Wineries: A Solid Foundation for Rural Economic Development

Iowa Grape & Wine Development Commission Forum
Des Moines, Iowa
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Presentation by David Sloane
WineAmerica

- Founded in 1978 by eastern winery interests
- 650 + members in 48 states
- Most are family-owned and operated, producing less than 10,000 cases per year
Member Benefits

- ATF Label Facilitation
- Federal legislative and regulatory government relations advocacy
- Customized Winery Insurance
- Technical and legal assistance to allied state associations and member wineries
- Timely communications on public policy developments
U.S. Industry Profile

- 6th Largest Crop (2/3rds winegrape)
- 1985, $955 Million; 2000, $3.1 Billion
- 10 percent of world production
- Only one of two crops not requiring subsidy (the other is hay)

- Annual Economic Contribution
  - $45 Billion
  - Jobs: 556,000
  - Wages: $12.8 Billion
  - State & Local Taxes: $3.3 billion
Economic Development Engine

- Promotes tourism/state branding
- Creates new source of revenues
- Synergistic effect on other local products
- Provides stable jobs in rural communities
- Economic benefits remain in local communities
Economic Contribution of Wineries in 2002
(Selected States)
California = $33 Billion
Michigan = $75 Million
Virginia = $96 Million
Washington = $2.4 Billion
Number of Wineries
IA, MO, NE, IL, IN, MN, WI

Year

0 50 100 150 200 250
Value-Added Agriculture!

**Tasting Room Sales**
- $1.00 spent on grapes yields $5.50 on wine sold in the tasting room
- From $15,000 - $75,000 per acre in gross annual sales

**Three-Tier Sales**
- $1.00 spent on grapes yields $2.00 through wholesalers.
Impediments to Wine Industry Development

- Antiquated state winery laws
- Excessive regulatory burdens
- Market barriers
- Lack of state and federal support
- Neo-prohibitionism
- Capital formation
<table>
<thead>
<tr>
<th>Authority</th>
<th># of States</th>
<th>Iowa</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tasting Room Sales to Consumers</td>
<td>50</td>
<td>Yes</td>
</tr>
<tr>
<td>Sales to Retailers (Wholesaling)</td>
<td>39</td>
<td>Yes</td>
</tr>
<tr>
<td>Wine Sales by Glass</td>
<td>32</td>
<td>Yes</td>
</tr>
<tr>
<td>Charging For Samples</td>
<td>19</td>
<td>No</td>
</tr>
<tr>
<td>Samples</td>
<td>50</td>
<td>Yes</td>
</tr>
<tr>
<td>Sales of Other In-State Wines</td>
<td>22</td>
<td>No</td>
</tr>
<tr>
<td>Additional Tasting Rooms</td>
<td>27</td>
<td>Yes</td>
</tr>
<tr>
<td>Special Event Licenses</td>
<td>26</td>
<td>Yes</td>
</tr>
<tr>
<td>Restaurant License</td>
<td>37</td>
<td>Yes</td>
</tr>
<tr>
<td>Direct Shipment – Remote Sales</td>
<td>25</td>
<td>Yes</td>
</tr>
<tr>
<td>Signs on Interstates</td>
<td>19</td>
<td>Yes</td>
</tr>
<tr>
<td>Signs on State Highways</td>
<td>35</td>
<td>Yes</td>
</tr>
<tr>
<td>Signs on County Highways</td>
<td>30</td>
<td>Yes</td>
</tr>
<tr>
<td>State Promotion Program</td>
<td>23</td>
<td>Yes</td>
</tr>
<tr>
<td>Viticulture Faculty</td>
<td>33</td>
<td>Yes</td>
</tr>
<tr>
<td>Enology Faculty</td>
<td>10</td>
<td>No</td>
</tr>
<tr>
<td>Research &amp; Extension</td>
<td>16</td>
<td>No</td>
</tr>
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</table>
# Winery Establishment Costs

<table>
<thead>
<tr>
<th>Establishment Costs</th>
<th>Per Acre</th>
<th>Per Bottle</th>
</tr>
</thead>
<tbody>
<tr>
<td>Winery</td>
<td>$50,000</td>
<td>$16.67</td>
</tr>
<tr>
<td>Working Capital</td>
<td>$50,000</td>
<td>$16.67</td>
</tr>
<tr>
<td>Vineyard</td>
<td>$15,000</td>
<td>$5.00</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$115,000</strong></td>
<td><strong>$38.33</strong></td>
</tr>
</tbody>
</table>

20 Acre Winery/Vineyard = $2.3 Million

4 Tons Per Acre @ 150 Gallons Per Ton = 12,000 Gallons

or 60,000 Bottles
Key Public Policy Issues

- Market access/direct shipping;
- Federal appropriations (viticultural research, Pierce’s Disease, MAP, etc.)
- Federal tax issues;
- State tax increase threat;
- Strengthening state winery laws.
Direct Shipment

- Arkansas
- Connecticut
- Florida
- Indiana
- Maine
- Massachusetts
- Michigan
- Montana
- New Jersey
- New York
- North Carolina
- Ohio
- Texas
- Virginia

Litigation states underlined
Justice Department Authorization Act (H.R. 2215)

- President signed on November 2;
- Authorizes air travelers to ship back what their state personal importation laws allow them to carry back;
- AVA working with shipping community;
- Expect state litigation.
Federal Tax Issues

- Estate Tax Relief;
- Special Occupational Tax Repeal;
- Increase Section 179 Expensing Limits;
- Expensing of Replanting Costs After Disaster - Section 263A (H.R. 2354)
Longer Term Farm Policy Goals

- Significant new federal commitment to the states for viticulture/enology research and extension
- Expansion of Value-Added Grants Program
- Hybrid familiarization/education program for key states
- State grants for wine industry development
Alcohol Tax Increases in 2002

- **Increases Approved:** Alaska, Puerto Rico and Tennessee.

- **Threats Averted:** Arizona, California, Connecticut, Hawaii, Indiana, Kansas, Louisiana, Maryland, Massachusetts, Nebraska, New Mexico, N. Carolina, Oregon, Washington.
2003 Expected Tax Battles

- Arizona
- Arkansas
- California
- Connecticut
- Florida
- Georgia
- Idaho
- Indiana
- Kansas
- Kentucky
- Maryland
- Massachusetts
- Minnesota

- Nebraska
- Nevada
- New Jersey
- New Mexico
- North Carolina
- Ohio
- Oklahoma
- South Dakota
- Tennessee
- Texas
- Virginia
- Washington
- Wisconsin
- Wyoming
WineAmerica Model
State Winery Law

- Marketing
- Promotion and Research
- Signage
- Shipment
Consumer Initiative: The Concept

WineAmerica

WineAmerica

Consumer Wine Portal

Wineries

Consumers
Key Objectives

- To establish a new “Consumer” class of membership within the Association;
- To strengthen membership value in AVA/WineAmerica, and to encourage more wineries to join;
- To establish a promotional alliance with consumers, to invest them in the policy welfare of the industry, and to augment our grassroots/political capabilities.