chains Act

The California Transparency in Supply Chains Act (CTSCA) requires that companies report on their specific actions to eradicate slavery and human trafficking in their supply chains. The main objective of CTSCA is to ensure companies reveal information that enables consumers to understand which companies manage their supply chains responsibly (CDJ 2015: 2). CTSCA requires a company to disclose on its website its initiatives to eradicate slavery and human trafficking from its direct supply chain. A company must release information that discloses the extent to which it:

- “Engages in verification of product supply chains to evaluate and address risks of human trafficking and slavery;
- Conducts audits of suppliers;
- Requires direct supplies to certify that materials incorporated into the product comply with the laws regarding slavery and human trafficking of the countries in which they are doing business;
- Maintains accountability standards and procedures for employees or contractors that fail to meet company standards regarding slavery and human trafficking; and
- Provides employees and management training on slavery and human trafficking.”

(CDJ 2015: 3)
CTSCA aims to bring a degree of transparency to consumers, however, the law only effects mid-size and large companies that have worldwide annual revenues of 100 million USD or more. Given that many wineries and vineyards have annual revenues under $100 million this mean that many wineries and vineyards in California are not required to comply with CTSCA. And therefore, the transparency of their supply chains is limited.

This is particularly significant because California vineyards and wineries rely on subcontractors to provide labor for pruning, maintenance, and harvesting needs (Napa Valley Grapegrowers, 2016: 1). These contractors are called Farm Labor Contractors (FLC) and are strongly connected to the exploitation of migrant workers (Goldstein and Howe, 2010:2).

4.2 Farm Labor Contractors

FLC offer farmers and growers an able and flexible workforce, and at the same time the ability to outsource labor and its associated risks. FLCs manage the labor requirements of farmers. Taking care of wages, hours worked, crops harvested by whom and when, and all labor related legal responsibilities such as immigration status and workers’ compensation. Such contractors are common throughout California. Strochlic and Hamerschlag (2005) suggest that at least half the farmers, in their Californian sample, contract with FLCs when there is a need for large work crews for a short period.

Contracting in agribusiness is seen as an essential service. Contractors give farmers an easy way to adapt the size of their work force, and by extension, their overhead costs, according to the season. The farmers can expand their worker force for the harvest and decrease it after the harvest is completed. Outsourcing is a common strategy for businesses in general, in this case it allows farmers to focus of their “core business”, namely growing and marketing their crops while allowing FLCs to handle labor and associated legal issues which could be considered outside of the farmers’ area of expertise or “core business” (McMillan 2012).

McMillan (2012) tells how FLC’s give farmers a way to outsource an expensive part of their business, which results in cost savings and the creation of a buffer between the
farmer’s brand and the labor conditions that prevail in the production of a product. Using contracted labor essentially shifts the responsibility from the farmer to the contractor. If there are any discrepancies in wages or other labor abuses the farmer and his brand can essentially shift the focus and blame on to the contractor.

In 1965 Cesar Chavez and the National Farm Workers Association (NFWA), which a year later would evolve into the United Farm Worker (UFW) union, organized the famous Delano grape strike. Which was a workers strike against Californian grape growers with the support of a national consumer boycott of California table grapes. The grape strike gained national support for the farmworkers and their cause. Bringing farmworker labor conditions and abuses into the national conversation. The strike ended five years later with a bargaining agreement between the owners and workers and was followed by other UFW successes (PBS 2004). With the UFW's achievements in compelling Californian growers to embrace union contracts with its labor force the use of FLCs became more common, growing in practice in the last few decades. The UFW successes in gaining contract writes for farm laborers followed a conventional form of employment, where workers are directly employed by the company or farm for whom the crops are picked. With the expansion of unionization in the agricultural labor force and the subsequent increase in wages, FLCs have become an ever more appealing alternative for farmers and growers with an interest in keeping labor costs low and the avoidance of legal responsibilities. Farms and growers can make more profit by shifting labor obligations to contractors therefore circumventing union contracts, administrative costs, and or immigration agents and issues. The usage of FLCs can be seen as a growing trend since the 1980s, with over half of Californian farms relying on FLCs (McMillan 2012).

4.2.1 FLCs and Abuse

Goldstein and Howe (2010), in a joint report for Farmworkers justice and Oxfam America expound on the conditions that allow abuses to flourish in the agricultural industry of the United States. Citing the increased use of FLC in recruiting, transporting, housing and supervising workers which increasingly concentrates power in the hands of FLC supervisors leading to many cases of underreporting hours worked, wages earned, doctoring reports, human trafficking, extortion and sexual harassment. While farmers and growers that employ these contractors assume a position of ignorance and reject any responsibility.
The report highlights a case in which labor contractors in Colorado smuggled five farmworkers across the U.S. Mexican border and kept them in virtual debt bondage. The contractors were found to have been subtracting smuggling fees, rent, monthly transportation, and cleaning fees from the workers’ paychecks. While using the threat of violence and fear to ensure compliance and establish control. The contractors had been hired to supply labor on a farm supplying the food retailer Whole Foods which brands itself as ‘America’s Healthies Grocery Store’ (Whole Foods Market 2017) and actively communicates that its product are responsibly grown (Cardona and Vaughan 2009). This case underlines the reality that there is a disconnect between consumers, or even retailers, and the labor conditions under which products are produced, even in consumers own communities.

Goldstein and Howe’s (2010) report critiques The Department of Labor’s H-2A agricultural guest worker program, citing the financial burdens that guest workers must take on for fees and visas that when they arrive in the United States they are in debt and vulnerable to abuse. Farmworkers in the program are at the mercy of their employer, often a contractor who holds the power of employment and visa status, and if the employer turns out to be dishonest the farmworker may be too desperate for the income to dispute any unfair conduct or practices, therefore staying in a less than ideal or legal employment situation or in some cases the worker will leave to take a job as an undocumented illegal worker. Often the workers have families in their home countries that are dependent on them. Thus leading to a situation in which the workers feel that there is too much risk complaining when their employment is at stake.

Given the wide use of FLCs and the less then reputable and transparent practices that they employee, there lies the potential for blowback against vineyards, wineries and brands that do not recognize that consumers care about drinking wine that is produced under human conditions.

5 Consumer Awareness

This chapter will establish that there is a trend, in which, there is growing customer awareness that grocery purchases have a social impact. In other words, the desire on the part of consumers to know where their food has come from and under what conditions it was produced.
5.1  The existence of the trend

In order to establish the existence of this trend the actions of major USA based grocery stores were examined. These actions give credence to the assumption that the grocery stores under question are indeed responding to consumer demand and expectation. It is argued that if there were no demand or interest on the part of the consumer then there would be no need for action and communication of action on the part of the grocery stores in question.

5.1.1  Whole Foods

Since 2012 Whole Foods grocery store has established and implemented its ‘whole trade guarantee’ certification partnership program which requires that products sold to Whole Foods customers provide more monetary compensation to producers, ensure better wages and working conditions for workers, among other quality related issues. “Our commitment to human health begins with the workers who grow and harvest the crops. Responsibly Grown rewards farming practices that create better working conditions. Examples include reducing pesticide risks, providing protective equipment and participating in third-party auditing programs to promote safe conditions and fair compensation.” (Whole Foods CSR report, 2016)

5.1.2  Trader Joe’s

Since 2010, Trader Joe’s grocery store has been working to remove any produce from its numerous locations that have not been harvested in a sustainable way. In late 2012, Trader Joe’s completed this initiative at its grocery stores and is now stocking its shelves with ecologically friendly and sustainable food (Brown 2013).

In February 2012 Trader Joe’s signed the Fair Food Agreement with the Coalition of Immokalee Workers (CIW), a labor rights group consisting mainly of Latino, Haitian, and Mayan Indian workers employed in low-wage migrant jobs in Florida. The Fair Food Agreement address allegations of mistreatment of migrant tomato pickers (Ram 2012). Companies that sign the agreement commit to pay one cent ($0.01) more per pound of tomatoes harvested by the workers, which comes out to be the difference of
$50 and $80 a day for a worker. The agreement also stipulates that growers who sell to Trader Joe’s accept a code of conduct that prohibits slavery or sexual harassment in the fields, assures accurate time keeping, establishes a grievance procedure, requires first-aid training for workers, and provides tents to shade workers during extreme heat conditions. Complying with the agreement is estimated to cost Trader Joe’s (a billion-dollar company) about $30,000 a year. In the last years many foremost corporations, including the nation’s largest fast food chains and institutional food service companies, have signed the CIW’s Fair Food Agreement. In 2010 the Florida Tomato Growers Exchange, the coop that grows almost all commercial tomatoes in Florida, also became a signatory. This is notable because Whole Foods and Trader Joe’s are the only grocery chains that have signed and are participating in a Fair Food Agreement (Estabrook 2011).

5.1.3 Safeway

Since 2014 Safeway has been communicating actively about its social impact through its CSR reports. Particularly about buying local and organic, their suppliers of palm oil, and seafood sustainability. Safeway has been taking a special interest in human trafficking training and awareness for their suppliers and employees since 2013, Safeway sees human trafficking in their supply chain as direct risk and have taken active measures to not just combat it but to communicate to customers and stokeholds about their efforts.

The above actions of these major grocery stores suggest that they are acting in response to consumer behavior. This behavior can be seen as a trend. The following section will examine this trend in order to better understand the trend and its implications.

5.2 Understanding the trend

5.2.1 Which deep consumer needs and desires does this trend address?
The needs and desires that are underlining this trend are that the consumer wants to know what the social impact of buying a particular product is. For instance, social impact can refer to the following:

- Local Sourcing. The consumer wants to know if some particular produce comes from a local farm, because the consumer wants to buy local produce thereby directly supporting the local economy.

- Animal Welfare. The consumer wants to know under what circumstances were food animals raised. The consumer is less inclined to purchase animal products that are linked to inhuman animal husbandry practices. For example, free-range chicken is more desirable to the consumer than caged chicken. This stems from the belief that free-range is more human than caged.

- Fair treatment of employees. The consumer wants to know that the people who produced a particular item under purchase not being exploited or taking advantage of. This stems from the belief that purchasing an item that has been produced by exploited or mistreated employee is equivalent to being complicit in their exploitation and mistreatment.

(Ringquist et al 2016)

5.2.2 What new consumer expectations does the above create?

Consumers expect increased transparency about the food they eat. Which means the consumer wants access to relevant information, on demand and in a clear comprehensive format (Ringquist et al 2016).

5.2.3 How does this trend satisfy the consumer needs and expectations?

Increased transparency, on the part of agricultural producers and retailers, supports a sense of trust with consumers. Ringquist et al (2016) says that transparency is especially important in the current environment, meaning that consumers are considerably concerned that producers would place profit opportunities before transparency and are therefore increasingly distrustful of large food companies.

5.2.4 What are the origins of this trend?
One explanation for the origins of this trend can be seen in the sustainable agriculture movement. Raffensperger and Myers (2004) attest that sustainable agriculture was born as a concern for the health and wellbeing of farmers, farming communities, and the public. Furthermore, sustainable agriculture can be seen as a response and or an alternative to the industrialization of agriculture. As industrialized agriculture became more prevalent agriculturalists began to question the central principles upon which it was grounded and proposed alternatives. Kirschenmann (2004) puts these alternatives into four categories - Humus Farming, Complex Farming System, Biodynamic and Organic – which together constitute the origins of what has become known as sustainable agriculture.

‘Humus farming’\(^1\) emphasizes the concept that agriculture could not sustain its productivity without maintaining the humus content of the soil. A notable work in this movement is ‘An Agriculture Testament’ (1943) by Sir Albert Howard which is considered a cornerstone of humus farming literary works. The book deals with the importance of soil fertility in agriculture, developing compost and promotes natural ecosystem processes opposed to man-made chemical inputs.

‘Complex farming systems’ developed at the beginning of the twentieth century. Kirschenmann (2004) states that it occurred as a result of Franklin Hiram King’s contesting the oversimplification of industrial agriculture practices and processes in his books ‘Farmers of Forty Centuries’ (1911) and ‘Soil Management’ (1916). In his book ‘Farmers of Forty Centuries’ King described his investigations into farming practices and agricultural techniques during a nine-month tour of Asia in 1909.

‘Biodynamic’ was born out of the work of Rudolph Steiner’s ‘Agricultural Lectures’ (1924) that were a series of lectures. Steiner asserted that productive sustainability in agriculture had to be viewed and understood in a holistically context. That a farmer has to be concerned with more than just soil health, that the farm is apart of an ecosystem and there for much more dynamic then simply treating it as a factory whereby one adds inputs and extracts outputs.

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\(^1\) Humus refers to the “nonliving, finely divided organic matter in soil, derived from microbial decomposition of plant and animal substances” (Encyclopedia Britannica 2017)
Kirschenmann (2004) attributes the philosophy of ‘organic agriculture’ as a partial reaction to industrialized agriculture. He cites Northburne’s ‘Look to the Land’ (1940) as being the first to apply the term “organic” to label the farm as an organism where the parts of the farm are arranged into an operational whole, not unlike Steiner’s own assertions of biodynamic ecosystems.

Rachel Carson’s ‘Silent Spring’ (1962) discusses the effects that pesticides have on human and wildlife health. It emphasized the unintended consequences that result from industrial agricultural practices. The work is cited as the cornerstone of increased amounts of awareness, in the decades following its publication, to the environmental impact of mass industrial farming (Kirschenmann 2004).

Wes Jackson’s ‘New Roots of Agriculture’ (1980) suggests a shift away from the cultivation of annual grains and toward, what he calls a “perennial polyculture” (the growth of self-perpetuating grains in an uncultivated prairie setting). With the rate at which annual monocultures deplete the ecological capacity, Jackson found that it would be impossible to continue with industrial agricultural practices indefinitely. Jackson suggests that this move would save, and potentially restore, the soil and bring back, what he envisioned to be, a fundamental part of a more satisfying rural life.

Over time these movements and work influence and evolved to what has come to be known as sustainable agriculture, revolving around self-perpetuating ecosystems that regenerate soil humus without the aid of industrial manufactured inputs. Kirschenmann (2004) states that as sustainable agriculture practices have grown in influence and dissemination through the United States, namely with government actions\(^2\) and university research programs\(^3\), and correspondingly that consumer demand for sustainable food and interest in what sustainable farming is has also grown. Which provides the link for understanding the trend of consumers’ emergent interest in understanding where food comes from and under what conditions it is produced. The interest in conditions under which food is produced extends beyond the realm purely concerned with soil, erosion and pesticides and into a broader realm of concern, namely community impact.

\(^2\) 1990 Organic Foods Production Act, 2002 Farm Bill
\(^3\) In 1980s and 1990s many universities established centers for researching and studying sustainable agriculture. In 2000 Iowa State University created the first U.S. master’s program in sustainable agriculture (Kirschenmann 2004).
It can be seen, from the above, that this trend has been growing and evolving over time and that it is a legitimate movement that should be taken seriously.

5.3 The trends implications for wineries and vineyards

The Center for Food Integrity conducted a study in 2015 that showed consumers want food companies and producers to be transparent about their business practices (CFI 2015). Authentic transparency can transform a relationship that is tarnished by suspicion, as is the case in CIW’s Fair Food Agreement with the Florida Tomato Growers Exchange. Transparency reduces fear of the unknown and creates a platform for building trust. CFI’s 2015 consumer trust research substantiates that practitioners in the food industry increase transparency; they will also increase consumer trust. The CFI study surveyed 2,000 people, asking what consumers want and expect food producers to be transparent about. The survey was focused specifically about the following policies, practices, performance or verification. Consumers replied that transparency in a company’s practices had the most impact when it came to developing trust. Food companies and producers that consider this trend to not be applicable to them, take on a considerable amount of risk with alienating consumers. Arnot (2015) states that the survey is indicative of a new state of affairs in which consumers progressively expect their preferred brands to assure more than quality and safety. Consumers expect the supply chain to be transparent about everything from production practices to ingredients (Arnot 2015).

This holds true for grape producers and the wine industry as a whole. There does not seem to be any compelling reason why consumer expectations for transparency in supply chain activities would not extend to Californian produced wines. Research conducted by market research firm Wine Opinions highlights that the demand for sustainably produced wine has increased over the past five to ten years and there is strong indications that this demand will continue to grow (Wine Institute 2017). Which means that FLC’s and their relationship with grape farmers will come under increased scrutiny.
6 Sustainability in the Californian Wine Industry

In the previous chapter it was established that there is a growing trend that consumers desire to know where their food has come from and under what conditions it was produced, or in the case under what condition wine has been produced. According to Puckette (2016) the worldwide certification for wines and vineyards are numerous, and there are several major certifications in California alone as well as numerous minor certifications. The following section will attempt to make sense of sustainability in the Californian wine industry by looking at the most common wine certificates related to sustainability, what these certificates mean, and if or how they address transparency in regards to contracted labor.

The Wine Institute (2016) reports that in 2015, 25% of California acreage and 64% of the California case production were certified by one or more of the following major certifying organizations: Certified California Sustainable Winegrowing, Lodi Rules, Napa Green and or Sustainability in Practice. These organizations account for 1,511 certified vineyards, which comprises 184,199 acres (74,543 hectares). These organizations also account for 131 certified wineries, which produce 172.9 million wine cases. Furthermore, many vineyards and wineries are certified Biodynamic, California Green Business Program, Fish Friendly Farming or Organic. Figure 1 illustrates the topical coverage of wine and vineyard certification. This section will, for the sake of clarity, briefly explain each category but the main focus will be limited to the category of Sustainable.

The category of “Organic” is primarily concerned with the purity of grapes and wine, practically meaning that there are no synthetic ingredients. In reality this means that there are few certified Organic wines in California because sulfur dioxide is the most commonly used and the best inoculant in the wine making process and is a synthetic ingredient add by wine makers. Organic certifications focus on agricultural and produc-
tion processes and do not focus much on business or social equity practices (Puckette 2016).

The category of “Biodynamic” is primarily concerned with holistic agricultural health of the grape growing process. The focus is in preserving soil health. Biodynamic wines also apply what is called “low-interventionist winemaking” to insure wines become a reflection of biodynamic vineyard practices and values. Biodynamic practices are not considered to be based completely on hard science, however, practitioners attest that the practice produces consistent results of improved soil quality and vineyard health. Biodynamic certifications focus on agricultural practices and little in the way of business or social equity (Puckette 2016).

As previously mentioned, this section will focus mainly on Sustainable certifications in the industry. To this end the following certifications will be examined.

• Certified California Sustainable Winegrowing (CCSW)
• SIP Certified (Sustainability in Practice)
• Certified Green (the Lodi Rules)

6.1 Certified California Sustainable Winegrowing (CCSW)

The Certified California Sustainable Winegrowing (CCSW), also known as CERTIFIED SUSTAINABLE, is a third-party certification program developed by the California Sustainable Winegrowing Alliance (CSWA). The goal of the CCSW certification is to increase the sustainability of the California wine industry by promoting the adoption of sustainable practices. In practical terms the CSWA envisions that the certification will enable the industry as a whole to better “enhance transparency, encourage statewide participation and advance the entire California wine industry toward best practices in environmental stewardship, conservation of natural resources and socially equitable business practices” (CSWA 2017).
6.1.1 Certification requirements

The certification requires that wine or winery displaying the CERTIFIED SUSTAINABLE logo, as seen in Figure 2, must be made with at least 85% of grapes sourced from a certified vineyard. The following requirement must be met by a winery or vineyard that displays the logo; a third-party auditor on an annual basis verifies the requirements.

- Annual Self-Assessment: The auditors will verify that the self-assessment accurately reflects the actual practices during the annual audit.
- Minimum Score Threshold: The practices and processes of the winery or vineyard are scored on a range from Category 1 to 4, 85% of the total scores must be Category 2 or higher.
- Prerequisite Practices: This is a list of pre-existing sustainable practices that wineries and vineyards already have implemented into their operations.
- Sustainability Performance Metrics for Water, Energy, Nitrogen and GHGs: Vineyards have the obligation to measure water use and nitrogen applied annually. Wineries have the obligation to measure water use, energy use, and greenhouse gas emissions (GHGs) annually.
- Continuous Improvement: Auditors verify methodology for detecting and prioritizing areas for improvement and the implementation of improvements.
- Annual 3rd Party Audit: An annual audit each year that is reviewed by the Certification Review Panel, before the annual certification is awarded.
- Chain of Custody Audits: This audit provides assurance regarding the integrity of the winery or vineyard’s supply chain (CSWA 2017).

**Table 1 the extent of CERTIFIED SUSTAINABLE in the California Wine industry (CSWA 2017)**

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<tbody>
<tr>
<td>Total Vineyards Certified</td>
<td>666</td>
</tr>
<tr>
<td>Total Acres of Certified Sustainable Vineyards</td>
<td>113,219.79 acres (18.41% total California acres)</td>
</tr>
<tr>
<td>Total Wineries Certified</td>
<td>110</td>
</tr>
<tr>
<td>Total Wine Cases Produced by CERTIFIED SUSTAINABLE Wineries</td>
<td>174.81 Million cases (64.98% of the 269 Million cases produced in California)</td>
</tr>
</tbody>
</table>
6.1.2 Certifications coverage of FLCs and labor relations

The CCSW guidebook details the coverage of sustainable practices required to obtain the certification, section 14 of the guidebook, as seen in Figure 3, deals with Human Resources. The current CCSW application goes to great lengths and details about measuring and improving employee relations. It is wholly a broadly ranging CSR approach, as it goes above and beyond what is required by the Federal and California State Laws. However, nowhere in the CCSW guidebook does it address the relations with subcontracted labor, such as those provided by FLC (CCSW Guidebook, 2017: 44). The certification seems to be only concerned with direct employees of a vineyard or winery. This implies that a vineyard or winery could be certified as CERTIFIED SUSTAINABLE without having to evaluate, examine or change any of its practices in regards to using FLC labor.

<table>
<thead>
<tr>
<th>CSWA Criteria Number</th>
<th>CSWA Sustainability Criteria Name</th>
<th>Vineyard (V) or Winery (W) Criteria</th>
<th>Must Answer? (Yes/No)</th>
<th>Audit Priority (High/Low)</th>
<th>Certification Pre-Requisite &amp; Minimum Self-Assessment Score</th>
<th>Timeframe</th>
<th>Additional Explanation Required?</th>
</tr>
</thead>
<tbody>
<tr>
<td>13-14</td>
<td>Vehicles</td>
<td>V &amp; W</td>
<td>Yes</td>
<td>High</td>
<td>Cat 1</td>
<td>Current Assessment Season</td>
<td>None</td>
</tr>
<tr>
<td>13-15</td>
<td>Vineyard Supplies</td>
<td>V</td>
<td>Yes</td>
<td>High</td>
<td>Cat 1</td>
<td>Current Assessment Season</td>
<td>None</td>
</tr>
<tr>
<td>14-1</td>
<td>Sustainability Mission, Vision and Values</td>
<td>V &amp; W</td>
<td>Yes</td>
<td>High</td>
<td>Action plan required if Cat 1, but no timeline for Cat 2 or higher</td>
<td>None</td>
<td>None</td>
</tr>
<tr>
<td>14-2</td>
<td>Planning, Monitoring, Goals, and Results</td>
<td>V &amp; W</td>
<td>Yes</td>
<td>High</td>
<td>Cat 1</td>
<td>Current Assessment Season</td>
<td>None</td>
</tr>
<tr>
<td>14-3</td>
<td>Staffing and Recruiting Strategy</td>
<td>V &amp; W</td>
<td>Yes</td>
<td>High</td>
<td>Cat 1</td>
<td>Current Assessment Season</td>
<td>None</td>
</tr>
<tr>
<td>14-4</td>
<td>Standard Interviewing Format</td>
<td>V &amp; W</td>
<td>Yes</td>
<td>High</td>
<td>Cat 1</td>
<td>Current Assessment Season</td>
<td>None</td>
</tr>
<tr>
<td>14-5</td>
<td>Standard Job Descriptions</td>
<td>V &amp; W</td>
<td>Yes</td>
<td>High</td>
<td>Cat 1</td>
<td>Current Assessment Season</td>
<td>None</td>
</tr>
<tr>
<td>14-6</td>
<td>Employee Orientation</td>
<td>V &amp; W</td>
<td>Yes</td>
<td>High</td>
<td>Cat 1</td>
<td>Current Assessment Season</td>
<td>None</td>
</tr>
<tr>
<td>14-7</td>
<td>Safety Training</td>
<td>V &amp; W</td>
<td>Yes</td>
<td>High</td>
<td>Cat 1</td>
<td>Current Assessment Season</td>
<td>None</td>
</tr>
<tr>
<td>14-8</td>
<td>Professional Training and Development</td>
<td>V &amp; W</td>
<td>Yes</td>
<td>High</td>
<td>Cat 1</td>
<td>Current Assessment Season</td>
<td>None</td>
</tr>
<tr>
<td>14-9</td>
<td>Staying Informed with Industry</td>
<td>V &amp; W</td>
<td>Yes</td>
<td>High</td>
<td>Cat 1</td>
<td>Current Assessment Season</td>
<td>None</td>
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<tr>
<td>14-10</td>
<td>Industry Participation</td>
<td>V &amp; W</td>
<td>Yes</td>
<td>High</td>
<td>Cat 1</td>
<td>Current Assessment Season</td>
<td>None</td>
</tr>
<tr>
<td>14-11</td>
<td>Teambuilding for Sustainability</td>
<td>V &amp; W</td>
<td>Yes</td>
<td>High</td>
<td>Cat 1</td>
<td>Current Assessment Season</td>
<td>None</td>
</tr>
<tr>
<td>14-12</td>
<td>Employee Handbook</td>
<td>V &amp; W</td>
<td>Yes</td>
<td>High</td>
<td>Cat 1</td>
<td>Current Assessment Season</td>
<td>None</td>
</tr>
<tr>
<td>14-13</td>
<td>Employee Meetings</td>
<td>V &amp; W</td>
<td>Yes</td>
<td>High</td>
<td>Cat 1</td>
<td>Current Assessment Season</td>
<td>None</td>
</tr>
<tr>
<td>14-14</td>
<td>Sustainability in Employee Performance, Grievance,</td>
<td>V &amp; W</td>
<td>Yes</td>
<td>High</td>
<td>Cat 1</td>
<td>Current Assessment Season</td>
<td>None</td>
</tr>
<tr>
<td></td>
<td>Satisfaction and Recognition Practices</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>14-15</td>
<td>Salary Survey Participation</td>
<td>V &amp; W</td>
<td>Yes</td>
<td>High</td>
<td>Cat 1</td>
<td>Current Assessment Season</td>
<td>None</td>
</tr>
<tr>
<td>14-16</td>
<td>Sustainability Bonus System</td>
<td>V &amp; W</td>
<td>Yes</td>
<td>High</td>
<td>Cat 1</td>
<td>Current Assessment Season</td>
<td>None</td>
</tr>
</tbody>
</table>

Figure 3 Certified California Sustainable Winegrowing Guidebook extract on Employee sustainability certification criteria (CCSW guidebook, 2017: 44).
6.2 Sustainability in Practice Certified (SIP)

SIP certification ranks wineries in a point system based on the three “E’s” of Sustainability, economic viability, environmental stewardship, and social equity (Also known as the 3 P’s of Sustainability – People, Plants and Prosperity). A winery or vineyard that is a part of the certification program must obtain 75% of the total possible sustainability points based on their performance in the areas of the three “E’s”. Vineyards and wineries must also create a sustainability plan, including documentation and reporting proving in which ways the vineyard or winery is complying with the SIP certification. SIP certifications are also subject to annual third party audits (Puckette 2016).

6.2.1 Certification goals

The SIP certification goals are to help farmers and winemakers exhibit dedication to the preservation and protection of natural and human resources. In order to do this the SIP certificate establishes strict requirements, which are based on science and expert input, independent verification, transparency and absence of conflict (SIP certified 2017).

Table 2 The extent of SIP in the California Wine industry (SIP certified 2017)

<table>
<thead>
<tr>
<th>Total Acres of SIP Certified Vineyards</th>
<th>40,000 acres</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Wine Cases Produced by SIP Certified Wineries</td>
<td>2.3 Million cases</td>
</tr>
</tbody>
</table>
6.2.2 Certifications coverage of FLCs and labor relations

In the SIP Certificate Vineyard Certification Standards 2017, which specifies the requirements and standards in order to obtain the SIP Certificate, chapter 7 deals with social equity based on vineyard policies toward workers. It explicitly states “A worker is defined as any person (both in house and contractor provided labor) working in your vineyard at any point during the year” (Vineyard Certification Standards, 2017). Chapter 7 goes on to require, at minimum, that any applying vineyard at least:

- Provide documentation that proves that there is a mechanism in place to properly compensation for break times for those laborers who are paid a piece rate.\(^4\)
- Ensure minors work days and hours in compliance with requirements of state and federal regulations.

The following list is not an absolute requirement for applying vineyards but is considered management enhancements that support social equity sustainability and therefore the applicant is awarded more points (which are weighed in the application) corresponding to the degree of implementation for the management enhancement practice.

- Disclose to SIP and auditors if workers are or are not paid a competitive salary. If they are, then the vineyard must provide documentation that shows average salaries per job category benchmarked to the most recent salary survey results for vineyard workers in your region.

The applying vineyard must disclose in the application how much medical insurance premium is covered for workers.

- Amount of family support services provided for workers.
- Retirement benefits offered to workers.
- Bonuses and rewards offered to workers
- Amount of provided information for transportation alternatives, such as carpooling or vanpooling, to workers for their daily commute.
- Formalized process for handling worker performance evaluations.
- A written complaint process in place for workers.

\(^4\) A piece rate is a wage determination system in which the employee is paid for each unit of production at a fixed rate (Business Dictionary 2017)
• Annual management training concerning work placement harassment and discrimination issues.

(SIP certified 2017).

The SIP Certification clearly takes into account that labor may be temporary or provided by a contractor, and as such it attempts to have vineyards disclose their management practices towards such labor.

6.3 Certified Green (the Lodi Rules)

"Lodi Rules" is the nickname for the Lodi Wine-grape Commission's "Lodi Rules for Sustainable Winegrowing", a set of guidelines and certification used by winegrowers throughout the Lodi winegrowing region of California, it is also used to a lesser extent in other geographical regions. The certification guarantees that vineyards and wineries with the certification are growing and conducting their business in a sustainable way. The intention of the rules, and ultimately that of the certification, is to lead to measureable improvements in the health of the nearby ecosystem as well as the wine quality. Products grown in accordance with the rules are certified by the non-profit organization Protected Harvest and carry a label, see Figure 5, informing consumers of the grower's compliance (Loca 2017).

Figure 5 Lodi Rules Logo (Loca 2017)
6.3.1 Certifications Coverage of FLCs and Labor Relations

Chapters 2 of the Sustainable Winegrowing Certification Standards (Lodi Rule implementation standards) deals with the social equity standards, it is based on 12 human resource practices. Growers can score points towards certification by adopting these practices. Figure 6 shows the percentage of growers that have adopted each of the practices and to what degree they have adopted the various practices (Lodi Rules 2015 Annual Report).

Chapter 2 of the Sustainable Winegrowing Certification Standards does not explicitly define what an employee is, as was seen with the SIP Certification. However, the Lodi Rules leave the definition of “employee” in somewhat ambiguous terms, leaving the vineyard or winery to define “employee” themselves. “*You may define employee yourself. However, be prepared to justify your definition to the auditor. If you answer yes to any of the following questions, then you probably have an employee and should complete Chapter 2. Do I have a payroll? Did I receive an IRS I-9 form from an employee?” (Lodi Winegrape Commission 2013).

This does not, of course, exclude contracted labor, nonetheless, the reference to IRS 1-9 Form would lead the reader to believe that justifying, to auditors, what one considers to be an employee is in the context of direct employment. IRS 1-9 Form is a standard identity and authorization form that all employees and employers must complete at the beginning of employment; it is an indication of a direct employee to employer relationship (USCIS 2017). This would exclude contracted labor do to the fact that contracted labor is the employee of an FLC and therefore would have completed an IRS 1-9 with the FLC and not with the vineyard farmer. The Lodi Rules Certification clearly puts social equity into action, as Figure 6 shows, however it fails to clearly address the issue of transparency for contracted labor.
6.3.2 Implications

As seen earlier, these three sustainable certifications represent the lion’s share of all sustainably certified acreage and production in California. These certifications do touch on social equity and human resource management akin to those of other industries. However, only SIP Certified takes into account the need for transparency for contracted labor. CCSW and Lodi Rules are well-meaning and good intentioned but lack rigorous requirement, compared to SIP Certified, when it comes to the issue of requiring transparent practices directly related to contracted labor. Furthermore, it seems that the CCSW and Lodi Rules put a comparatively greater focus on environmental sustainability than on social equity. This is evident from the CCSW Summary of Prerequisite Practices and Program Requirements (2017) that list 78 prerequisite practices requirements that are directly environmentally related compared to only 3 prerequisite practices requirements that are directly human resource related.

It stands to argue that, with the exception of SIP Certified, the major sustainability certification programs in the California wine industry ignore labor that is provided by a contractor. This represents a blind spot in the transparency of these programs, which can be considered an oversight in the programs goals of delivering transparency from the soil to the bottle.

Figure 6 Sustainable human resource management practices and average adoption rates of the Lodi rules (Lodi Rules 2015 Annual Report).

<table>
<thead>
<tr>
<th>2.1: HUMAN RESOURCE PLAN</th>
<th>2.2: EMPLOYEE ORIENTATION PROGRAM</th>
<th>2.3: SAFETY TRAINING PROGRAM</th>
<th>2.4: SAFETY REWARDS PROGRAM</th>
<th>2.5: PERFORMANCE TRAINING AND DEVELOPMENT</th>
<th>2.6: STAYING INFORMED WITH INDUSTRY</th>
<th>2.7: TEAM BUILDING ACTIVITIES</th>
<th>2.8: EMPLOYEE HANDBOOK</th>
<th>2.9: EMPLOYEE MEETINGS</th>
<th>2.10: SALARY SURVEY PARTICIPATION</th>
<th>2.11: SALARY BONUS PROGRAM</th>
</tr>
</thead>
<tbody>
<tr>
<td>91%</td>
<td>90%</td>
<td>99%</td>
<td>63%</td>
<td>97%</td>
<td>100%</td>
<td>77%</td>
<td>72%</td>
<td>100%</td>
<td>73%</td>
<td>99%</td>
</tr>
<tr>
<td>9%</td>
<td>10%</td>
<td>1%</td>
<td>1%</td>
<td>7%</td>
<td>0%</td>
<td>22%</td>
<td>28%</td>
<td>0%</td>
<td>28%</td>
<td>1%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>EARNING POINTS</th>
<th>YES</th>
<th>NO</th>
</tr>
</thead>
<tbody>
<tr>
<td>2</td>
<td></td>
<td></td>
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<td>1</td>
<td></td>
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</tr>
<tr>
<td>0</td>
<td></td>
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</tr>
</tbody>
</table>
7 Analysis of the Current Labor Environment

This chapter will analyze how the current labor environment could contain a certain degree of risk to a winery or vineyard's business model. Chapters 4, 5 and 6 together have introduced the issue of subcontracted labor, growing consumer awareness in regards to labor transparency, and the state of sustainable practices in the industry. Chapter 7 will analyses the potential impact that such an environment could have on the business model operating in such an environment. Chapter 8 will address how one may mitigate the risks that are identified in Chapter 7.

7.1 The Environment

According to Osterwalder and Pitgneur (2010) business models are implemented in particular environments. Understanding ones environment enables one to conceive of the risk that the company faces and by extension the competitiveness of the company’s business model. To this end, business environment examination is critical due to the complexity of the economic landscape. Understanding the changes that take place in one business environment enables one effectively, and hopefully preemptively to adapt the business model in question in the face of changes. Ultimately, mapping out the business environment and analyzing its effects of one’s business model will allow for more informed decision making (Osterwalder and Pitgneur, 2010: 210).

Given that this paper is concerned with the transparency of labor practices in the California wine industry and has outlined the significance of consumer awareness and CSR practices in said industry, the analysis of will be based on mapping out the labor environment in which a vineyard or winery operates. The concepts are adapted from Osterwalder and Pitgneur (2010).

Ultimately, the purpose of the following analysis is to illustrate the effect of key labor trends in the Californian wine business environment and how these trends could potentially impact one’s winery business or grape growing business.
Figure 7 The field represents the business environment as it relates to labor trends. The data points are examples of relevant developments in the environment.

7.1.1 Regulatory

California AB 1897

California AB 1897 was signed into law in September 2014. It requires a client employer, such as a vineyard or a winery, to share with a labor contractor all civil legal responsibility and civil liability for the workers that are supplied by that labor contractor. The law prohibits a client employer, such as a vineyard or winery, transferring liability and responsibility to the labor contractor. This means that legally one who hires an FLC cannot claim plausible deniability in the event of a labor violation (California Assembly Bill No. 1897, 2014).

This is this law is significant to business environment of a vineyard or winery because it does not allow vineyards or wineries to distance themselves from an FLC in the event of wrong doing. If they FLC is employing laborers under unlawful conditions then the vineyard or winery is complicit in this breach of the law.

California AB 1066
California AB 1066 is a law that removes the exemption for agricultural workers regarding hours, meal breaks, and other working conditions, including specified wage requirements. (California Assembly Bill No. 1066, 2016). The law implements new rules for overtime in 2019. It will lowering the current 10-hour-day standard for overtime to the eight-hour day standard (Ulloa 2016).

Ultimately, this law increases the cost of labor for growers and by extension the cost of wine for consumers. However, it can also be seen signal of growing consumer awareness. Given that the bill received substantial support from a wide range of lawmakers (Ulloa 2016).

7.1.2 Social

Growing Consumer Awareness
As discussed in section 2 of this paper, consumers progressively expect their preferred brands to assure more than quality and safety. Consumers expect the supply chain to be transparent about everything from production practices to ingredients (Arnot 2015). This growing trend affects grape producers and the wine industry as a whole. There does not seem to be any compelling reason why consumer expectations for transparency would not extend to Californian produced wines. Which gives cause to scrutinize labor practices that vineyards and wineries employee. Section 2 of this paper implies that the disregard to consumer awareness trends could eventually lead to the ostracization of customer trust and ultimately the loss market share.

Labor Shortage
Ness (2017) reports that there has been a growing labor shortage in the vineyards of California. Ness notes the loss of immigrant labor back across the Mexican border for the past decade, saying that it has lead to a talent shortage. Ness reports that grape growers are claiming to be impacted by the growing labor shortage. Citing that farmers are not able to find skilled vineyard workers during the crush. Ness notes that there is competition from more lucrative crops that draws away labor, such as marijuana. Also the Mexican economy has been growing, which, means fewer workers are interested in going across the border. Freedman (2017) notes that this is particularly the case given the current political climate in the United States, which, combined with the stability of the Mexican economy creates a situation in which the opportunity cost of leaving Mexico maybe too high.
Ultimately, the labor shortage has increased the difficulty in recruiting experienced labor, which, results growers pay a premium for labor.

Sustainable Viticulture on the Rise
As seen in section 3 sustainability programs in the California wine industry is active and growing. Some of these programs are more concerned with labor issues than others, however, given the consumer demand that drives these programs there is potential for more of the programs to focus on extending their certifications to issues of labor.

7.1.3 Legal

Roederer Estate FLC action
In 2015 a California FLC was fined and ordered to pay back $163,000 to farm workers for violating minimum wage laws. The U.S. Department of Labor found that the contractor failed to pay workers’ wages for three weeks of work. This violation took place during the 2014 harvest at the Roederer Estate in Northern California. The Roederer Winery owns 660 acres (267 hectares) of vineyards and produces a range of wines. As a result of the investigation the winery has agreed to undertake rigorous review of the practices its FLCs’ practices and labor conditions (Ortiz, 2015). This incident, although anecdotal, illustrates the serious threat that Roederer winery exposed itself to by hiring an FLC that clearly took advantage of workers. The Roederer brand can easily be associated with substandard labor practices and worker exploitation as a result, which can indirectly communicates to customers that Roederer winery is poorly management and exhibits a lack of respect towards those that harvest their grapes. The lack of oversight, in such a case as this, can only be regarded as damaging to the company.

Wente Vineyards FLC action
In 2014 a FLC who has been providing labor to Wente Vineyards in Northern California for 20 years was fined for withholding pay from laborers while contracted by Wente Vineyards. As a result of the violation Wente Vineyards agreed to review wage statements and time records and provide their findings to the Department of Labor. This is a part of a compliance plan for the winery in order to prevent further violations company’s farm labor contractors (Firstenfeld, 2014). This further demonstrates the reality that a winery can be publicly exposed for not having properly scrutinized the labor practices
of their FLCs’. It is doubtful that any winery would want exploitive labor conditions to take place within their supply chain. However, it is evident that such practices do take place.

7.2 The environment’s affect on the business model

As illustrated in figure 8, California AB 1066 is likely to effect the Cost Structures and Key Resources of a vineyards business model. Given that farmers are required to pay more for overtime or limit the hours of workers and hire more workers to avoid overtime costs (Ulloa 2016). California AB 1897 will impact the Key Partners block of the business model. Given that the law allows for less plausible deniability in the event of labor violations, farmers now have a motive to reevaluate their relationship with and or create oversight for their FLC partners. These two regulations will mean that more resources will have to go into the Key Partners and Key Resources blocks of the business model, which, ultimately means that the Cost Structure block will be filled with additional ex-
penses. Additional expense, of course, has farther-reaching roll on effect for other areas of the business model, which can be a limiting factor for any business.

Figure 9 Potential impact of given social trends on the generic business model (Osterwalder and Pitgueur 2010)

Social trends impact a business model in different ways (see figure 9). Growing Consumer Awareness essentially creates new market segments, ones in which customers perceive value when they are able to drink local wine that did not come at the expense of the ecological environment or as a result of the exploitation of workers. Sustainable Viticulture practices represent the opportunity for vineyards and wineries to create value propositions that are in line with these new market segment that are emerging. Therefore impacting the Value Preposition block of a business model. The trend of labor shortages will affect the Key Resources block, in that the labor market will increasingly grow competitive, which will have the role over effect of increasing costs. With the advent of new market segments and the accompanying opportunity for new or different value propositions there lay the potential to adapt the business model. This adaptation can take many forms, and undoubtedly have implication for the other building blocks in the business model. For instance, the customer relationships block, given a new customer segment or segments. What kind of relationship does each segment expect the company to create and maintain with them? Does the new segment want the same relationship as previous or other segments? Perhaps the company’s motiva-
tion for the relationship is different for a new segment, from upselling to customer acquisition. Additionally, the other building block, such as Channels and Revenue Streams could offer new or different forms of adaptation depending on the expectations of the new customer segment (Osterwalder and Pitgneur 2010: 29).

Legal action taken against FLCs can have a serious impact on business operations (illustrated in figure 10). If an FLC is fined while working for a winery or vineyard, such as was the case with Roederer Estate and Wente Vineyards; it could have the effect of undermining ones Value Proposition. If the winery or vineyard brand is tarnished by association this could raise barriers to acquiring new customers and retaining or upselling existing customers. Ultimately, leading to the reduction in revenue. This is, of course, the last thing that any business wants, but there is a precedent for such a situation to occur. These legal actions are a real threat to ones brand. Such a threat should imply the examination of a vineyard or wineries relationship with FLC partners. This is, of course, closely related to the regulatory trends as illustrated in figure 8. Figure 10

Figure 10 Potential impact of given legal actions on the generic business model (Osterwalder and Pitgneur 2010)
can be seen as an evolution of figure 8, in that it illustrates what can happen to a revenue stream in the event of a legal action because a regulation was not being properly observed or implemented.

The represented environment signifies a real and present danger to the integrity of one’s business. In light of the environment the business model of a winery or vineyard will likely need to adapt. Furthermore, it demonstrates that issues of labor transparency do have a meaningful effect on the structure and future of one wine or vineyard business.

8 Response to the changing Environment

Given the state of the labor environment the wine industry is responding in different ways. The following is a review of these various endeavors to adapt to the new environment with a particular focus on social equity and transparency labor practices.

8.1 Year round employment

The California Institute for Rural Studies conducted a study in which the researchers documented best practice conditions in an effort to promote improved labor conditions in sustainable agriculture. The researchers noted that vineyards are less diversified than other types of farms and therefore had to have a different approach to offering year round employment to their labor force. The vineyard in the study implemented the practice of hiring out their labor force to other farms that had harvest times in different times of the year. The study gave the example of contracting with neighboring olive grove during December and January, which is a slow season for vineyards and wineries. The study went on to note that other farms in the study (not vineyards) essentially rent out their employees to other local agricultural operations to help with maintenance and repairs during the off seasons, which, mean the other agricultural operations do not need to hire carpenters, painters, and such (Strochlic and Hamerschlag, 2005). Eric Pooler, speaking at the Wine Conference in April 2017 reiterated very much the same concept. Noting that offering year round employment generally reduces labor shortage issues, he gave the same olive example. Employing a year round worker
force that can help with other crops that are harvested at different times than grapes. He also gave the examples of tending gardens, work on landscaping as well as assist in the cellar (Pooler cited in Franson 2017).

Mi Sueno in Napa California is another example of a winery and vineyard operation offering full time employment. Rolando Herrera is the vintner and owner of Mi Sueno winery, his father was a migrant worker and Herrera understands the life that many harvest laborers live. In response to the current labor environment in California vineyards Herrera has hired his field labor to be full-time employees. Mi Sueno has 40 total acres of tiny vineyards and Herrera would rather keep his crew occupied and productive himself than risk loosing them to another employer or labor contractor (Ness 2017). Given the situation Herrera says, “I’m happy to cut my margins to pay them.” (Herrera cited in Ness, 2017).

In Strochlic and Hamerschlag research, farmworkers said that year round employment was one of the top three that they valued, respectful treatment and good wages were the other two. Strochlic and Hamerschlag note that stable monthly income and a sense of job security is attractive and valued by farmworkers. The steady reliable employment allows the workers to develop secure family lives, noting also that this benefits local communities (Strochlic and Hamerschlag, 2005: 6).

Establishing year round employment schemes, especially, for smaller wineries and vineyards could greatly improve the oversight, legal obligation, and transparency for laborers and by extinction highlight a winery or vineyards brand as being socially equitable.

8.2 Mechanization

As has been the case for much of U.S. industry, greater amounts of mechanization offer a solution to the current labor issues on the wine industry. Although, it seems that the driving force behind mechanization has more to do with the rising cost of labor and less to do with the social equity and well being of migrant harvest workers. Vineyard harvesting technology is continually improving; machines can deliver high quality berries, and increase efficiency. Poller (cited in Franson 2017) states that the new generations of machinery can achieve a 75% cost savings. Franson (2017) notes that this is already a growing trend, that in the years to come there will be a likely increase of vineyards and wineries reconfigure to accommodate machinery.
Ness (2017) notes that this mechanization is one answer to the rising cost of labor but that the consequences to the quality of wine and consumer preferences are unclear. Additionally, mechanization is expansive. Large vineyards and wineries can afford such a move but small boutique wineries won't see this as an option, as their competitive advantage lies with in their unique small-scale hands on approach and image (Ness 2017).

In a roundabout way mechanization does help to limiting the abuse of vulnerable migrant laborers, in that mechanization eliminates or reduces the need for such labor.

8.3 Closer partnerships and administration of FLCs

Given the labor environment there are examples of closer cooperation with FLCs in the wine industry. Rieger (2016) notes an FLC operation, Roberts Vineyard Services, which operates on the California central coast region as having to create closer partnerships with his clients mainly as a result of California AB 1897. The new regulatory environment is changing the vineyard and wineries perspective, in the recent past the vineyards and wineries would let the FLCs worry about all the administration and legal details. Now communication, attention to detail, and deeper oversight with client wineries and vineyards is increasing (Rieger 2016:2).

Rieger quotes Neil Roberts, owner of Roberts Vineyard Services, "We definitely let our growers know what we’re doing in the field, we have a good training program, and have extensive recordkeeping and administrative operations to keep track of everything. This has all added more costs for doing business. The overhead has gone up to administer more requirements and to pay for vacation, sick leave and minimum wage increases."

(Roberts cited in Rieger 2016:2)

The joint liability with FLC raises addition risk and costs for grape growers, however the additional risk and cost are not unwarranted given that workers are being protected and that the labor shortage is resulting in a higher level of skilled labor (Rieger 2016:2).

Closer partnerships and administrative oversight of FLCs will result in higher operational expenses, but this also opens up an opportunity to better insure the people that are actually in the field harvesting get their fair share and are not marginalized by ill practicing employers. Furthermore, the costs can be passed on to the consumer along with the communicating how those additional costs actually enable a more socially equitable product.
8.4 SIP Certified

As discussed in Section 3 SIP Certified takes into account the need for transparency for contracted labor. Furthermore, the program claims that wineries and vineyards that are SIP certified sell more fruit at a premium, increased more shelf space certified wines, and gained favorable press. Although, these claims are self-reported it seems a reasonable claim given the dramatic increase of vineyard acres that have been SIP certified in the last nine years, from 3,700 acres in 2008 to 41,000 acres in 2017 (Sustainability in Practice Certified 2017). Additional, as seen in chapter 5, consumers want to buy brands that are sustainable; thereby allowing them to spend their money knowing that their purchase has not been destructive to the environment or someone’s well-being. Of all the sustainability certifications the SIP Certified is the most rigorous in regards to labor, it may increase costs but it allows one to reach a market segment that is willing to accept that additional coast because that segment understands that they are buying a guaranty that workers were treated with respect.

For the industry in general, it only seems that mechanization is a trend that is taking root on a large scale. Fifty percent of wine grapes in California are harvested by machine already, and that number is likely to increase as the technology improves (Goldfarb 2008). For the other initiatives like ‘year round employment’ and ‘closer relationships with FLCs’ there does not seem to be evidence that support to what extent these initiatives are disseminated throughout the industry. As previously stated SIP Certified total acreage has dramatically increased over the last 9 years. However, the total acreage SIP Certified is only 6.8% of all the California Wine grapes. Of course, this is not an insignificant number, and if the amount of acreage that is SIP Certified continues to grow as rapidly as it has in the last decade then that will represent a considerable portion of the industry.

9 Conclusion

Sustainable agriculture stands on the three “E’s” of Environment, Economy and Equity. If an agricultural system is to be considered sincerely sustainable, it is required to be environmentally comprehensive, economically workable and socially equitable. Unfortunately, the socially just characteristics of sustainable agriculture have been, by and large, neglected. The greater emphasis has been focused on the environmental and
economic viability of sustainable agriculture. This oversight represents an affront to human dignity and a denial of any moral legitimacy of contemporary economic systems. With the increasing interest of consumers for improved labor conditions together with the expanding sustainable certification programs in the California wine industry, there is a precedent for addressing the social justice interests of subcontracted laborers and therefore, rectify such an oversight.

In answer to the thesis question of this paper... how can and why should the Californian wine industry increase the transparency of labor conditions of subcontracted seasonal harvest workers?

Wineries and vineyards should increase the transparency of labor conditions of subcontracted laborers because there is a real and present threat of consumer blowback. This potential consumer blowback can be mitigated or avoided by the reevaluation and improvement of how subcontracted harvest workers are viewed and treated. That their treatment would not be that of a cheap labor resource that ultimately benefits the bottom line. But rather that the improved condition of subcontracted harvest laborers would be viewed as a potential added value, an added value for which customers would be willing to pay a premium. The California wine industry can increase transparency by developing and adapting their business models in response to the changing labor environment. This change can take many forms, such as implementing year round employment structures, increased amounts of mechanical harvesting, closer oversight and integration of farm labor contractors, and by adopting rigorous certification programs, such as SIP Certified.

Increased transparency in the California wine industry should be viewed as a source of future competitive advantage, that in years to come there is a potential for the industry to differentiate itself, as one that not only produces a quality product but also creates a better world for those that would otherwise be neglected. Additionally, there is a need for further research on these subjects. Specifically, what is the feasibility of a vineyard or winery to diversify into other products or services that would allow the vineyard or winery to offer seasonal labor force year round employment? To that end, can the cultivation of other high value crops, such as marijuana, be integrated into the business models of wineries or vineyards?
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