



From the President's Desk

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The ongoing struggle to wrap up a five year Farm Bill continues in early April, about six months behind schedule. Farm Bills are always tough packages to pass because of the inherent tension between the subsidized farm commodities (corn, wheat, soybeans, etc.) and reform and nutrition elements. April 18 is when legislation extending current law will expire. There is little hope for another short term extension, but stranger things have happened.

For the first time it appears that the Farm Bill will provide genuine help for specialty crops (mostly fruits, vegetables and nursery crops) through the funding of state specialty crop competitiveness block grants, pest control programs and a research granting program dedicated to specialty crops. This Congress is also anxious to provide more funding for nutrition such as food stamps. Given the huge increases in prices for basic foods such as milk, eggs and cereals, there is considerable justification for more money for food stamps. Another big "budget buster" is funding for subsidized crop insurance and permanent disaster aid. All of these items make good policy sense but drive up the cost of the bill.

Pay-go, which Congress reinstated in 2007, requires increased spending to be offset through raised revenue or cuts

elsewhere. This restriction makes it very difficult to find money to accommodate these increases. Adding to the difficulty, the administration has been incredibly stubborn about labeling any revenue raising devices as "unacceptable tax increases"—including reforms it had previously used in its budget proposals. This leaves Congress with very little choice about how to accommodate an approximate \$10 billion increase in a \$600 billion Farm Bill.

The permanent disaster assistance provision is expensive at about \$5 billion. It makes a lot of sense to address disaster through a properly funded program rather than through ad hoc emergency bills passed every couple of years which are hastily rushed through Congress. These bills tend to cost far more than is being planned for in the Farm Bill, and are often somewhat haphazard. The irony is that emergency bills (e.g. the tax rebates passed a couple of months ago) do not have to be accounted for through Pay-go.

Another dimension in this complex mix is the interaction of committees. To find the \$10 billion to increase the Farm Bill, the Agriculture Committees in House and Senate, nominally in charge of the process of writing a Farm Bill, must go hat-in-hand to the tax committees, Senate Finance and House Ways and

Means to beg for money. This is not a pretty dynamic as Finance has demanded control of how the money it raises is spent. You can imagine what fun these negotiations must be.

This week, Secretary of Agriculture Schafer indicated that the administration strongly prefers a new Farm Bill to an extension of the 2002 bill because it wants the increased spending for nutrition, fruits and vegetables and anti-obesity programs included. We concur and hope the spirit of compromise will lead to successful conclusion.

A new Farm Bill, with adequate support for specialty crops, will achieve a major milestone. There is no doubt that the members of the WineAmerica grassroots network and their efforts were essential in providing momentum for specialty crops as a whole. Our emphasis helped to ensure that research, the Clean Plant Network and the Tree Assistance Program were positioned to be part of a final bill. You can be sure that WineAmerica wineries have contributed to what we still hope will be a successful outcome for the Farm Bill.

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As we approach a final outcome please be aware that the following elements are likely to be included in farm policy for the next five years. Within these programs there will be many opportunities for grants and addressing the needs of American wineries, so it is not too soon to think about how to take advantage of and help shape these components:

- State Administered Block Grants
- Specialty crop Research Initiative
- Value Added Grants

- National clean plant network
- Reorganization of USDA research

Small Business Health Plans

Once again, small business health care insurance plans are on the Congressional agenda. Senate Majority Whip Richard Durbin (D-IL), along with Senators Olympia Snowe, (R-ME), Blanche Lincoln, (D-AR) and Norm Coleman (R-MN), are supporting a bill which will create national insurance pools for small businesses and self-employed people and provide a \$1,000 per

employee tax credit. The bill has the support of the Service Employees International Union, the National Federation of Independent Business, the National Association of Realtors and state insurance commissioners. Previous attempts to address this problem were opposed by the SEIU, Realtors and state insurance commissioners but changes in the formulation which would allow states to opt out of the pools and generally increase flexibility of the plan seems to have muted their opposition. Such a plan, if actually passed into law, could be very helpful for wineries across the nation.

WineAmerica Comments on TTB Rulemaking

TTB has been seeking a workable rule based system to handle new appellation applications which might compromise winery brand names. They have also expressed concern about the legitimacy of appellations wholly enclosed in other appellations. In March, WineAmerica commented on proposed rulemaking addressing those issues.

These are not easy or simple issues. There have been many times when TTB has had to address the conflict between those who desire new appellations and wineries who may face the prospect of their geographical brand name limiting the types of wine produced with that brand because with the approval of a new appellation that brand name now has "viticultural significance." On the one hand—to what degree is it reasonable to limit a winery's future ability to use a brand name which previously allowed grape sourcing from much wider areas, and on the other hand—should a new Appellation have non conforming wineries within it and to what degree does that constitute misleading labeling? Furthermore could the submission of a new appellation petition be used as a competitive weapon for some wineries who might seek the new appellation as a means of harming an existing business?

TTB had proposed a rule which would allow continuation of non-conforming use for trade names in use for a significant time before the submission of a new appellation petition to continue using their brand names without restriction so long as the label made clear that the wine might not conform to the appellation's requirements. In effect this amounted to prospective grandfathering.

WineAmerica was not comfortable with the open-ended grandfather rule and commented that TTB should continue its current practice of examining and seeking solutions on a case by case basis using their regulatory flexibility.

The nesting issue came about because of concerns that if a smaller appellation is distinctive enough and deserving of a separate appellation name perhaps it no longer should automatically qualify for use of the large appellation. This issue is much more complicated than the TTB analysis which focused on the nuances and differences between the smaller and larger appellations.

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Don't forget to log in to the WineAmerica members only website for updates and information about discounted goods and services!

www.wineamerica.org

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WineAmerica commented that the current system, whereby grapes sourced from an AVA fully contained in a larger AVA can be considered as belonging to either AVA works well and should not be modified. In most instances the smaller appellations reflect specialized nuances of the larger appellation. For example, in Oregon, there are several appellations contained wholly within the Willamette Valley. Depending on a number of factors which will be detailed below, a winery may want to retain the use of Willamette Valley or, in certain circumstances, may wish to use a sub-appellation such as Dundee Hills to further differentiate their product. It is essential for wineries and grape growers to retain that flexibility without jeopardy.

Reasons to use one AVA or another:

- Consumers may not be familiar with smaller appellations. Depending on the price of the wine and the target market it may be better to use the larger, more familiar appellation Willamette Valley. The larger appellation is barely being recognized by the vast majority of wine consumers at this time and the smaller Dundee Hills appellation will only be recognized by very knowledgeable consumers. Nevertheless, for those consumers who appreciate Oregon Pinot Noir, the Dundee Hills appellation is sufficiently different from Eola-Amity Hills. It will be helpful to use a sub-appellation on a bottling designed to be marketed to such consumers.
- It may take a long time for consumers to gain appreciation for smaller appellations. Thus, wineries will have to consider markets for particular bottlings and may choose to include larger appellations on their labels until there is a larger base of knowl-

edgeable consumers for their wine. A winery selling such wines primarily at the winery and in Portland will be more comfortable using the smaller appellation than a winery which chooses to market on the East Coast or in Japan where, at this time, it may be advantageous to use the larger Willamette Valley appellation or even "Oregon."

- The differentiation of smaller appellations may be significant for some varieties of grapes but not others. While the consumer of very expensive Pinot Noir from Dundee Hills or Eola-Amity Hills may well wish to differentiate, it is much less likely that a consumer of Willamette Valley Riesling or Pinot Gris will want to make that distinction. Thus what makes sense for one product may not make sense for another product with the same provenance in a winery's portfolio.
- Growers need flexibility when selling their grapes. Growers often market their grapes to wineries outside of their smaller appellations, and these wineries may be blending grapes from more than one sub-appellation or even from areas in the larger appellations without utilizing a sub-appellation. If the smaller, nested appellation does not qualify for larger appellation labeling, these growers will face a greatly restricted market, perhaps to their great disadvantage.

Perhaps there is a situation where it would be appropriate to consider the smaller appellation to be "outside" of the larger one. In that instance the TTB could allow a petition for appellation which specifically requests that the smaller appellation become a "donut hole" in the larger appellation. But such situations should not be considered the norm and the burden of proof for succession should rest on those proposing the smaller appellation.

For a link to WineAmerica's full comments please click on <http://www.wineamerica.org/issues/regulatory.htm>.



Outgoing Chairman Steve Gibson pours wines at the Taste the Wines of America reception

Regulatory News

TTB Expands Two AVAs and Establishes One New AVA

The TTB has expanded the Alexander Valley viticultural area in Sonoma County, California by 1,300 acres along its northwestern boundary line. The expansion makes the total acreage of the AVA 67,710 acres. The effective date of the expansion is April 10, 2008. To read the entire notice on this AVA expansion, please follow this link: <http://a257.g.akamaitech.net/7/257/2422/01jan20081800/edocket.access.gpo.gov/2008/pdf/E8-4789.pdf>

The TTB also expanded the San Francisco Bay viticultural area in northern California. The expansion adds 88 square miles to the AVA to the north in Solano County. The effective date of the expansion is April 10, 2008. To read the entire notice on this AVA expansion please follow this link: <http://a257.g.akamaitech.net/7/257/2422/01jan20081800/edocket.access.gpo.gov/2008/pdf/E8-4785.pdf>

Along with these two AVA expansions, the TTB also established the 1,888 square mile Lehigh Valley viticultural area in southeastern Pennsylvania. The AVA resides in portions of Lehigh, Northampton, Berks, Schuylkill, Carbon and Monroe counties. The AVA goes into effect on April 10, 2008. For more information on the establishment of the Lehigh Valley appellation and to read the entire notice from the TTB, please follow this link: <http://a257.g.akamaitech.net/7/257/2422/01jan20081800/edocket.access.gpo.gov/2008/pdf/E8-4786.pdf>

TTB Announces the First Industry Wide Expo

Earlier in March, the TTB announced their first free industry-wide expo. The TTB Expo 2008 will be held from June 17-18, 2008 at the Northern Kentucky Convention Center, in Covington, Kentucky. Covington is directly across the Ohio River from Cincinnati, Ohio. The nearest airport is Cincinnati/Northern Kentucky International Airport.

The TTB Expo 2008 will be comprised of 40 different educational sessions over the course of two days. The sessions will be presented by TTB and other Federal and State representatives covering various topics pertinent to the industry. There will also be exhibition booths throughout the event.

The TTB's goal in hosting this event is to "build bridges between Government and the regulated industries to establish an ongoing and open dialogue. Attendees of TTB Expo 2008 will have the opportunity to speak with TTB employees—the very people who approve your permits, registrations and labels, who process your tax returns, and who analyze your product samples. You will also have an excellent opportunity to tell us about what is going on in your industry and share your experiences with us."

The TTB Expo 2008 is open to all members of the alcohol, tobacco, firearms and ammunition industries who are regulated by the TTB, as well as those interested in entering into one of those businesses. The TTB is also encouraging trade associations, consultants, lawyers, and other government officials to attend. WineAmerica will be represented at the Expo by Michael Kaiser, the Manager of Regulatory Affairs. To register on line, please use the following link: <http://www.ttbexpo.org/default.aspx>

Direct Shipping News: Wisconsin Governor Signs Direct Shipping Permit Bill into Law

On Thursday, March 13, 2008, Gov. Jim Doyle signed Senate Bill 485, changing Wisconsin from a reciprocal to a permit state. Both in and out-of-state wineries may now ship wine directly to Wisconsin residents as soon as the winery has received a direct shipping permit from Wisconsin. The law goes into effect on October 1, 2008.

The bill allows wineries to obtain a permit to ship no more than 108 liters of wine annually. The permit fee will be no more than \$100 a year and wineries must pay sales and excise taxes and file quarterly reports.

The new law eliminates the ability of in-state wineries to self-distribute directly to retailers. All sales to retailers must go through a wholesaler, but small wineries (producing less than 25,000 gallons of wine in a year) may group together to form what is known as a small winery cooperative wholesaler. This entity must become licensed as a wholesaler with the state. The state will only allow up to six wineries in each cooperative group and the groups must obtain a permit from the state between October 1 and December 31, 2008. If the "cooperative" consists of both in state and out-of-state wineries, the cooperative's board of directors must include representatives from all states represented in the cooperative. A cooperative wholesaler may not employ any owner or employee of its member wineries, but the employee or owner may act as a volunteer.

2008 Wine & Grape Policy Conference

The 2008 Wine & Grape Policy Conference, and WineAmerica's Board of Directors Meeting, March 9-12th, was an informative and fast paced series of meetings, congressional appointments, seminars and festivities. More than 50 board members and wine industry participants joined the WineAmerica staff in Washington D.C. Pete Downs of Kendall Jackson Winery was installed as the new Board Chairman, and Steve Gibson of Habersham Winery was

lauded for his excellent service as outgoing Chairman. Election results for open board positions were reported at the meeting as well. Jim Ballard, Ron Bitner, Steve Gibson, Eldon Nygaard, Kathleen Oliver, Herb Schmidt and Jim Tresize and were all reelected. The board welcomed a new board member, Don Chapman, owner of Brookmere Farm Winery in Pennsylvania.

As always, the "Taste the Wines of America" reception was a hit, drawing 14 senators and congressmen and nearly 200 senior and agricultural staff members. Wines from 22 states were poured, mostly by WineAmerica members representing their regions. Congressional attendees were able to connect with their home wine regions, giving senators, congressmen and their staff the opportunity to hear about the importance of the wine industry from their own constituents.

WineAmerica Honors Leaders

Industry and government leaders were honored at the WineAmerica and Winegrape Growers of America 2008 Wine & Grape Policy Conference in Washington D.C. last month. The wine industry members honored were Marvin Sands and Bob Kalik.

Marvin Sands, former chairman of Canandaigua Wine Company, who passed away in 1999, was a great supporter of WineAmerica, formerly

the American Vintners Association. The award was accepted by Jim Finkle, senior vice president for external affairs at Constellation Brands on behalf of Mr. Sands' widow and children. Bob Kalik is a senior partner in the Washington D.C. law firm of Kalik Lewin, and a past President of the American Vintners Association. He was honored for his work in building the organization. Both Mr. Kalik and Mr. Sands were presented with honorary membership with WineAmerica.

Four Members of Congress and government leaders were presented with Leadership Awards for exceptional work in the realm of wine policy: Senator Diane Feinstein (D-CA), Representative Rick Larsen (D-WA), Representative Mike McIntyre (D-NC) and Mike Johanns, former USDA Secretary of Agriculture. These Members have been, and continue to be, key players in creating sound public policy for the American wine industry.



Above, from left: Brenton Roy (WAWGG), Vicky Scharlau (WAWGG), Congressman Rick Larson, Jennifer Montgomery

Below, from left: Bill Nelson (WineAmerica), Congressman Mike McIntyre (D-NC), Margo Knight Metzger (NC Wine & Grape Council)



Let Us Know About Your Direct Shipping Compliance Issues!

This is a last chance reminder to make your voice heard and help Wine America meet your direct shipping needs! Over the last few years WineAmerica members have let us know about the ups and downs of direct shipping compliance since the Supreme Court case in 2005. The following link is for a survey that will help us identify how you have adapted and where your needs still exist when taking advantage of the direct-to-consumer channel.

The deadline has been extended to Friday, April 18th, 2008.

The link below is for an anonymous survey on your direct shipping habits and any issues you have found that are important to you. The online survey takes about 5 minutes or less to complete. Please click on the link below and complete the survey. We will be

compiling results over the next few weeks and will send out a summary once we have all the data.

[Click here to take the Direct Shipping Compliance Survey](#)

First Annual Direct to Consumer Symposium

Presented by Coalition for Free Trade and Free the Grapes!

Join vintners from around the country at this direct to consumer sales and marketing summit on May 1- 2, 2008 at the Meritage Resort in Napa Valley. Organized by vintners for vintners, the program will bring together owners, senior managers, tasting room managers and staff and marketing managers for two days of events.

Sessions will include such timely subjects like "Who's Buying? Consumer Research Findings", "Enotourism: Food and Wine

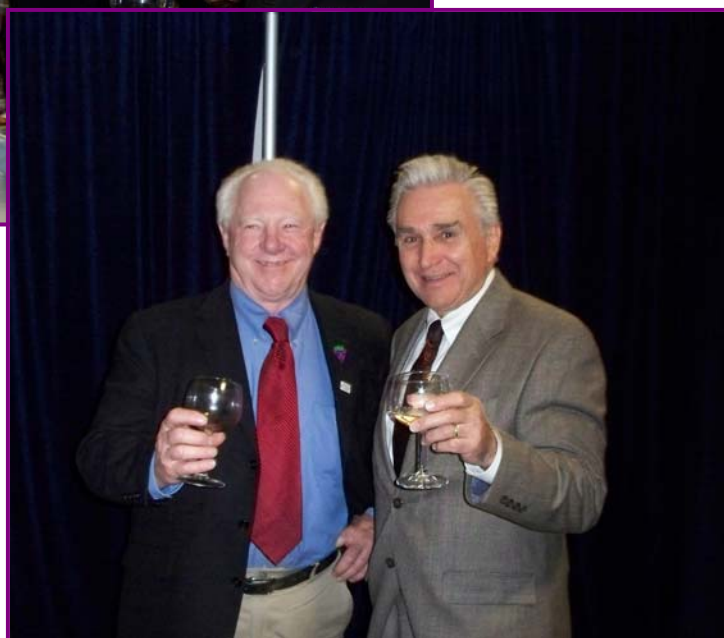
as Marketing" and "Litigation Landscape." Presenters are national authorities, with key information for wineries interested in growing their direct shipment programs and learning about marketing directly to consumers. This is an important event, and WineAmerica encourages attendance for anyone who is able.

The event will also include a Gala Dinner, featuring a keynote address by Dean Kenneth W. Starr, counsel to the Coalition for Free Trade and dean of Pepperdine Law School. Following dinner, there will be an auction to raise funds for Coalition for Free Trade.

For more information and to register, visit the website at <http://www.coalitionforfreetrade.org/symposium/>



From left: *Dacota Haselwood (TWGGA), Thomas Held (Stonehill Winery), Congressman Russ Carnahan (D-MO), and a guest at the Taste the Wines of America reception*



Right: *John Martini (Anthony Road Winery), Congressman Maurice Hinchey (D-NY) at the reception*

WINEAMERICA
MONTHLY
NEWSLETTER
APRIL 2008

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"Envision great wine"

Guest Columnist: Dr. Brian Caplin, FL Biognostics

How to Screen Your "In Process" Wine for the Presence of Live Organisms

Wine testing has evolved over the past 100 years with technology that can analyze gene expression, helping a winemaker create a desired wine. These rapid gene expression analyses technologies can become a significant tool for a winemaker.

If you want to know if an organism is present in your vines, grapes, must or wine you cannot simply look for the presence of these organisms' DNA. If you happen to find the suspect organism's DNA, all that tells you is that at some time in the growing, harvesting, fermenting, aging or bottling process that organism has been present. What it does not tell you is if the organism is there and alive. That is where gene expression analysis comes into its full practical utility.

DNA for an organism can be found in just about anything. For example, a dinosaur that has been dead for millions of years will, in its bone, have DNA present. That certainly does not mean that there is a live dinosaur lurking about. Rather, it tells you that you the live organism has been there in the past. On the other hand, in the winemaking process the question is *what is alive in my in process materials now?*

Gene expression analysis uses another biomolecule called RNA, which is less stable than DNA. RNA degrades quickly in most environments and its sole source of protection from degradation is that it is enveloped in live organisms which keep it intact. RNA analysis can be used to tell you not only if the organism is present and alive, but also what percentage of those organisms are actually alive in your wine.

If DNA is used as the benchmark for a contaminating organism, it may lead a winemaker to unnecessarily add bacteria, yeast or SO₂ to his or her wine. A better tool is RNA, which can now be used as the new benchmark for testing and is available to the winemaker. Examples of RNA use include testing for the stilbene synthase gene (for anti-oxidant formation) and its activity in grapes and the Lactobacillus in malolactic fermentation conversion of the p-coumaric acid to precursors for Brettanomyces to metabolize.

Using RNA to monitor organisms is not particularly new in the scientific community, but it is to the wine producing community. FL Biognostics offers several tests that use RNA, and continue to bring new tests online—many at the request of winemakers.

FL Biognostics is a state-of-the-art wine testing facility utilizing analytical chemistry and molecular biology techniques to evaluate the underlying biochemical and biological characteristics in a winemaking process. Contact us at 877-BIO-5-LAB (246-5522) or by email at info@flbiognostics.com and let us work with you to achieve your vision for great wine.