WineAmerica Newsletter – April 2009

From The President's Desk

Policy Conference and Board Meeting

WineAmerica and Winegrape Growers of America held our joint policy conference in Washington in March. It was an important and successful opportunity for us to demonstrate our grassroots support, hear from key Congressional and Administration policymakers, make our views known to members of Congress and to host a terrific reception on Capitol Hill showcasing great wines from across America.

In the dizzying environment of administrative and legislative change and unprecedented economic brinksmanship that characterizes 2009 Washington, it is more difficult then ever to sort out all of these issues for their effects on America's wineries. We face great challenges.

First and foremost, everybody is quite concerned about the state of the economy and how this interplays with wine sales. While, it is difficult getting this issue sorted out in real time, some facts are becoming clear. High end wine sales at restaurants are way down. It seems that most wineries are experiencing higher traffic and sales at their tasting rooms, although, since the first few months of the year are slow, this is hard to gauge with authority. As consumers seek value, wines under $20 per bottle seem to be selling well in off-premise environments. It will take some time to sort out the overall impact on the industry. According to Danny Brager of Nielsen who spoke during our March meeting's policy conference, wine is still a growing category albeit with some significant shifts in particular products and place. People are going out to restaurants less, and dining at home more. As a result, value wine products less than $20 are generally experiencing growth from off-premises sales (this is more easily measured by Nielsen than tasting room sales). Overall, consumers are spending more on wine at retail. In the latest Nielsen survey, wine sales increased 9.7% in dollars and a little less in volume. The volume change for wine makes it the third best performing major sector in retail markets. This is not across all sectors, however, given the weakness in on-premise sales. In the fourth quarter of 2008, on-premise wine sales in key markets, Atlanta, Washington, DC, New York and Los Angeles were down 23%, 21%, 21% and 7% (dollar basis) respectively. Softness in on-premises sales has led to some promotional activity such as "half price Wednesdays," "$10 a bottle promotions," and the like. It is too early to tell if these promotions will lead to market recovery. Mr. Brager concluded that wine is relatively mildly impacted by the recession and that it remains an "affordable indulgence."

Public policy challenges are also at a very high level. Our Board had to cope with a challenge to US wine exports to Europe that use terminology on their labels such as "tawny, ruby, vintage, sur lie and chateau or clos." At the beginning of March, the Europeans revoked a regulatory derogation that had allowed US wine makers to use these "traditional terms" on imports into Europe. This put WineAmerica and other trade associations on the defensive as enforcement of the restrictions on these terms could lead Europe to prohibit US wines that use them. The Europeans have frequently indicated that they would accept wines meeting a definition of these terms. As a result WineAmerica was asked to fast track definitions for that would not negatively impact American wineries. Since a

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number of American wineries use the term “chateau” or “clos” as part of their brand name we were particularly concerned that there be a quick and satisfactory resolution to this problem. The WineAmerica Board passed a resolution endorsing definitions that protect our members, and this action has been transmitted to the EU. The resolution and definitions can be read on our website under International issues. It is hoped that the EU will move forward and respect American trademarks.

Craig Regelbrugge of the American Nursery and Landscape Association and the leader of the Agricultural Coalition for Immigration Reform (“ACIR”) gave an update on legislative prospects for normalizing the agricultural workforce. ACIR is a coalition of more than 300 fruit, vegetable, dairy and livestock, nursery and greenhouse groups seeking to pursue meaningful, lasting immigration reform. It has been successful in working with groups representing agricultural labor to forge compromise legislation addressing the needs of agriculture and its workers. The resulting compromise is known as AgJobs and enjoys widespread bipartisan support. In agriculture there are approximately 1.6 million farm workers and it is estimated that about 75% are unauthorized. Even more shocking is that virtually all, 99%, of new entrants to the agricultural work force are unauthorized. The current visa program for agriculture workers, H-2A provides for guest workers but only about 2% of farm jobs are filled by H-2A authorized workers. The AgJobs bill would overhaul the H-2A visa process to make it streamlined, predictable, affordable and workable. Workers who make a multiyear commitment to work in the agricultural sector and meet other tough conditions would eventually get “adjustment of status” and qualify for residence in the United States. Although the entire issue of immigration reform has become severely and negatively politicized, AgJobs is generally considered the strongest component because it is clear that there is no other viable mechanism for filling these jobs. The Congressional effort is being led by Senator Diane Feinstein (D-CA), and representatives Howard Berman (D-CA) and Adam Putnam (R-FL). We expect AgJobs bills to be introduced in both houses of Congress in the next couple of weeks. It remains essential that WineAmerica members press their Congressional members to support this critical legislation.

Our policy conference demonstrates the importance of having strong grass roots strength throughout the country supported by membership in WineAmerica. In the next few weeks we will begin to unveil an ambitious plan to increase our membership through peer-to-peer contact.

The Assault on Alcohol

Neo-prohibitionism is making a comeback. Maybe this is a reflection of bad times and poor funding for alcohol abuse treatment. Many states have introduced or are contemplating potential alcohol excise tax increases. Often these bills are politically enhanced by dedicating the increased revenues to alcohol abuse treatment. At least sixteen states have proposed excise tax increases in 2009. So far none of these have passed.

In Europe, a spate of reports on binge drinking, perhaps coupled with World Health Organization attempts to address alcohol abuse, has led to many proposals from the public health community that would resurrect already failed “public health” approaches to reducing alcohol abuse. The main difficulty here is that the public health community seems to buy into the poorly conceived Ledermann principle—*i.e.*, that the relevant metric of progress in addressing alcohol abuse is whether you have reduced per capita consumption. It would seem that all the data about the health benefits of moderate consumption would have discredited Ledermann by now, but apparently not. Implementing policies that reduce overall consumption, typically involving higher taxes, raising minimum prices, reduced availability, advertising restrictions and increased minimum drinking age, are in vogue throughout Europe. The problem with these approaches is that it is far easier and more likely to reduce moderate consumption than to address actual alcohol abuse. Under the Ledermann principle any reduction of overall consumption counts as much as any other—even though reducing consumption by moderate drinkers is most likely counterproductive because it undermines the health benefits. This mindset is extremely destructive and will need to be countered by affirmation of moderate responsible patterns of consumption as a social/cultural norm through the "culture of wine." In addition we must insist that public policy leaders understand and articulate that the problem is "abuse and risky consumption"—not consumption in itself.

In the US, wineries have played a major role in improving and stabilizing rural economies by bringing enormous productivity and production of a value added good. The viability and continued growth of American wineries should not be sacrificed to the Quixotic whims of those who seek to slay the dragon of "demon" alcohol. While alcohol abuse is a serious problem, it is important that public policy counter the problem in an effective and balanced way.

Food Safety

Food safety legislation remains a serious concern for WineAmerica. Food recalls and safety issues continue to plague the American food supply with a large recall of pistachios occurring just this week. It is virtually certain that Congress will pass some kind of legislation dealing with this vexing and frustrating problem. Our challenge is to ensure that America's wineries are not saddled with unnecessary and inappropriate fees and regulations. We are making our case—wine producers should be exempted from any fees imposed to pay for a food safety program. Wine poses only minimal risk because pathogens cannot survive in wine. Furthermore, wineries are primarily regulated by the Alcohol & Tobacco Tax & Trade Bureau ("TTB") and pay large amounts in excise tax to TTB. Fees as high as $2,000 annually for each food processing plant have been proposed, so it is essential that all wineries make their views known on this issue. We will be sending out special bulletins as the political dynamics clarify in the next few weeks.

Agriculture and USDA

As part of our policy conference, participants visited the Department of Agriculture to be briefed by key staff from research, APHIS, rural development, foreign agriculture service and risk management. The new Secretary of Agriculture, Tom Vilsack, joined us for a photograph and said a few words. He is very much aware of the importance of specialty agriculture and of small and medium sized farms. It is gratifying to take note that programs we care about in USDA are beginning to be implemented in the wake of the Farm Bill's passage. We heard that vineyards and wineries were the most successful group in terms of obtaining Value Added Producers Grants from the Department of Rural Development.

Grape and wine related research are a major component of the USDA portfolio for agricultural research. Progress is being made, although it is extremely disappointing that Congress has made cuts in the allotment for both the Viticulture Consortium and the special grant funding Pierce's disease research. Part of the problem is that these two grants are considered "earmarks" and thus subject to scrutiny and cutbacks. This year there was a significant increase in funding for what was formerly known as the National Research Initiative ("NRI"), now renamed the Agriculture and Food Research Initiative ("AFRI"). Approximately $190 million has been designated for grants under AFRI. That compares with $164 million in FY 2007. We will see how well the program responds to the needs of grapegrowers and winemakers. Additionally, there will be about $47 million available for the Specialty Crop Research Initiative which was funded in the 2008 Farm Bill. In short, more total money is going out to support agriculture research although it is not yet clear how well grapes and wine will fare in these new programs. One encouraging note is that industry establishment of the National Grape and Wine Initiative ("NGWI") puts the grape industry in a much better position to seek grants. How all these changes pan out in terms of real improvement in research for our industry remains a question mark.

National Clean Plant Network

Another newly formed element from the 2008 Farm Bill is the National Clean Plant Network

("NCPN"). It was inserted largely at the behest of grape, tree fruit and nursery industries as a mechanism to improve on the delivery of disease free planting materials to growers and producers of perennial crops. This program received $20 million in funds over the five year life of the Farm Bill. NCPN is being organized by APHIS in conjunction with CSREES and the Agricultural Research Service ("ARS") with a major focus on the grape industry. The NCPN group held a meeting in Washington, DC just after the WineAmerica policy conference. The news from the group is quite encouraging as its organizational structure is coming together and there are indications of supplementary funding from another section of the Farm Bill which would help fund state efforts to maintain certification programs. Another positive note is that those developing the draft business plan for NCPN were asked by the Secretary of Agriculture to address how the program would help small producers and distributors. That request is significant because it makes clear that the Secretary wants smaller outfits in agriculture to be considered as well as big corporate farms. What follows is an abridged version of the Secretary's comments:

"Healthy, clean planting stock is the key to the cost-effective production of horticultural crops and is necessary for U.S. agriculture, especially for small agricultural operations, to remain internationally competitive and economically viable. The process of creating disease-free planting stock takes many years and can be cost-prohibitive for individual growers…While creating and maintaining clean stock is expensive, the cost for controlling or eradicating a pest outbreak that might result from planting infested stock would be far greater. Another component of the NCPN program, comprising about 10% of apportioned resources, is an extension and outreach service designed to inform small and mid-sized producers about the benefits of using certified clean plant stock and to connect these producer with the sources of the plant material."

Finally, I would like to stress that in these times, when environmental sensitivity is a key factor in setting priorities, we should remember that wine is a product which is extremely environmentally friendly. It is a high value, plant derived product which encourages socialization, discussion and enjoyment of life in a setting of repose without the need for expensive and resource intensive amenities. Few other products can make that claim.

2009 Value Added Producer Grant Applications Will Soon Become Available by Jennifer Montgomery

The United States Department of Agriculture ("USDA") has several grant programs in place designed to assist the specialty crop industry and value-add producers. In this article, we focus on one program that is particularly useful to the wine industry, the Value-Added Producer Grant ("VAPG") program. First funded in 2001, the VAPG program is available to individual producers and groups of producers who add value to their products through additional processing. The goal of the VAPG program is to encourage producers to increase their farm income by converting their raw products into value-added goods that will then enter into emerging markets. The wine industry has used this program successfully in the past.

Those who are specifically eligible to apply are:

- Individual producers or an association of producers such as a producer owned corporation, LLC or LLP;
- A farm cooperative;
- An agricultural producer group such as a trade association; and
- A business 50% or more owned by producers and where the proposed activities

involve entering a new or developing market for the applicant.

These grants are divided into two categories, planning grants and working capital grants. Planning grants ($100,000 maximum per grant) are awarded for economic activities that are used to determine the feasibility of a potential value-added endeavor such as marketing plans, business plans, and legal evaluations. Working capital grants ($300,000 maximum per grant) are awarded for activities related to the operation of the endeavor and pay the normal expenses associated with the operation of the project.

USDA's Rural Development Agency is preparing to publish its official Notice of Solicitation of Applications ("NOSA") for the grants in the Federal Register and WineAmerica will publish more information as it becomes available. Wineries are strongly encouraged to apply for these grants and tips for the application process can be found at http://www.rurdev.usda.gov/rbs/coops/applicants.htm.

TTB Examines Procedures for Personalized Labels

By Michael Kaiser

Over the course of the last few years, more and more small wineries have started doing personalized labels for their customers. Personalized labels run the gamut from printing a label for a consumer in a tasting room to taking large orders for weddings and other events. Many WineAmerica members have been using personalized labels. So many that we felt the need to explain the procedures necessary in an earlier newsletter. As of March 2009, TTB is now reviewing their procedures for personalized label approval.

Up until very recently, TTB would allow wineries to submit "generic" labels to qualify for COLA approval for personalized labels. That is, a winery could put all of the required information on one "brand" label. Technically, this would be considered the front label by TTB, even though to the consumer it would be on the back of the bottle. Along with this "generic" label the winery could submit a blank label representing the personalized portion of the wine label and simply notate that the personalized info was to go on that label. The winery was then given leeway for personalization. All that was required was that the winery did not put anything prohibited on the label, such as making health claims, intoxicating claims, or using government symbols. Also, the personalized label could not make mention of anything relating to the wine that was not on the brand label. TTB has decided to become a little stricter with personalized label submissions, reportedly because TTB field investigators were finding labels with prohibited information.

The current procedure for submitting personalized labels is not drastically different. TTB now requires that along with the "brand" label, wineries must submit a personalized label with some kind of representative artwork. So if a winery personalizes labels for weddings, a representative sample needs to be submitted for COLA approval. The winery must then explain (in item 19 on the COLA form) in what other instances the personalized labels might be used. In other words, TTB does not want label submissions for *every* personalized label that a winery makes, they are only requiring a representative label with artwork and a list under item 19 of the COLA application that explains all other possible uses for the personalized label. TTB informs us that they do not want complicate the process, merely gain a sense of how personalization will be used.

If you have any questions about this process please contact WineAmerica for clarification.

March Meeting Roundup

By Cary Greene

For those who missed it, our Spring meeting was at the end of March this year. As always, the Taste of America wine tasting was the highlight of the meeting. We had the chance to have some of our friends on Capitol Hill enjoy fine American wines from more than twenty states. As a working conference the Spring meeting was a success.

The results of our 2009 Board elections are in and we welcome to the Board:

(1) Trent Prezsler (Bedell Cellars, NY); and
(2) Doug Caskey (Colorado Wine Industry Development Board).

Doug is the new Chairman of WineAmerica's State Associations Council ("SAC"). Some old friends have been reelected to new terms including:

(1) David Braganini (St. Julian Wine Co., MI);
(2) Thomas Held (Stone Hill Winery, MO);
(3) Naomi Shepherd-Smith (Grande River Vineyards, CO);
(4) Harry Peterson-Nedry (Chehalem, OR);
(5) Doug Moorhead (Presque Isle Wine Cellars, PA); and
(6) Ed O'Keefe, III (Chateau Grande Traverse, MI).

We also filled a few vacated seats during the Board meeting which ultimately allowed us to retain outgoing SAC Chair Jim Anderson (Missouri Grape and Wine Program) as a Board member. We congratulate them and look forward to hearing to their input and advice.

The Board adopted several proposals at the March meeting. It approved a resolution that we hope will protect our members that export to Europe who use "Chateau" and "Clos" in their brand names or who otherwise use terms the European Union has designated "traditional expressions." Second, we approved a proposal opposing passage of the Employee Free Choice Act, also informally known as "Card Check"—a federal bill that would upend longstanding rules that protect the unionization process. Card Check is a highly controversial proposal that many business owners oppose in its current form. WineAmerica's resolution to oppose Card Check allows us to sign onto letters from other business groups that voice our concern and opposition to the existing proposal. Third, we approved a resolution to remain neutral with respect to a proposal by the California Association of Winegrape Growers—recently submitted for federal approval—that would require wineries to use 100% domestic fruit for any "American" appellation wines.

As part of its staff reports, WineAmerica announced a new membership campaign and provided Board members with our new brochure, which describes WineAmerica's programs and benefits. The brochure gives a sense of why it is important to be a member of WineAmerica and how our organization benefits America's wineries. You can find a copy of the new brochure on the last page of this newsletter. The membership campaign aims to grow WineAmerica into an even more successful organization, ultimately aiming to double the number of wineries who are currently members.

We also talked about the new discounts FedEx has agreed to provide our members (outside of California). These discounts are substantially larger than prior FedEx discounts and you can qualify for them merely by being a WineAmerica member. In many cases, the discounts alone will make WineAmerica membership pay for itself. For more information, you can contact Adam Graytock. There is also an article providing further details on the last page of this newsletter.

The biannual SAC meeting closed out our Spring meeting. SAC representatives talked about their successes this past year, and the continuing growth, economic impact and general success of their states' wineries. It was also a chance for SAC representatives to hear how winery law and policy work in states other than their own. One of the outcomes of this discussion is that WineAmerica will look in more detail at how state law impacts winery business operations. The turn out, combined with the obvious camaraderie at the SAC meeting showed how the American wine industry is really beginning to work together and exert its collective muscle as a growing rural economic force.

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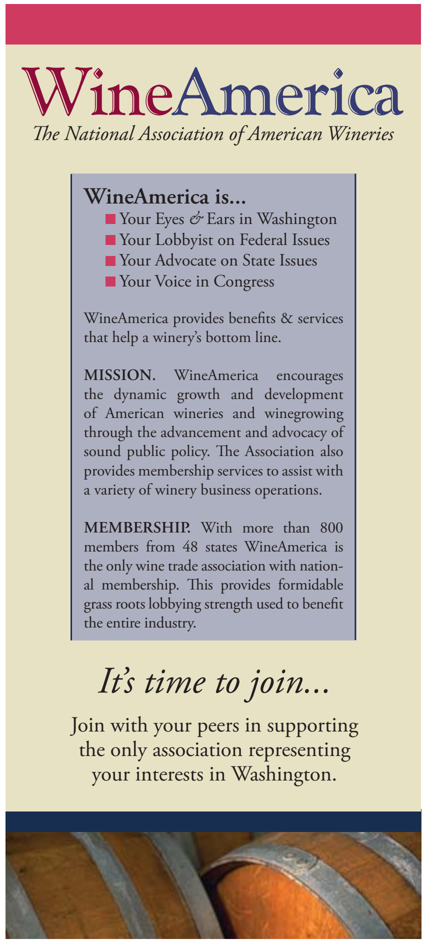
New Wine America Recruiting Cards

Thanks to Kevin Atticks of Association of Maryland Wineries who designed this new brochure to help WineAmerica recruit new members. We have many copies and would be glad to supply any organization or individual who is interested. Just send us an e-mail or call us.



WineAmerica
The National Association of American Wineries

WineAmerica is...
- Your Eyes & Ears in Washington
- Your Lobbyist on Federal Issues
- Your Advocate on State Issues
- Your Voice in Congress

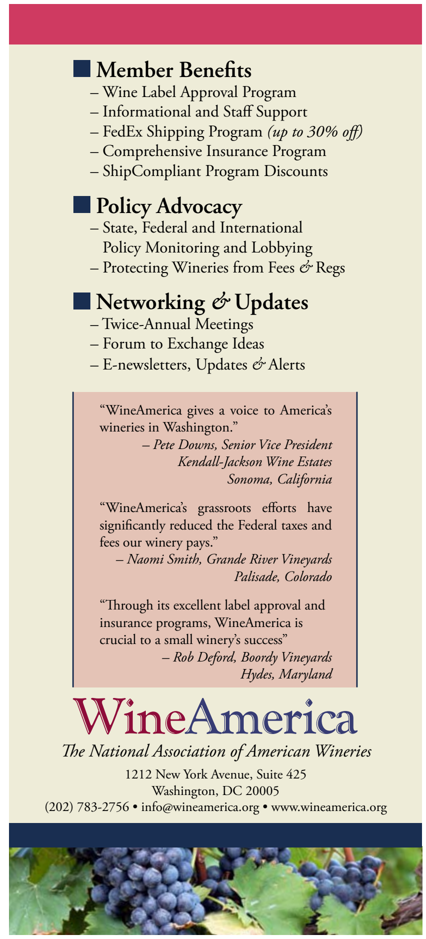
WineAmerica provides benefits & services that help a winery's bottom line.

MISSION. WineAmerica encourages the dynamic growth and development of American wineries and winegrowing through the advancement and advocacy of sound public policy. The Association also provides membership services to assist with a variety of winery business operations.

MEMBERSHIP. With more than 800 members from 48 states WineAmerica is the only wine trade association with national membership. This provides formidable grass roots lobbying strength used to benefit the entire industry.

It's time to join...

Join with your peers in supporting the only association representing your interests in Washington.



Member Benefits
– Wine Label Approval Program
– Informational and Staff Support
– FedEx Shipping Program *(up to 30% off)*
– Comprehensive Insurance Program
– ShipCompliant Program Discounts

Policy Advocacy
– State, Federal and International Policy Monitoring and Lobbying
– Protecting Wineries from Fees & Regs

Networking & Updates
– Twice-Annual Meetings
– Forum to Exchange Ideas
– E-newsletters, Updates & Alerts

"WineAmerica gives a voice to America's wineries in Washington."
– Pete Downs, Senior Vice President
Kendall-Jackson Wine Estates
Sonoma, California

"WineAmerica's grassroots efforts have significantly reduced the Federal taxes and fees our winery pays."
– Naomi Smith, Grande River Vineyards
Palisade, Colorado

"Through its excellent label approval and insurance programs, WineAmerica is crucial to a small winery's success"
– Rob Deford, Boordy Vineyards
Hydes, Maryland

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FedEx Discounts

Together with FedEx, we have significantly enhanced your member benefits in the FedEx Advantage® program. The new discounts are available to our members throughout the U.S. (except California members) as follows:

- up to 50% on select FedEx Express shipments,
- up to 28% on select FedEx® international shipments,
- up to 22% on FedEx Ground shipments, and
- up to 16% on FedEx Home Delivery® shipments.

In addition, the Adult Signature Required Delivery fees for FedEx Express® and FedEx Ground® wine shipments is now reduced by 53%. This drops the current fee of $3.75 to just $1.76 per shipment for WineAmerica members enrolled in the FedEx Advantage program.

There are no minimum FedEx shipping requirements. These new discounts make the FedEx Advantage program an even stronger value for your business.

These new discounts are already in place for members enrolled in the program. If you are not enrolled, call Adam Graytock in our office at (202) 783-2766 to sign up.

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