



JOINT INFORMATIONAL HEARING
Assembly Select Committee on Wine
Senate Select Committee on California's Wine Industry
Assembly Committee on Governmental Organization
Senate Governmental Organization Committee

California Wine Industry Update: Experts Discuss the Impact of State and Federal Actions and Regulations

November 29, 2018

BACKGROUND SHEET

San Diego Wine Industry Overview

San Diego's wine industry is experiencing record growth. A recent economic impact report by the San Diego County Vintners Association found that San Diego wineries generated a \$50 million economic impact in the region in 2017. This figure represents a significant increase from 2016 numbers (\$30.4 million). San Diego is experiencing seven years of record growth. 2016 was an all-time high for winery openings in San Diego with 26 new wineries open, followed closely behind by 2017 with 23 new wineries. Preliminary 2018 data shows this growth streak will be extended another year. Winery jobs are also growing as the industry grows. Winery wages in San Diego now match average winery wages in Santa Barbara County. As the San Diego wine industry looks to the future, the economic impact report notes a need to address obstacles associated with permits, local regulation, and increased labor costs.

Local and State Wine Industry and Regulatory Overview

Local Job Creation and Apprenticeship Programs

As demonstrated in San Diego, California's wine industry is growing. Industry growth has resulted in a need for additional skilled workers in the wine industry. To address the labor gap, San Diego winemakers initiated a local Viticulture Technician Apprenticeship Program. In cooperation with nearby community colleges, this program will help fill the skills gap in the wine industry, an issue not unique to San Diego.

California Department of Alcoholic Beverage Control (ABC): Statewide Trends

Across California, there are evolving issues in the wine industry related to employee training, cannabis, and social media marketing. According to ABC, by July 2021, all servers of alcohol in California, including those working in winery tasting rooms, will need to complete a course in responsible beverage service. ABC is working to develop systems and rules to implement this law to ensure employees are properly trained before the deadline. Additional education is also needed to address confusion regarding the legal separation of cannabis and alcohol businesses. California law specifies that alcohol and cannabis businesses must be separate, and that they cannot mix their respective products, but questions continue to arise as to how far this separation extends. Further, social media has made it easier for winemakers and retailers to communicate with consumers. However, existing regulations that restrict retailers and manufacturers from advertising for each other have become more difficult to enforce in the social media era.

Supporting Diversity in the Wine Industry

As California's wine industry continues to grow and evolve, it is important for state leaders and regulators to recognize and address unique challenges faced by communities of color in the wine industry. According to the Association of African American Vintners (AAAV), the wine industry as a whole is dominated by white Americans and other ethnic groups (Italians and French) that have been making wine for generations. African Americans are relatively new to the industry and make up a smaller proportion of the market. Small wine businesses operated by African Americans generally produce one thousand cases of wine or less per year and struggle to compete with market giants that have historic ties to the industry, more resources, and larger production operations.

Impacts of Federal Law and International Trade on the California Wine Industry

Interstate Shipping Challenges

Each state in the United States is allowed to set their own rules regarding liquor, wine, and beer. This has created for a complex system of licensing, fees, and procedures for wineries looking to ship out of California. Many states have different requirements for wholesale shipments and direct-to-consumer (DTC) shipments. According to ShipComplaint's *Direct-to-Consumer Wine Shipping Report*, consumers spent \$2.69B on DTC wine shipments in the United States. As of 2017, 42 states offered out-of-state sellers licenses to ship DTC to their states. However, with limited resources and staff, small wineries may struggle to find ways to legally ship wine to out-of-state consumers. In response, niche markets help wineries navigate the myriad of licensing requirements. Businesses like VinoShipper allow producers to comply with local and state laws by acting as a distributor and manager for all regulatory changes, filings, and shipments.

Additional requirements in various states such as age verification at the point of sale online create hurdles for wineries navigating out-of-state markets.

Federal Legislation

The Craft Beverage Modernization and Tax Reform Act went into effect on January 1, 2018. The Act intends to cut federal excise taxes on beer, spirits, and wine and includes sparkling wine for the first time. Additionally, the upcoming Congressional session will also see changes to federal policy. The federal Farm Bill, which creates and regulates agriculture and food policy in the United States, will be negotiated by Congress. The Bill is renewed every five years and expired in September. The wine industry continues to be a part of conversations about specialty crops, market access, and export policies contained in the Bill.

Trade and International Policy

As interstate shipping varies from state to state, so do international shipping policies. For example, China's recent increase in tariffs on the United States have raised some concerns amongst the wine industry. However, the United States saw wine exports to China grow by 14 percent from January to June in 2018 even with the tariffs. Trade policy amongst Canada and Mexico has also shifted with a new administration. The North American Free Trade Agreement (NAFTA), in place since 1994, is in the process of being replaced by a new trilateral agreement, the United States-Mexico-Canada Agreement (USMCA). The wine industry will see the elimination of several policies in Canada that prevented the sale of certain U.S. wines in grocery stores and a likely expansion of the Trans-Pacific Partnership with additional benefits for wine. Congressional approval of USMCA is forthcoming, likely in mid-2019.