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From the President's Desk

For the last month, much of our effort has been toward getting the Specialty Crop competitiveness bill positioned for inclusion in the next Farm Bill, and also for getting money for Specialty Crop grants under the appropriations process. The good news is we are making progress. Agriculture Secretary Mike Johanns has been touting the importance of specialty crops to American agriculture. The 2006 version of the Specialty Crop Competitiveness Act is expected to be introduced in the House of Representatives sometime this summer. Currently, negotiations with sponsors are underway in order to finalize language for the bill which will be based on a proposal developed over the last year by United Fresh Fruit and Vegetable Association. It will contain several components which are potentially very valuable for wineries including:

- (1) Specialty Crop block grants to the states – funded at \$500 million per year
- (2) Research initiatives to provide a source of federal funding much more relevant to the needs of specialty crops and based on strategic plans
- (3) Mandating a Specialty Crop priority area with National Research Initiative
- (4) Funding for a clean plant network to provide and guarantee disease free planting materials
- (5) Adjustments in the Tree Assistance Program (TAP) to increase maximum payout from \$75,000 to \$150,000 and to clarify language to ensure the maximum amount would be available each year
- (6) Restructuring the current disaster assistance payments to allow producers of specialty crops with higher production costs to receive proportionally larger disaster assistance
- (7) Changing disaster assistance eligibility rules to include first handler (one who prepares for market) income as income from farming, thus allowing higher adjusted gross income limits to apply

There is some additional language for the research title which is being considered as a means of making USDA research more relevant for specialty crops:

- Promoting integrated projects combining research, extension and education, such as Initiative for Future Agriculture and Food Systems (IFAS), the CSREES program grants, National Research Initiative (NRI) and others which are especially valuable for specialty crops.
- Direct the ARS and CSREES to cooperatively and actively engage with and support producers and organizations comprised of key stakeholders working together in the development and implementation of applied research and extension.

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- Direct ARS scientists to deliver information to key stakeholders in a user friendly form, in addition to a standard research publication and, in turn, be rewarded for their abilities to deliver information to both the scientific community and the end-user.
- Requiring research and extension activities conducted by the government agencies to have industry appointed panels involved in the prioritization, administration, and oversight of dollars spent.

Specialty Crop Block Grants

The USDA has a web site for Specialty Crop Block Grants which were approved in 2005 by Congress and which will shortly be implemented. The site <http://www.ams.usda.gov/fv/scbqp.html> now lists state contacts for administering the grant program. It is a good idea to get to know the contact person in your state. Congress approved \$7 million for Specialty Crop block grants in 2006 and will probably appropriate more than \$10 million in 2007. The rules for administering the grants were somewhat controversial and are now scheduled to be published at the end of July. A provision in the Senate Appropriations Bill report recommends spending \$100 million on specialty crop block grants for 2007. It is not clear whether that provision can or will be implemented.

Appropriations

The Senate Appropriations Committee has approved their version of the 2007 Agriculture appropriation. It is less generous to the issues we care about than the version passed by the House of Representatives. This is normal as the House seems to step out on issues and the Senate only then agrees in conference with some adjustments. The most significant differences between the two versions are that the National Grape and Wine Initiative received some funding for nutritional work in the House, but not the Senate and the Geneva Grape Genetics building received sufficient funds for completion in the House, but only received \$2 million in the Senate. Construction on new USDA buildings can only begin when the entire amount has been appropriated. Specialty crop block grants to the states received \$15.6 million in the House and \$10 million in the Senate. Value added grants were included in both bills. The final version of the 2007 appropriation is not expected to be hammered out until after the 2006 elections in November.

Senate Passes Immigration Plan, House to Hold Hearings During July and August

The Comprehensive Immigration Reform Act of 2006 (S.2611), passed by the Senate on May 25th, has been sent to the House of Representatives.

The key elements of the Senate comprehensive bill are focused on border security and enforcement, a general-industry temporary guest worker program, a path for the 11 million undocumented workers already in the U.S. to earn residency, and a specific carve out for agriculture in the form of AgJOBS. It is widely supported by agriculture since it meets the requirements of a stable and legal workforce while satisfying the needs of border enforcement.

In December, the House passed "The Border Protection, Anti-Terrorism and Illegal Immigration Control Act of 2005" (H.R. 4437). This bill threatens to leave US agriculture without a workforce and has no components supporting the needs of US agriculture. Instead, it levies fines as high as \$25,000 per illegal worker, even if the employer is unaware of the illegal status.

Original expectations were that the Senate bill would be sent to conference to bridge the differences with the House immigration bill (HR.4437). However,

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rather than try to span the large disagreement between the House enforcement only bill and the Senate comprehensive proposal, House leadership decided that the best approach is to investigate the impacts of a comprehensive approach during a series of hearings to be held in July and August, which some view as a stalling tactic.

Some informal discussions are occurring that offer an opportunity to bridge the differing approaches to reform and to discuss a way forward in U.S. immigration policy, whether that begins with enforcement before implementing a guest worker program or doing both at the same time. In any scenario, the Senate and House are actively engaged in talks to work together on this issue.

Having agriculture included in the comprehensive immigration reform bill is a much needed and heralded first step towards finding a solution to the current immigration problem. However, if momentum is not maintained towards a balanced solution with a guest worker program, it may leave U.S. agriculture without a stable workforce. With estimates placing 70% of the current workforce as having questionable legal status, this would have a very negative effect on American agriculture.

Given the constantly changing dynamic of immigration reform, WineAmerica will continue its close work with ACIR (the Agricultural Coalition for Immigration Reform) and others to ensure that the needs of America's wineries are met and a balanced solution for the immigration problem is found. WineAmerica members are encouraged to contact their Representatives and Senators to express their need for a stable workforce.

State Legislation Update

Though summer has slowed down many state legislatures, the direct shipping and self-distribution issues continue to move forward. The following is a synopsis of the latest activity around the country.

Arizona

In early June, Governor Napolitano signed SB 1276 into law. The legislation allows wineries producing less than 20,000 gallons per year to ship directly to consumers and sell directly to retailers. In order to direct ship, the winery must pay taxes and file reports and also submit a \$500 surety bond to the state. Wineries that are in good standing (have paid taxes for 12 consecutive months) are exempt from the bond. The state liquor control commission will now begin to make rules and create the forms necessary to implement the new law.

Hawaii

On June 22nd, Hawaii's governor signed into law a bill that replaces the state's reciprocal shipping system with a permit system. Still based on individual counties (there are 4), wineries may obtain a shipper's permit and ship no more than 6 cases per household per year. Each county will have its own permit and set of rules & regulations, so a winery must obtain a permit from the county in which the customer resides. Wineries must submit reports and pay excise taxes to that county. The bill takes effect on July 1, 2006 and the state alcohol board will now work to create necessary forms.

Ohio

Ohio's direct shipping laws which allowed only in-state wineries to ship were overturned last year through a court order that opened the state to all direct shipments. Last week Governor Taft's office rolled out a proposal for a permit system that would allow in and out-of-state wineries to ship to consumers if the winery produces less than 100,000 gallons annually and they apply the state's minimum mark-up costs. The proposal would also extend to beer manufacturers and retail stores. The proposal is still in draft form and state wholesalers are

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lining up against it. The legislature won't begin hearings on the proposal until the fall.

Pennsylvania

Early in the month Governor Rendell introduced draft legislation that would allow in and out-of-state wineries to ship to consumers. Like Ohio, Pennsylvania's shipping laws were overturned by a court injunction that opened the state to all wine shipments to consumers. However, unlike other state permit systems, this new proposal would impose an 18% tax on the shipments in addition to the 6% sales tax. The bill also takes away winery rights to self-distribute. Though this legislation has been sent to lawmakers, it will likely not be heard in committee until the fall.

Washington

This month the state Attorney General's office appealed the federal court ruling that largely favored Costco's claims that Washington State alcohol regulations violated anti-trust laws and restricted competition. The Washington Beer & Wine Wholesalers Association has also filed an appeal. This will not affect the self-distribution portion of the *Costco* case since the legislature passed a law creating a permit system for both shipping and self-distribution. At issue in the appeal are several anti-trust violations. In the case, the judge ruled the state can no longer enforce several provisions, including:

- 10% minimum markup
- Ban on high volume discounts and credit sales to retailers
- Ban on central warehousing
- 30-day hold on price-posting
- Require wholesalers to charge uniform prices to retailers

These provisions are not unique to Washington and several are in place in other states. Therefore, the outcome of the appeal could have consequences for many states as the courts begin to examine the laws governing the three-tier system.

Retail Lawsuits

The latest chapter in the direct shipping debate has centered on several lawsuits filed by the Specialty Wine Retailers Association and individual retail outlets. These suits are based on the *Granholm* decision and seek to allow in and out-of-state retail stores to ship wine directly to consumers. Last month a preliminary injunction was issued in Texas allowing out-of-state retailers to sell directly to consumers. Lawsuits have also been filed in New York and California.

WineAmerica Direct Shipping Tool & Six88 Solutions ShipCompliant Software

Due to the complex patchwork of shipping regulations around the country, it is increasingly hard to keep track of the different laws for each state. This month WineAmerica launched its online Direct Shipping Tool. This new feature allows you to choose which state you'd like to ship to and it will provide information on the regulations and links to applicable permit and tax reporting forms (if available). To access the tool you will need your user name and password. The Shipping Tool also has a link to the ShipCompliant website. This new WineAmerica partner provides discounts on their innovative shipping software that manages the entire spectrum of direct shipping compliance from obtaining direct shipping permits, to checking the compliance of shipments in real-time, to automatically generating the necessary state reports that are ready to sign and send.

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From the Grassroots

Missouri

Jennifer Montgomery recently spent three days in Missouri visiting the state's wineries and seeing first-hand the level of the industry's organization and growth there. In addition to meeting many of WineAmerica's members, she also attended a planning meeting for the Missouri Regional Cuisines Project (MRCP).

The Missouri Regional Cuisines Project (MRCP) helps market Missouri wine and food products using distinct labels of origin based on ecological regions of the state.

The goals of the project include:

- Promoting sustainable rural development
- Fostering an appreciation for regional rural identity
- Increasing local cooperation among producers, marketers and community entities
- Developing new economic opportunities for rural regions faced with globalizing markets.

A pilot area, named the "Mississippi River Hills Region," was selected along the Mississippi River in eastern Missouri where the project was launched in 2003. Local groups in the region, including wineries, vegetable and fruit producers, owners of restaurants and bed and breakfasts, and local government and economic development officials are working together to document the unique food history of their region and use it to promote regional agritourism. This collaborative effort is directed by Dr. Elizabeth Barnham, University of Missouri Department of Rural Sociology.

"The project can help the communities of the region develop new products, develop a stronger economy from within and create regional identity for wines and local Agricultural products existing in the area," said Jim Anderson, Executive Director of the Missouri Grape & Wine Program.

North Carolina

From the Desk of Congressman Howard Coble (R-NC):

Congressman Coble was given a tour of Childress Winery by Mark Friszolowski, Winemaker & General Manager, Jeremiah Duinick, Retail Sales Manager, and Kathleen Watson, Marketing Director. These fine folks gave Congressman Coble, Becky Cage, his North Carolina scheduler, and Nancy Mazza, who operates the High Point district office, a tour of the facilities beginning with the wine press and crush pad located outside. From a terrace, the Congressman could see acres of grape vines and land for future vineyards. The group then headed inside to the fermentation room consisting of stainless steel tanks allowing the grapes to ferment. From there, Congressman Coble explored the barrel cave where the wine is stored in French oak barrels before bottling.

"As a longtime member of the Congressional Wine Caucus, I know the important role that the domestic wine industry plays in our economy and our way of life. I am a proud ambassador of the burgeoning North Carolina wine industry. We are small but growing at an excellent pace, and thanks to outstanding operations such as Childress Winery, the days of wine and roses in North Carolina have never looked rosier," said the Congressman.

Pennsylvania

WineAmerica staff members, Jennifer Montgomery, Jenny Mattingley and Kelly Rusk, spent a weekend at the Split Rock Wine Festival in the Pocono Mountains, pouring wine and meeting members of the PA's growing wine industry. Guests of Doug and Marlene Moorehead, owners of Presque Isle Winery in Erie, PA, staff

Quick Tip:

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was able to get a hands-on perspective for what working at a winery is like during festival time. The festival also provided an opportunity for WineAmerica staff to meet many of the Association's PA members and to focus on growing the WineAmerica Trailblazers consumer program.

Twenty-eight wineries participated in the two-day event that also included arts, crafts, music and food and attracts several thousand visitors each year.

West Virginia

Daniel Vineyards was the site for West Virginia's annual Spring Wine Festival, June 16 & 17, in Crab Orchard. Hosted by Dr. C. Richard Daniel, Jennifer Montgomery visited with the five participating wineries at the festival, which attracts approximately 700 – 750 people, and learned more about the challenges growing grapes in areas such as the mountains of West Virginia. With 16 wineries in the state, West Virginia continues to be a thriving part of our national industry.

Save the Date – Fall Board of Directors & Membership Meeting

Don't forget to mark your calendars!

The Fall Board of Directors & Membership Meeting will be held on November 12th-14th, 2006 in Canandaigua, NY.

The meeting will be held at the Inn on the Lake and the New York Wine & Culinary Center (<http://nywcc.com/>) in the Finger Lakes region of the state.

This meeting is a great chance to join fellow wineries from across the country and experience New York. Participants will also have the opportunity to plan the future direction of the Association, meet with winery and SAC members to continue to build the political strength of the wine industry at the federal and state level, enjoy the "Taste the Wines of New York" which showcases some of the most celebrated wines from the state, and attend informational sessions on national and state legislative issues and industry concerns.

More information on registration and meeting agenda will be sent out in the next few months. Please contact Jenny Mattingley with any questions about the fall meeting. We hope you'll be able to join us!

** Don't forget that the next meeting in Washington, DC (the 2007 Wine & Grape Policy Conference) will be held March 18th-22nd at the Washington Court Hotel.

Guest Column: Seeking Succession – Defining “Family” in the Family Business

By Loyd H. Rawls & Ricci M. Victorio, The Rawls Group

The term “Family Business” is an oxymoron. “Family” classically describes relationships that are based upon unconditional acceptance, while “Business” describes relationships that are based upon performance and productivity.

History has proven this combination of strange bedfellows - family and business - is the cause of high excitement in both the family and the business arena. Having a family business can bond family members, creating joy and gratification

Tip of the Month:

**** Looking for industry information on a range of topics? Or do you need to look through back copies of Label Tips & Tools or WineAmerica membership alerts?**

Don't forget to check the WineAmerica Online Library for a variety of documents and statistics. **

beyond measure. On the dark side, it can also generate self-centered competition for control or rewards of the business and can create devastating barriers between family members. The presence of family in a winery can produce enthusiasm, dedication and productivity that cannot otherwise be achieved, which are all important to being successful in the wine industry.

Unfortunately, petty, self-centered family guerillas can also bring a good business to utter destruction.

The relationships of family members within the business are not primarily defined in the terminology of job descriptions, production quotas and reporting charts. Working to an advantage or disadvantage, the family member status is the primary criteria and the job performance (at least for family members) is secondary. In a family business, if you work hard and do a mediocre job, you will not be fired. In a non-family business if you do a lousy job you will be looking for a new job despite your good intentions.

In a family business the attitudes and relationships of family members toward each other, for better or for worse, become the role model for how employees work together as a business team. Ideally, these role model family relationships create a working environment with more patience, empathy, support, reinforcement, and harmony. If this is the case, employees do not burn their productive energies on confrontation or concern for their job security and they form a hyper-productive business that is also a great place to work.

Strong intra-family relationships are critical to the succession of a family or privately owned winery. It matters not how sophisticated the financial plans are or how productive the business, if family members can not work together in harmony, succession is only a fleeting dream.

If your family and business environment is dominated by strife and dissension, forget succession because regardless of how attractive you make it, talented family members and employees will flee from this environment.

If relationships between parents and children do not communicate honestly and openly about running the business, forget succession.

If siblings and cousins do not respect each other and share common vision and goals, forget succession.

Relationships may not appear to be too important to the success of a winery until you witness the unraveling of a great organization due to family bickering, back biting or outright conflict. Anyone who has ever been a witness to these pitiful consequences of a family turning on itself will verify that it is ugly. With heirs having the expected burdens of management transition, estate taxes and banking pressures, they can rarely bear the additional emotional burden of intra-family conflict. Relationship friction in a family business is a "spiritual handicap" that can zap away both the profitability and the ability to carry the winery through the next generation.

As parents, siblings, cousins and in-laws interact in business operations and formally address succession of their business, all of these complex factors of relationship come into play. The prevailing environment promotes or inhibits the feelings of security, expectation of success and the exchange of important information required to give the next generation the information needed to run the business. A fundamental aspect of business succession planning is in recognizing that there is no business gain worth a family loss. However, you do not want the unconditional love of your family to blindly cause the destruction of your golden goose. Balancing the demands of running a successful winery and complex family relationships is critical when navigating the mine fields of sustaining a family business through the next generation.

*** This article is courtesy of WineAmerica Supplier member The Rawls Group & Family Business Resource Center. The Rawls Group is dedicated to succession by preserving and perpetuating family business legacies through the next generation. The Rawls Group defines a family business as one where two or more people are in business together for reasons other than money. Therefore, we assist the owners of family and privately owned*

businesses with any issue impacting business succession. Loyd H. Rawls, CLU, ChFC, MSFS, is President/CEO of The Rawls Group and Family Business Resource Center headquartered in Orlando, Florida, and has specialized in family estate and succession planning for family and privately owned businesses since 1973. Ricci M. Victorio, M.A., is Vice President of The Rawls Group and Family Business Resource Center in Fairfield, California, and has been principally responsible for developing the programs for teamwork enhancement, strategic planning facilitation and successor development curriculum programs.

For more information on this subject: www.info@rawlsgroup.com or visit them in the WineAmerica Virtual Trade Show.

From the COLA to the Shelf

Tips for getting your labels approved and out the door

The TTB has just released a new version of the Application for Certification/Exemption of Label/Bottle Approval (COLA application). This application can be downloaded from WineAmerica's website at <http://www.wineamerica.org/labels/labelprogram.htm>.

Note: The TTB will be accepting the previous version of the COLA form until October 1, 2006.

After sending your labels to WineAmerica (either by email or standard mail), make sure to call and confirm their arrival.

At your request, WineAmerica can submit a status request on label submittals that have been pending in the TTB database for more than 21 days. Keep track of the status of your labels through your WineAmerica online member account and let us know if and when you would like us to process this status request form.

Tip of the Month:

If you reference more than one vineyard anywhere on your label, the exact vineyard names must be listed with the accompanying percentages of grapes contributing to the final product.

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