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From the President's Desk

Like a sudden blast of winter wind, January has brought incredible political activity to Washington: the President's budget comes out shortly; Congress is well advanced on an appropriations continuing resolution to cover FY 2007; immigration reform is likely to start up again soon; the USDA has just made an important and very detailed proposal for the farm bill which must be passed this year; and, it is just getting started. We expect other major items like association health care and FY 2008 appropriations bills to come to the fore shortly.

Appropriations

Congress has begun the process of providing the appropriations for the fiscal year which began last October. In so doing, the Democratic majority decided to pass a greatly simplified appropriations bill stripped of virtually all earmarks, those little notes which direct money to specific recipients. Scandal has surrounded the process recently as members have sometimes inserted items which benefit family and friends. All this without fingerprints! The new Congress has promised to reform the process, but has not had time to formulate and pass the reforms. The simple expedient therefore was to pass a bill finishing up FY 2007 with all the earmarks stripped. The proposal passed the House at the end of January. Unfortunately, a number of Congress-

sional allocations key to grape and wine research were at least temporarily eliminated by this action.

The good news is that the Agricultural Research Service (ARS), the in-house research agency for the Department of Agriculture, where much grape research is conducted, came out in pretty good shape. No funding for building construction, such as the new building at Geneva, was allowed but it is possible that this will be corrected in the FY 2008 budget. In addition, the House of Representatives had earmarked \$250,000 for grape and grape product nutrition research associated with the National Grape and Wine Initiative which will not be part of the final bill. Other than that, ARS emerges more or less intact. Existing positions are continued and a portion of the mandated salary increases are funded.

CSREES, which channels research money to state researchers, is another matter entirely. Gone for this year are the Viticulture Consortium which competitively funds grape research throughout the country, part of the funding for the Northwest Center for Small Fruit Research, the special grant for Pierce's Disease research, and grants to support the Washington Wine-grape Foundation Block and *Vitis* Gene Discovery in Missouri. These projects are critical for viticulture research.

While the Congress did provide alternative funding by increasing formula grants to State Experiment Stations, this mechanism will not easily be converted to maintenance of the grape research agenda. The next couple of months will require a great deal of patching and shifting, mainly at the state level.

The FY 2008 appropriations process will begin soon. Congress seems to be prepared to go back to earmarks through a reformed and much more transparent process. WineAmerica and our allies will have to work hard to get restoration of our research projects in a much altered environment. We will also be attempting to get the remaining funding for the Grape Genetics Research Center in Geneva, New York appropriated, about \$13 million. You will hear much more about that later.

Farm Bill

In the last week of January, the Department of Agriculture released its proposals for renewal of the Farm Bill—a five year articulation of national farm policy which must be passed in 2007 in order to continue a wide variety of programs. Reflecting a great deal of lobbying by the Specialty Crops Farm Bill Coalition, the administration proposal was quite responsive to specialty crop needs.

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The most significant new item was a very nicely developed plan for a Specialty Crop Research Initiative to be funded with \$100 million in new resources per year and to address the needs of specialty crops to have science based tools to improve our competitiveness. The proposal closely tracks recommendations from the Coalition.

A fair number of other components of the Coalition plan were adopted by USDA, including increasing funding for Market Access Program (MAP) by \$25 million per year for non-program commodities. The new money is to help address the "inequity between crops that are directly subsidized and those that are not directly subsidized." Other elements include improving nutrition through additional specialty crops in the schools, prioritizing applications for specialty crop producers in the Value-added grants program, providing funding for conversion of specialty crop wastes to biofuels, help with trade issues and increases to the EQIP conservation program.

All in all, these administration proposals provide great momentum for the coalition as we enter into the Congressional development of a new Farm Bill. There are a couple of important omis-

sion such as the block grants program and our proposal for a National Clean Plant Network, but we are off to a great start.

Statistics

The USDA recently published fruit crop statistics for 2006. Although this is the preliminary report and in recent years has been revised upward in July, it usually gives a pretty good indication of industry trends. The value of the grape is down about 10% from last year's very large crop. Mostly this decline emanates from a 23% decline in California wine grape value reflecting somewhat lower prices as well as significantly lower production. For what it's worth, the January report in 2006 actually shows a higher value than the January 2005 report for California, so it will be most interesting to check on the final result later this year.

Some of the details are quite interesting. California table grapes dramatically increased in value and production for 2006. Most other major wine producing states showed increases led by Oregon with a 45% increase and Washington wine grapes up 11%. Still, Washington and Oregon wine grapes, combined, are only about 10% of the value of California wine grapes. Virginia and North Carolina values each increased by more than 20% although their absolute values are still quite low. All four of these states reported record crop values. Texas reported a very dramatic decline – perhaps this is preliminary. Michigan, where the

statistics primarily reflect juice grapes, had a tremendous weather related decline in 2006.

The bottom line is that the report shows a decline of just fewer than 10% from 2005's almost \$3.5 billion dollar crop to about \$3.2 billion. Still, it is the second largest grape crop on record.

Staff Changes

Kelly Rusk, a mainstay of WineAmerica for the last five years is going to



be moving on. His wife, Jennifer, received a great job offer for a management position in Milwaukee, WI and they are going to be moving there shortly. Kelly has been key in making WineAmerica a better and more effective organization and we will miss him very much. At this time we are sorting out options for staff reorganization. We will let you know more about that as it develops. In the meantime, please join us in wishing Kelly and his wife all the best in their new endeavors!

Quick Tip:

2007 State Legislative Bill Tracking is up and running in the Online Lobby Center. This feature allows you to monitor bills introduced in 2007 by state or by subject. You can also look back at bills introduced in 2006. This is a useful tool to allow you to quickly monitor status of certain bills or to use legislation from other states as a model for your own.

You can find the Lobby Center under the Members Only tab on the main menu of the WineAmerica website.

From the COLA to the Shelf: Tips for Getting Your Labels Out the Door

Just a few short reminders this month. As of January 15th, there is a new COLA form. The new forms were due to be implemented on October 1, 2006, but the deadline was extended to January 15th, 2007. The form can be downloaded here: <http://www.ttb.gov/forms/f510031.pdf> When printing the form make sure it is formatted for legal size (8" by 14") paper. The TTB will not accept forms formatted incorrectly. Please submit **TWO** copies of the COLA form to WineAmerica.

Also, the current turnaround time for labels is averaging three weeks. Status requests cannot be submitted to the TTB until at least 30 business days after submittal.

As you may have heard, the TTB budget has been cut by the federal government. This will mean many things for those of you submitting labels this year. **The following article, from Beverage News Daily, speaks to the issues surrounding the funding cuts.**

Manfreda Says Budget Freeze Likely to Slow TTB Operations

*Taken from Beverage News Daily
January 19, 2007*

It's likely to take longer to get your year labels approved, formulas reviewed and permits issued by the Alcohol & tobacco Tax & Trade Bureau this year.

That's one fallout the failure last year of the Republican-led 109th Congress to fund the U.S. Government's for current fiscal year, which ends Sept. 30. The 110th Congress's new Democrat leadership decided not to do the Republicans' work. Instead, they are simply keeping all agencies' funding at the same level as in the fiscal year that ended Sept. 30, 2006.

They reasoned that by the time funds for the budget were appropriated, the government would be more than halfway through the current fiscal year. That would mean less time to scrutinize agency operations and develop a budget reflecting Democratic priorities and fiscal constraints. Fiscal conservatives applauded the move, because it will help reduce the national deficit.

But John Manfreda, administrator, Alcohol & Tobacco Tax & Trade Bureau, told Beverage News Daily it will pinch federal agencies, including TTB. That's because while much of the agencies' operating costs - such things as salaries, contracts, etc. - will go up at about the same pace as the cost of living, their budgets will remain frozen at last year's level.

"We'll manage," he said, but it will inevitably lead to "tough calls."

Increased Workload

He noted TTB's workload has been increasing. >From 1999 through 2005, there was a 135% increase in the number of new permits issued, and the agency expects a further 38% increase in the next two years.

Likewise, processing of Certificates of Label Approval each year was up 57% from 1999 to 2005, and is expected to rise 32%.

And formula reviews rose 154% from 1999 to 2005 and another are expected to jump another 26% between 2006 and 2009.

Manfreda said he was especially proud that TTB has largely met its standards for processing these items. For instance, 55% of all COLAs are processed in nine days or less, and 75% of formulas are reviewed within the agency's announced 21-day standard.

Audit Schedules Won't Be Cut

What he fears, he said, is that with a flat budget this year the agency will won't do as good a job meeting those standards. Manfreda made it clear that he won't cut people, but will look to reducing overtime, which could affect approvals of COLAs, formulas and permits, and travel.

He also expects to implement 23 of 25 recommendations by a consultant on how to more efficiently perform TTB's "protect the public" mission, which includes label approvals, formulas and permits. He's just not sure that improved workflow will offset the erosion of inflation.

He also said TTB's audit schedule won't be cut. Thus far, the audits have found a very high level of compliance by the industry with federal laws, he said.

2006 'A Very Good Year'

In the interview, Manfreda said 2006 was "a very good year" for TTB. Among TTB's major steps forward:

- TTB's West Coast laboratory was had been housed with the Bureau of Alcohol Tobacco, Firearms & Explosives laboratory in San Francisco was moved to a state-of-the-art facility in Walnut Creek, Calif. Most of the laboratory's workload is focused on the wine industry.
- TTB collected \$323 in taxes for every \$1 it spent on operations.
- It performed 100 audits last year.

Manfreda noted that the top 400 taxpayers account for 98% of the taxes collected by TTB. "We've now audited the top 211 taxpayers and we're finding there's no real tax gap. For the most part, industry is compliant." One of those audits resulted in Pernod Ricard USA submitting a \$220,000 offer in compromise, which was accepted. TTB found Pernod Ricard had attributed certain operations at its Lawrenceburg, Ind., brewery to a tenant, when in fact the brewing was performed by Pernod's staff.

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From the COLA to the Shelf—Continued from p. 4

Serving Facts/Alcohol Facts Rule Expected This Spring

Manfreda expects the agency to publish a decision this spring on petitions involving whether labels should contain Alcohol Facts worldwide.

and Serving Facts information, and, if they should, what information should be included.

He said he believes effective regulation must balance the needs of consumers with the needs of the industry.

He expects to publish a notice on ingredient labeling toward the end of this year. "It's probably the most difficult issue facing us," he said. That's because the key question is whether the label should disclose what goes into the product before it is brewed, distilled or vented, or whether the label should disclose what's in the bottle after processing.

"We'll need industry input" to help decide the question, he said, explaining that the Notice of Proposed Rulemaking "gives them a chance to object. But we need objective information, not just statements that 'We don't agree!'"

What's Pure?

Of special interest to distillers, he expects TTB to move this year on defining the pure meaning of "pure."

In a Global Economy, International Division Critical

Manfreda said a critical TTB mission is to make sure industry gets to play on a level playing field. While negotiating with foreign governments is a diplomatic function performed by the U.S. Trade Representative, TTB supplies USTR with technical information needed for effective negotiations and insures USTR understands how the industry operates, both domestically and worldwide.

TTB and USTR worked together to insure U.S. wine producers were able to sell their products into Germany. Prior to TTB's intervention, German producers were questioning the quality of U.S. wine, actually running TV commercials denigrating the U.S. product.

Manfreda said the World Wine Trade Group agreement will be signed in Australia next week.

Revising the FAA Act

TTB is "back in the marketplace after 15 years," Manfreda said, and its investigators are targeting shelf stocking, exclusive outlets and other "red flag" trade practice items.

But he said the "marketplace has really changed." Where violations in the past came from pressure by wholesalers or suppliers, today "some of the driving forces are coming from retailers." He said it's not true that TTB has no jurisdiction over retailers, and told Beverage News Daily the agency is looking at how to deal with the changed marketplace.

Does that mean he's ready to go the Congress and ask for changes to the Federal Alcohol Administration Act? Manfreda said the FAA Act, which is more than 70 years old, doesn't allow the government to tell industry members they are in violation. He attributed that to the Fedway decision nearly two decades ago. "Before Fedway, we would say that anything that results in decreased purchases is exclusion." That's no longer possible.

But, he said, he's not ready to seek amendments to the act. To some extent, that's because the entire industry is changing very rapidly, and there's not a consensus as to how it should be revised.

Direct Shipping, Grey Market Goods

We told Manfreda that we had heard grumblings that TTB isn't actively fighting direct shipping. Those complaints are barking up the wrong tree, he suggested. Not only does there have to be a substantial federal interest for TTB to act, but federal law allows TTB to act on direct shipping issues only if a state attorney general asks for help.

Have there been any requests from state attorneys general? No. "States can do injunctions," he said. "We have limited resources."

We also said we had heard complaints that TTB wasn't preventing grey market imports. "Grey market imports may violate franchise agreements, but they don't violate U.S. laws," he said. "If a product being imported is what it says it is, we have no basis to stop them."

We asked about settlements obtained by former New York Attorney General Elliott Spitzer against suppliers, retailers and wholesalers. "A lot of what he uncovered didn't violate federal laws," Manfreda said. But "we're reviewing what he found" and will act where appropriate.

Note:

The Economic Impact Study for the Grape & Wine Industry has been posted in the Online Library on the WineAmerica website. As we get information that we think would be of interest to you, we will continue to post those items in the Online Library. If you have any items you would like to share with other WineAmerica members, please contact the WineAmerica staff.

WineAmerica State Association Council Newsletter ...From the Grassroots!

WineAmerica's State Associations Council (SAC) provides a forum for state associations to network, share information, and collaborate on industry-wide public policy. In an effort to facilitate communications among the states, WineAmerica will be starting an SAC newsletter that will go out a few times a year. State associations are invited to send in a paragraph or two to update each other on some of the important issues in each state. The following are excerpts from two states to provide an idea of the scope of the SAC newsletter.

For more information and to participate in the SAC newsletter, please contact Jennifer Montgomery at jmontgomery@wineamerica.org.

From the Grassroots in Missouri
Submitted by the Missouri Grape & Wine Program

Missouri Wine Sales Up



More people in the Show-Me State are enjoying locally made wines. Missouri's wineries have experienced a steady climb in sales over the last four years. Figures released by the state for 2005 measuring wine sold from winery retail locations and in-state wholesalers show a jump in market share to 7.17%, up an average of 10% per year since 2002. Sales of Missouri wine reached a high of just over 700,000 gallons last year, small by other more famous wine producing states but phenomenal locally.

"While local wineries continue to capture a greater piece of the wine market, the opportunity for growth is excellent," said Jim Anderson, Director

of the Missouri Wine & Grape Board. "We are fast approaching our industry goal of one million gallons sold by the year 2010."

Missouri has a rich history of wine production. In the late 1880s, Missouri boasted the second largest winery in the United States and produced two million gallons of wine annually. The rebirth of the industry, shattered by Prohibition, began in the late 1960's, with the resumption of commercial wine production in the state.

History Uncorked

Missouri's rich history of winemaking is highlighted in the exhibit "History Uncorked - Two Centuries of Missouri Wine" open now at the Mercantile Library in St. Louis.

The Library, located on the University of Missouri, St. Louis campus, reports as of mid November, over 4000 people have toured the exhibit. In tandem with the exhibit, Mercantile Library staff is busy putting together continuing education sessions focusing on Missouri's wine varietals, label art and Agritourism. Co-sponsored by the Missouri Wine & Grape Board, the exhibit features vintage photos, late 19th century presses and tanks and original label art while recognizing the contributions made by Missouri to the national and international wine industries. Plans are in the works to create a traveling exhibit when the current one closes in June and sending it to France.

From the Grassroots in Ohio
Submitted by the Ohio Wine Producers Association

Ohio Consumers "Tempted to Try Ohio Wines"

REYNOLDSBURG, Ohio (January 08, 2007) - As Ohio's wine industry prospered there was no better time to sing the praises of Ohio's premier quality

wines. In June, July, August, November, and December 2006, over 6,000 television commercials

aired on network and cable stations across the Buckeye State.



Whether visiting an Ohio winery, retail shop or restaurant, consumers were "tempted" to try and purchase Ohio wines.

The three 30-second ads conveyed the Ohio Grape Industries Committee's (OGIC) message that Ohio wines are high quality, varied and ready to enjoy or give with pride. Also, the spots emphasized the bucolic beauty to be experienced at Ohio's more than 90 wineries.

As a result of the television commercials, Ohio's wineries reported an increased number of visits to the wineries along with thousands of requests for the "Guide to Quality Ohio Wineries" through the OGIC web site.

In 2005, the OGIC began the "Request for Proposal" process through Ohio's Department of Administrative Services. After receiving and evaluating numerous RFPs, the OGIC selected R/P Marketing and Public Relations based in Holland, Ohio.

Television ads were placed in Ohio's five major markets: Cleveland, Columbus, Cincinnati, Dayton, and Toledo. The commercials aired on several outlets in each market, including public broadcasting stations.

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Important Information About the 2007 Wine & Grape Policy Conference

Don't forget to mark your calendars for the 2007 Wine & Grape Policy Conference— March 18-21, 2007.

As you read in the President's Column in this edition of the newsletter, the Farm Bill, along with research and funding issues, will be working its way through Congress. In order to ensure that winery needs are represented on Capitol Hill, we need your help. We invite you to join us as we learn about the pressing policy issues and visit Members of Congress to educate them on industry needs.

Attendees to the meeting will also be able to participate in the WineAmerica and WGA Board meetings, the WineAmerica State Associations Council meeting, and hear from USDA Directors. Conference attendees also participate in the popular Taste the Wines of America congressional reception that draws Members of Congress and their staff and highlights the American wine industry.

This is a great opportunity to become involved in WineAmerica and to help effect strong public policy for the industry.

** Registration forms are posted on the WineAmerica website:

www.wineamerica.org/meetings/spring.htm.

** Be on the lookout for wine donation forms for the Taste the Wines of America.

For any questions about the Wine & Grape Policy Conference, please contact Jenny Mattingley at jmattingley@wineamerica.org or 202-783-2756 x124.

We hope to see you there!!



Pouring wine at Taste the
Wines of America



Meeting with USDA officials



Meeting with Members of
Congress