The New York State Grape and Wine Industry

A Discussion of Mandate Relief and Regulatory Reform to Stabilize and Promote the State's Grape and Wine Industry

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EXECUTIVE SUMMARY

The New York grape growing and wine making industry is a major employer and economic force in the state, especially in New York's grape producing regions. Statistics bear out that the New York wine industry has been in a slow decline for the past ten years.

This report discusses the trends which illustrate the present strengths and weaknesses of the New York wine industry. Emphasis is placed upon grape grower and winery production problems. The report concludes with recommendations to address the problems that have been identified. Based upon the concerns that are raised in the report, there are actions that both the industry and the state can take to stop this downward trend and promote the expansion of grape growing and wine production.

GRAPE GROWER PROBLEMS AND TRENDS

1. Prices for most of New York's wine grape varieties have declined either absolutely or relatively since 1980.

2. New York's total grape acreage under cultivation has dropped over 23% since 1975. The largest reductions are occurring in wine grapes such as Catawba, Delaware, Dutchess, Aurora and DeChaunac.

3. French-Hybrid grape acreage has been drastically reduced by 33% in just the past five years.

4. Vinifera grape acreage has increased moderately, but has not recouped the reduction experienced in Native-American and French-Hybrid grape acreage.

5. At a time when New York vineyards are being abandoned, states such as Oregon and Washington are rapidly expanding Vinifera grape acreage and production for the making of premium wines. Oregon had 1,799 acres in 1980 and 5,135 in 1990, while Washington currently

has over 10,000 acres. New York ranks fourth behind California, Washington and Oregon with only 2,111 acres of Vinifera grapes.

6. Due to the reduction in wine grape acreage, New York wine grape production is also declining. However, the rate of decline in wine grape production is much smaller than the rate of acreage reductions.

7. Since 1974, New York wineries have been utilizing fewer New York grapes in the production of wine.

8. The decreasing demand for grapes utilized for wine production may have forced growers to shift grape shipments away from wineries and to juice processors. This shift of grape supply to juice processors has probably put downward pressure on juice grape prices.

9. New York continues to specialize in dessert wines and wine coolers which are a declining part of the U.S. wine market. Further, New York's production volume even in dessert wines is lower than it was in 1980 and wine cooler production is lower than it was in 1988.

10. New York's production of sparkling wine, which is one of the few expanding areas of the U.S. wine market, has been decreasing.

11. The decreasing volume of wine produced in New York has reduced the demand for grapes, has lead to soft or dropping prices for most wine grape varieties, and has affected juice grape prices.

WINERY PRODUCTION AND MARKETING PROBLEMS

1. There is a perception by many in the general public that New York's wine quality is inconsistent.

2. New York produced wines are relatively high in price when compared to similar out-of-state wines. This is particularly true for premium quality wines and wines produced by New York's small wineries.

3. The state's business climate has lead to higher costs for the production of wine in New York. Certain state laws and administrative requirements, imposed by the State Liquor Authority (SLA) and the Department of Agriculture & Markets, are extensive and increase the cost of producing wine.

4. New York's high excise tax rate has discouraged the production of sparkling wine. In fact, New York's sparkling wine production is declining. Sparkling wine production is a desirable

industry for New York to expand because it requires high priced grapes, specialized and highly paid labor, and larger capital investment into production facilities when compared to the production of table wine. Further, increased production of sparkling wine would raise much more excise tax revenue than the same percentage increase in the production of table wine.

5. Some New York wines have inconsistent quality which lowers consumer confidence in purchasing these wine products.

6. A large number of New York's wineries are small producers that face the same problems as other small businesses located in the state. Encouraging the growth of these small wineries will assist them in achieving the economies of scale in production that large processors possess. Fostering the growth of small wineries will help reduce overhead costs and per unit production costs, and enable these wineries to increase their advertising budgets and sell more wine.

7. New York's Alcohol Beverage Control laws may reduce the ability of small wineries to act collectively to ship and sell wine, share wine making and laboratory equipment, purchase items in bulk, etc. By acting collectively, individual wineries can reduce production costs.

RECOMMENDATIONS

Grape Growing

1. Research – It is important to continue funding much of the research being conducted at the Geneva Experimental Station. Its research activities include looking into increasing fruit quality and production, decreasing production costs by applying fewer pesticides, improving mechanized picking and pruning operations, and developing new grape hybrids that either produce more, require fewer pesticides, produce superior wine or produce better tasting table grapes. Research is needed to retain New York's vitality in grape growing and wine making knowledge, and to mitigate future growing problems.

2. Marketing Grapes – In addition to encouraging the growth of New York wine production to increase demand for grapes, New York State should encourage:

a. The sale of grape products to out-of-state markets;

b. The sale of grapes for other purposes including fresh table use and to home wine and jelly makers;

c. State institutions, including local governments and school districts, to utilize more New York grape products such as grape juice and jelly; and

d. The export of New York grapes to out-of-state wineries located in Massachusetts, Rhode Island, Pennsylvania, Virginia, and Ohio.

3. Encourage New York Wine Production – Any activity that encourages the increased production of wine in New York will increase the demand for grapes and lead to higher prices and production levels.

Wine Production and Marketing

Increasing wine quality, production, and profits should remain the primary responsibility of each individual winery and the industry as a whole. However, there are actions that New York State can take to help facilitate the expansion of its wine industry and the prosperity of its grape growers.

1. Reduce Regulatory Mandates – Expansion of small wineries should be encouraged by removing impediments and unnecessary paperwork requirements. This can decrease wine production costs and increase a winery's ability to sell more wine. Among the items that should be reviewed are:

a. SLA label registration and approval requirements;

b. Inconsistencies between the federal and state excise tax laws;

c. The monetary threshold for participation in the Agriculture Producers Security Fund;

d. Consolidation and reduction of the licensing and inspection duties of the SLA and Ag.& Markets; and

e. Overregulation and duplicative requirements imposed by the Departments of Ag. & Markets, Health, Labor, and Taxation & Finance, and by the SLA.

2. Wine Quality – The winery extension service, Wine Laboratory, and Wine Data Base should be expanded to assist New York wineries in producing more consistent and superior wines.

3. Wine Labeling Standards – The industry should develop accurate and consistent standards for labeling New York wine products. This will help to increase consumer confidence in New York wines and permit consumers to make educated choices when making a selection. The labeling standards might include information on residual sugar, total acidity, pH, vinification technique, grape variety utilized, aging potential, and instructions on how wine should be served and with what foods.

4. Winery Cooperation and Tourism – The wine trail program and the publicity efforts of wineries, acting either individually or collectively, should be encouraged to increase tourism. Increasing tourism will assist ailing local economies by increasing business activity in hotels, restaurants, and other tourist attractions. Winery cooperation and joint ventures should also be encouraged to reduce each winery's overhead costs. Examples of joint ventures include: marketing and delivering wine, sharing wine making or laboratory equipment, cooperative insurance policies for health or general liability, bulk purchasing, or establishing joint winery media relations.

5. Wine Distribution – Facilitating the distribution of New York wine will give consumers the option of purchasing New York instead of foreign or other domestically produced wines. There are several ways to facilitate the distribution of New York wine to responsible adults.

a. Enact HR 551, sponsored in the U.S. Congress by Representative Benjamin A. Gilman (R–NY) at the request of Senator Jess J. Present, which permits a winery to ship small quantities of wine by U.S. mail.

b. Encourage the sale of New York wines in liquor stores by reducing the restrictions on conducting wine tastings at liquor stores. The Legislature should review the procedures and requirements for permitting New York wineries to conduct wine tastings in liquor stores.

c. The Legislature should review the Alcohol Beverage Control Laws to reduce the relatively high costs to small wineries in delivering wine to restaurants, liquor stores, etc. Permitting wineries to pool shipments and solicit new sales would reduce shipping costs.

6. New York's Excise Tax Policy – The Legislature should reexamine New York's high excise tax rate for the production of sparkling wine. New York's excise tax rate is three times California's. Reducing the tax rate should encourage increased production which could ultimately increase total tax revenue collected by New York State.

7. Stated Grape Price Law – The Legislature should continue its review of the operation of the stated grape price law to ensure that it promotes profitable grape cultivation and wine production. In certain instances the law may discourage premium quality wine production and decrease the number of grape sales that are beneficial to both grower and processor.

8. Foreign Investment – California and Oregon have been particularly successful in enticing prominent European wine producers to establish facilities in those states, while New York has had little or no success. The state should determine if there are impediments to foreign investors locating facilities in New York.

INTRODUCTION

The New York grape growing and winemaking industry historically has been the second largest in the nation. It is a major component of the local economies in Chautauqua County, Niagara County and the Finger Lakes region, and is a smaller component of the economies in Suffolk County and the Hudson Valley. New York produces many quality desert and table wines and has national stature in grape production. The industry has been an important part of New York's agricultural heritage since Colonial times. Further, it is a dynamic industry that has many strengths including its diversity of products, talented personnel, and extensive support services. The state's wine industry is also a magnet for tourism that generates revenue for local tourist related industries.

This report examines the current status of New York's grape and wine industry. The data and graphs included in it are drawn from various published state and federal statistics. Further, this report makes comparisons between New York and the states of Washington and Oregon because of their similar climates and because they can produce similar styles of wine. Unfortunately, this report reveals that the state's grape and wine industry appears to be in a state of stagnation or decline. Hopefully, this report will encourage discussion among those in government and the industry that will help make the grape and wine industry better for the benefit of growers, processors, and the people of New York. In many respects, it updates a similar report entitled Tending the Vineyards prepared by the Special Senate Majority Committee on the New York State Grape Industry which was issued in April of 1984 and outlined the history of the industry and its then existing problems.

In New York, the grape and wine industry employs approximately 2,000 people in wineries and another 12,000 people in the vineyards. Further, many more are employed in ancillary support businesses including hotels and motels, restaurants, construction firms, transportation, warehouse and wholesale establishments, farm supply stores, repair shops, print shops, etc. The National Wine Coalition estimates that the wine industry directly supports 21,630 jobs and indirectly supports another 22,710 jobs in New York. The industry attracts over 750,000 tourists annually, many of whom, in turn, patronize local restaurants and lodging establishments. This tourist trade is a particularly important source of jobs for New Yorkers. The wine industry also adds to the state's economic and social diversity, and supports people whose interesting and unique livelihoods help make it a desirable place to live and visit.

The New York wine industry is also a major source of tax revenue. The industry pays over $30,000,000 in excise taxes to help support the federal and state governments. In addition, much more revenue is collected through real estate and sales taxes from the industry and other businesses that it supports. The aggregate state and local tax collection from both direct and indirect wine related employment is $288,360,000. A vibrant and expanding wine industry is important to the economy of New York and to its revenue base.

This report focuses primarily on New York wineries and grapes used for wine production, since this segment of the industry is the one most in need of assistance. However, the New York grape industry has many segments. While approximately 48% of grape production goes to wine production, about 50% is devoted to sweet juice production. The remaining 2% is sold as fresh table grapes. Therefore, the biggest use for New York grapes is for juice production. The Lake Erie region of New York primarily grows Concord grapes for this purpose. The decline of the New York wine industry affects the juice market because Native–American wine grape varieties, such as Concord and Niagara, and certain French–Hybrid wine grapes, are no longer being sold for wine production. Instead, in many instances, they are being placed onto the juice market. This has a depressing affect on the price received for Concord grapes and other Native–American varieties by many New York growers for both juice and wine utilization.

The second largest use of grapes is for wine production. Seventy to eighty per cent of that wine is made from Native–American varieties such as Concord, Niagara, Catawba, and Delaware. Approximately 20% of New York wine is made from French–Hybrids and another 3% is made from Vinifera varieties. The production of wine in New York centers in the Finger Lakes area which produces 85% of all New York wines, followed by the Hudson Valley with 10% of all production. New York also has a small table grape industry. In 1990, approximately 3,000 tons or 2.1% of the grape crop, was sold as fresh fruit. Most of these grapes are consumed as fresh fruit or sold to households that make their own jelly or wine.

New York's wine industry is diverse. This is because its wines are produced with three very different "families" of grapes. They are Native–American, French–Hybrid, and Vinifera varieties. The wines made from each of these "families" of grapes are very distinctive from each other. In order of importance, the Native–American grapes are by far the most commonly grown in New York for wine production. Native–American varieties such as Concord, Niagara, Delaware, and Elvira have a strong, grapey taste when made into wine that makes them very distinctive from wine made in California. These grapes, particularly Concords, can and are used for both wine and sweet juice production. Examples of Native–American wines include Widmer's Lake Niagara, dessert wines, including port and sherry, produced by Widmer and Taylor, and many of the sweet kosher wines produced by companies such as Mogen David, Kedem, and Manischewitz.

The second "family" of grapes are French–Hybrids. Grapes within this "family" include Baco Noir, Chancellor, and DeChaunac, which are red grapes and Aurora, Seyval Blanc, and Vidal, which are white grapes. Initially hybridized in France between 1880 and 1960, they are hybrid crosses of American and European grapes. French–Hybrids were first planted in significant numbers in New York for wine production in the mid–1960's. Their main purpose was to supplant the Native–American grapes used primarily in both the red and white blends of New York wines up to that time. Wines made from these grapes are not grapey like Native–American wines, but can be distinctive from wines made in California.

The third "family" of grapes grown in New York are Viniferas, which originally came from Europe. These are the traditional European grapes used for wine in Bordeaux and Burgundy, France, the Rhineland in Germany, Italy, and Spain. Examples of these grapes include Chardonnay, Cabernet Sauvignon, Merlot, and Riesling. These grapes are used in the finest wines of Europe and California. They are used exclusively for wine making and have little application for juice production. Small amounts of these grapes have been planted in New York State since 1975.

New York's wine industry has traditionally been based on sweet, dessert, and sparkling wines made primarily from Native–American grapes. As pointed out in the Senate report <u>Tending the Vineyards</u>, for several decades now, the national trend in wine consumption has shifted away from dessert wines, such as sherry and port, to dry table and sparkling wines. Consumers and many wine industry analysts indicate that the public is currently more receptive to purchasing dry table wines made primarily from Vinifera grapes and, in certain instances, French–Hybrid varieties. Further, within the dry table wine market, the public is drinking more premium priced wines and less inexpensive table wines.

It should be noted that total consumption of all table wines in the United States has been declining since 1987. The U.S. wine market decreased by 1% in 1987, 5.1% in 1988, 5.2% in 1989 and 2.8% in 1990. The wines most affected by this drop in consumption are dessert wines and lower priced table wines. National dessert wine production has dropped significantly, from 38,923,000 gallons in 1981 to 28,352,000 gallons in 1990. However, much of that decline is reflective of California's drop in production from 22,393,000 gallons in 1981 to 12,505,000 gallons in 1990. Another big reduction occurred in wine cooler consumption. United States wine cooler shipments, a large portion of which are produced in New York and which makes up a significant portion of the state's wine production, are down 50% after reaching a peak in 1987.

New York's difficulty has been its inability to shift its production from sweet and dessert wines made from Native–American varieties to dry table wines made from Vinifera and French–Hybrids to satisfy changing consumer demand. Hence, New York's market share and penetration within the national wine market is declining. California, which produces approximately 90% of all U.S. wine, has had much more success than New York in shifting its production from dessert and fortified wines to dry table and sparkling wines. Further, it has greatly expanded its premium table wine production, one of the only growing segments of the U.S. wine market. States such as Oregon and Washington have also had success in expanding their wine industries. In the past 10 years, both states have established from scratch a sizable premium wine industry based on Vinifera grapes. In fact, within the past five years both Oregon and Washington have surpassed New York in premium Vinifera wine production.

In sum, New York's wine industry is overwhelmingly based on dessert and lower priced wines which are the segments of the U.S. market in most rapid decline. New York's declining sales and turmoil, in part, reflect the national wine industry's troubles. However, New York is having difficulty increasing its premium and sparkling wine production, which are the relatively few bright spots for increased sales in the U.S. market.

In 1985, the New York State Legislature, recognizing the importance of the state's wine and grape industries and their then existing difficulties, established the New York Wine/Grape Foundation. Pursuant to Chapter 80 of the Laws of 1985, the Foundation was empowered to coordinate promotional and applied research programs to stimulate growth in the industry. Since 1985, the Foundation has launched promotional campaigns such as "Uncork New York" and the "Class by the Glass" programs. Further, it has channeled both state and industry funds to various applied research programs to benefit both grape growing and wine making activities. Throughout this report, there will be references to programs that the Foundation sponsors to promote New York wine and encourage applied research.

In the past 15 years, significant changes have occurred in the size and structure of New York's wine producers. These changes have dramatically affected what wines are produced. The first change was brought on by the Taylor Wine Company's purchase of the Great Western and Gold Seal wine companies. The Taylor Wine Company's ownership has changed several times in the past 15 years, having been owned by Coca–Cola, Seagrams, and presently by Vintner's

International. Vintner's International is a California based company that also owns Paul Masson and Taylor California Cellars. Taylor, over time, has been purchasing fewer and fewer grapes and making less wine. This has led to a gradual reduction in its once extensive regional distribution network and sales force.

The second significant change is that the Canandaigua Wine Company has consolidated its position to become the third largest producer of wine in the United States. Canandaigua produces over 50% of all wines made in New York. Its expansion was facilitated by the acquisition of the Monarch Wine Company (i.e. Manischewitz) and Widmer's Wine Cellars, both of New York, and most recently, Guild Wines of California which produces Cook's Champagne and Cribari. Some of Canandaigua's most prominent New York wine products are Widmer's Wine Cellars, Manischewitz, and Richard's Wild Irish Rose. Canandaigua's wine production in New York has tended to center on lower and medium priced table, sparkling and dessert wines, and on wine coolers that are made from Native–American and French–Hybrid grapes.

The New York wine industry is most often compared with California's. However, structurally the wine industries of the two states are very different. California's industry is made up of many large and medium volume producers that almost exclusively make their wine from Vinifera grapes. It is not uncommon for a California winery to produce over 500,000 gallons per year. New York's industry is based on a few large producers which may produce up to 90% of all of the wine made in the state. These producers make their wines predominantly from Native–American or French–Hybrid grapes. There are several medium sized producers which make between 75,000–90,000 gallons per year and scores of much smaller producers that make anywhere from 3,000 to 20,000 gallons per year. The number of wineries in New York has increased greatly from 18 in 1975 to 107 in 1992. In contrast to California, New York's largest growth has been in the number of small wineries producing under 15,000 gallons. These new small wineries purchase a relatively small tonnage of grapes when compared to the large New York wineries. In fact, many of these small wineries grow their own grapes and do not purchase grapes at all. A large number were established by grape growers who were by and large unable to sell their crop to Taylor any longer.

New York's wine and grape industry has for the last several years shown substantial decreases in total grape acreage, prices, and a slow decline in production. It seems to be still based on dessert and lower priced wines which are a shrinking part of the national market. Further, New York has not significantly expanded premium wine production at a time when other states, such as Oregon and Washington, have substantially increased grape acreage and premium wine production. In the national market place, increasing amounts of California, Washington and

Oregon premium wines are now available, while New York wines are becoming more unavailable. This is also true within the New York market. A survey of several wine consumer guides and magazines indicates that there is at least a perceived question about the quality of New York wines in the national market place.

Presently, the future for the New York grape and wine industry seems to be in doubt. Statistics confirm that the state's industry is in decline. Part of the decline is a reflection of the national trend towards lower consumption of wine and away from dessert and lower priced table wines. New York is hurt by this national trend and by the shift to premium table and sparkling wines, which it is not producing in significantly greater quantities. However, these trends are not the only reason for the decline of New York's wine industry.

What follows is a look at some trends in the New York grape and wine industry and an identification of some possible problems within the industry. The conclusion of this report will suggest possible methods to help the industry stabilize and grow.

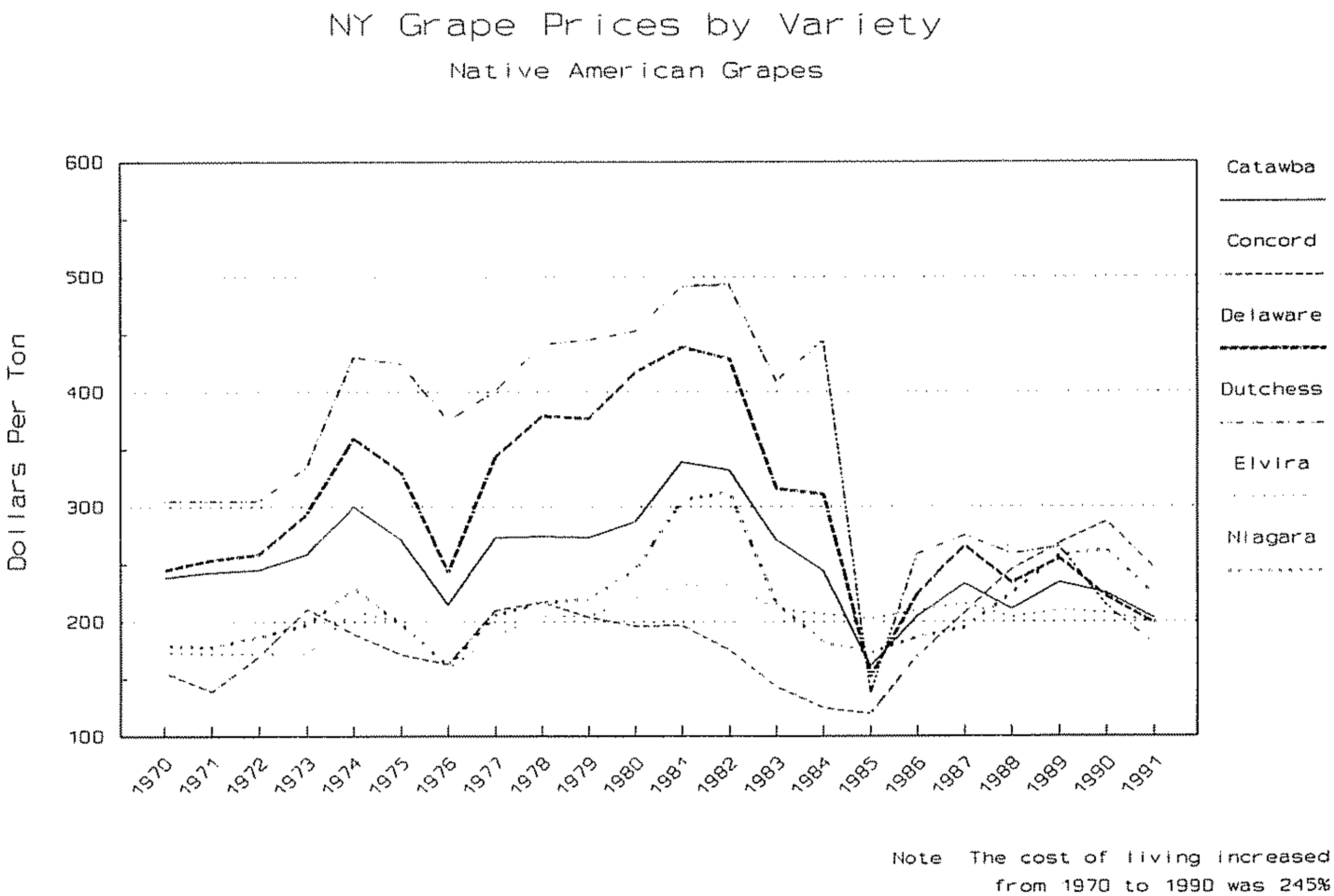
WINE GRAPE GROWING

There are several benchmarks that can be used to demonstrate the strength of the wine grape industry: price, production and acreage devoted to cultivation. The following section will outline past trends and their affect on the status of New York's grape and wine industry.

Grape Prices

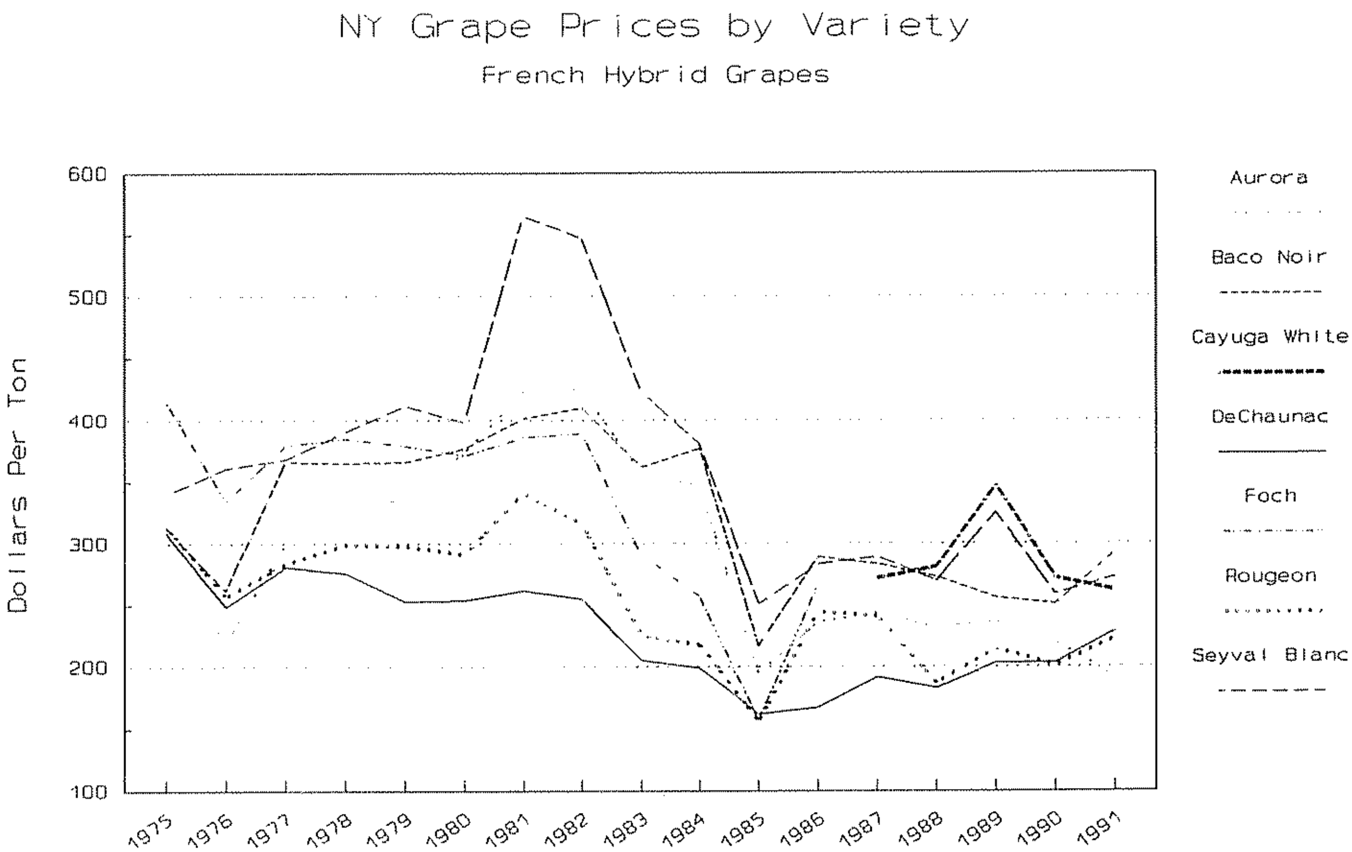
Since 1970, New York grape prices for many varieties have been either static or in decline. This trend does not even include the affects inflation has had on the value of money paid for grapes to farmers. When the cost of living increase of 245% from 1970 to 1990 is factored in, the value of receipts from the sale of grapes has declined drastically.

Price drops in absolute terms have been most pronounced in Native–American table and sparkling wine grape varieties such as Delaware, Dutchess and Catawba. The graph below demonstrates this relationship. For example, the Delaware grape sold for $245 per ton in 1970,



$439 in 1981 and only $199 in 1991. A ton of Catawba sold for $239 in 1970 and $203 in 1991. These Native–American grape varieties have declined in absolute price. It is important to note that Native–American grapes are still the largest grape type utilized to make wine in New York. Over 70% of New York wine is made from this type of grapes.

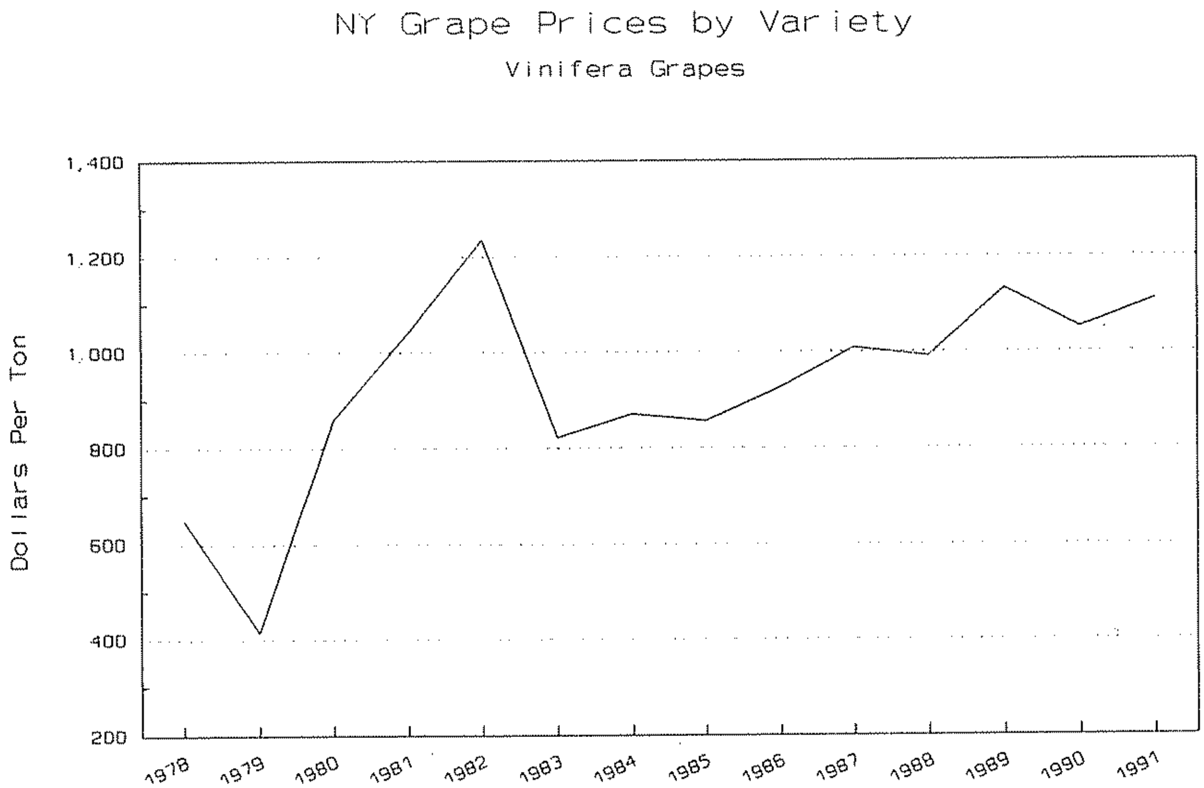
The Native–American Concord grape is by far the most utilized grape for wine production making up at least 33% of all grapes used. Concords also make up over 96% of all grapes used for sweet juice production. The price of Concords since 1970 seems to rise and fall on a cyclical basis. In 1970, they sold for $156 per ton, in 1978 for $217, in 1985 for $120, and in 1991 for $246. Currently, Concord producers are commanding relatively high prices for their grapes not accounting for inflation since 1970, but demand is up due to the increase demand for juice products. However, another reason for the increase in price is the slight reduction of 3.6% in Concord production since 1985 when compared to average production since 1970.



Note: The cost of living increase from 1975 to 1990 was 149%

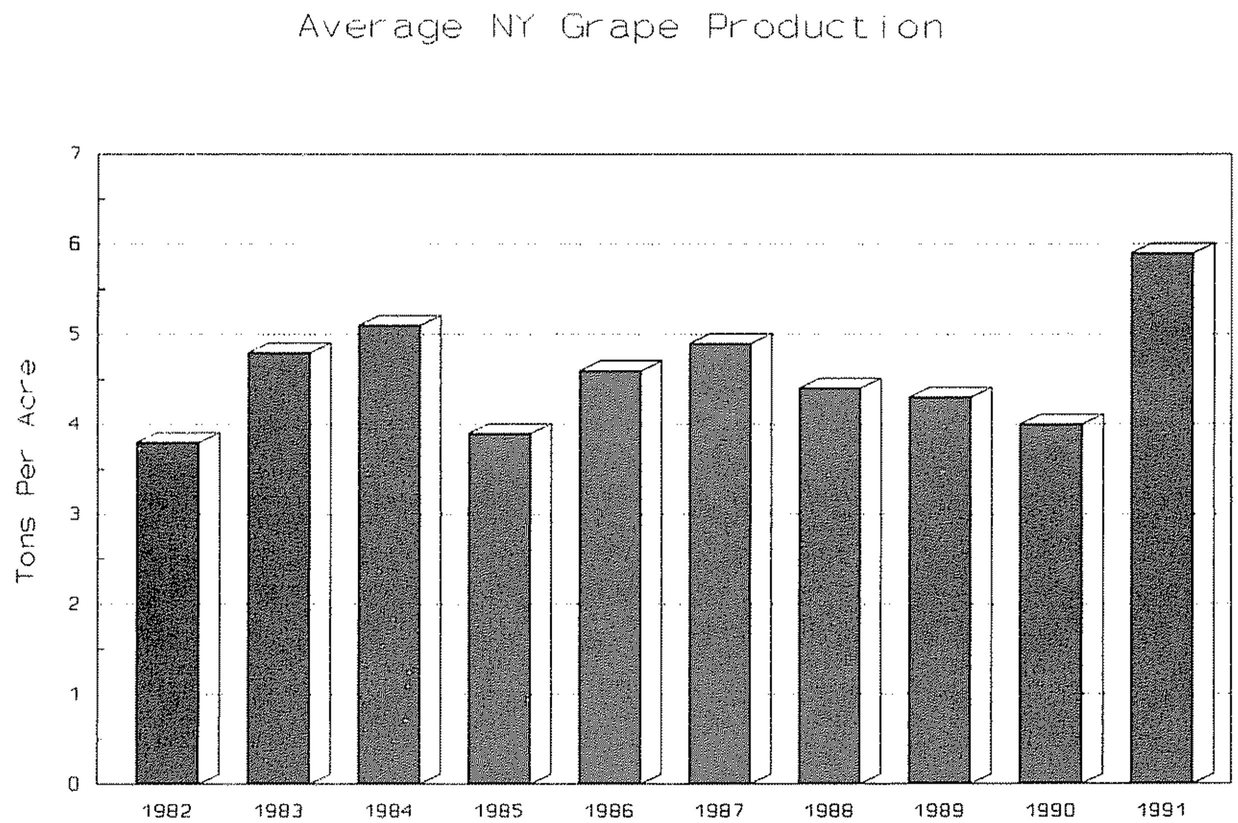
As indicated on the graph on the preceding page, French–Hybrid grape varieties, which make up a sizable portion of the grapes produced for wine, have also fallen in price. For instance, the cost for the red grape variety Baco Noir, which historically ranged from $300 to $410 per ton from 1974 to 1982, has steadily declined in price since 1982 to $251 per ton in 1990. Aurora, another hybrid grape which historically sold for an average of $335 per ton from 1970 to 1983, sold for $192 in 1991.

The European Vinifera grape varieties such as Chardonnay, Riesling, Cabernet Sauvignon, and Merlot, have fared much better. Their prices have ranged from $858 to $1,131 between 1980–1990 and have averaged $980 per ton each year depending on the particular variety and production for the year. Further, Vinifera grapes are in demand and can be sold readily at a reasonable price unlike many other New York grape varieties. However, Vinifera production only makes up 3% of all grapes used for wine production in New York. It is unfortunate that one of the only stable segments of the grape market makes up such a small percentage of the grapes utilized for wine in the state. The graph below illustrates these trends.



Note: The cost of living increase from 1978 to 1990 was 105%

Price trends are important, but it is also important to recognize that production per acre and production costs can affect a grower's profit margin as much as price. The economics of grape growing are dependent on the price commanded for the commodity, the output per acre and the cost of production. Declining grape prices have been offset somewhat by increased production per acre. Unfortunately, as reflected by the graph below, grape production yields per acre have not increased significantly in the last 10 years. The following hypothetical example illustrates the potential interrelationships between price, output, and the cost of production on the profitability of different types of grapes. In 1990 Concords could be purchased for $287 per ton and could yield over seven tons per acre, while a Vinifera grape variety could be purchased for approximately $1,050 per ton on average, but may not yield over three tons per acre. However, it costs more per acre to grow Vinifera grapes than it does Concord because of higher labor and pesticide costs and a higher incidence of winter damage. In this example, because of output and cost factors, Concord cultivation could be as profitable as Vinifera even though Vinifera grapes are worth 3.6 times the value of Concords.



A comparison of grapes with other fruits grown in New York should give an indication of whether grape prices are reflective of a general trend in fruit production and pricing. Apple prices since 1980 have remained relatively constant. However, the increases in apple production per acre have been more substantial than in grape production. Tart cherries have had very erratic price changes going from $460 per ton in 1986 to $190 in 1987 to $450 in 1988, then $302 in 1989. This great variation may be reflective of climatic conditions and its affect on crop yield. Pears have shown a modest price increase since 1986, going from $210 in 1986 to $223 in 1989. Peaches have done particularly well increasing from $472 per ton in 1986 to $588 in 1989.

Concord grapes seem to reflect other fruit prices by increasing from their historic lows in the mid-1980's; however, the French-Hybrids and other Native-American grapes have shown price declines. One reason for the increasing price of Concords is their use in sweet juice which is in strong demand today. Other Native-American grapes have dropped in price because they have only wine utilization applications and the demand for wine grapes is down. It seems that the price decline in several segments of the wine grape market is not reflective of other fruits such as apples, peaches, or pears, which have all increased or remained constant in price.

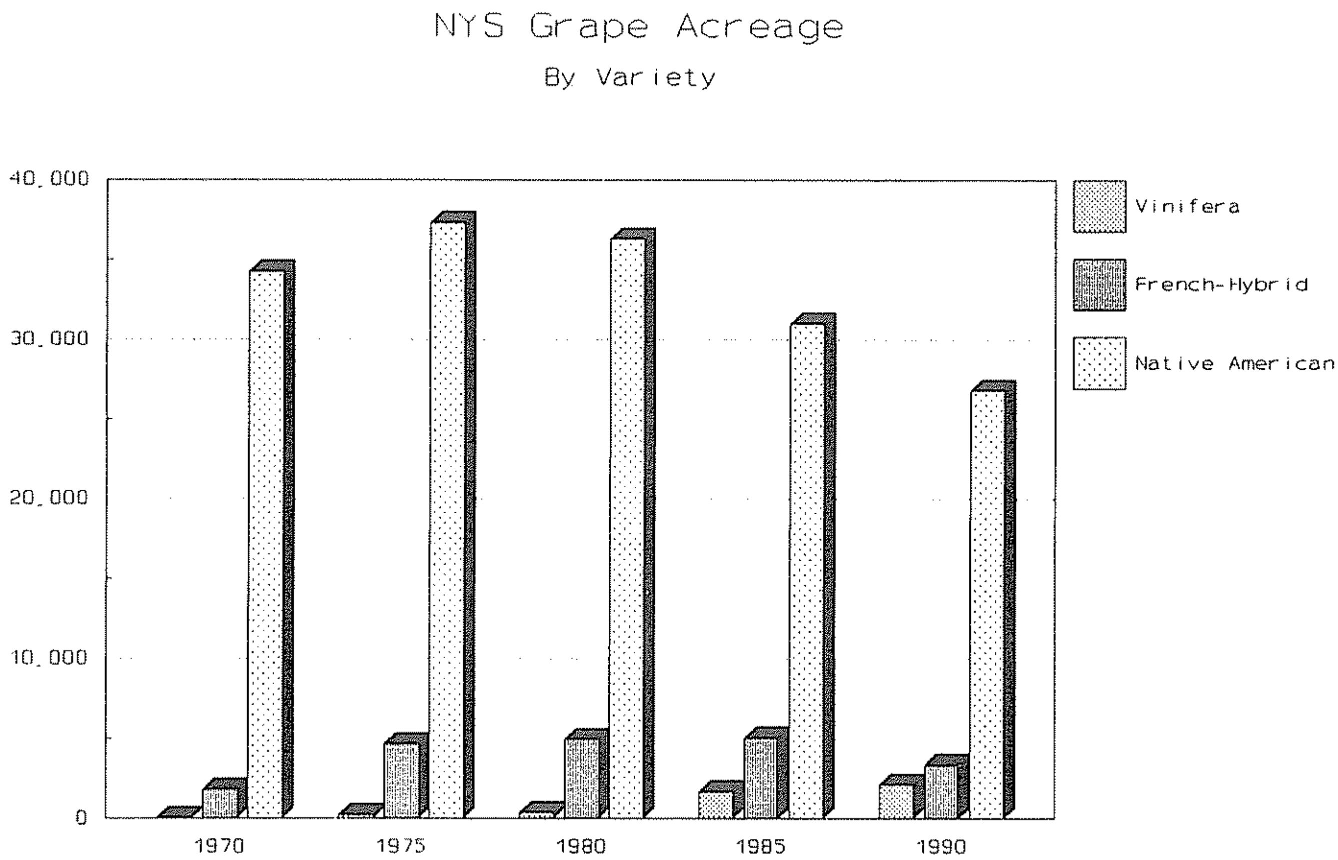
In summary, except for Vinifera grape varieties (excluding Riesling) and Concords, all other New York grape prices have decreased, either absolutely or relatively, since 1970. This has obviously affected farmer income, particularly in areas such as Chautauqua and Niagara Counties and the Finger Lakes region where grape growing is a major source of income for the local economy. Further, the drop in grape prices is not reflective of other fruit prices in New York State.

Grape Acreage

The total number of acres devoted to grape production in New York has been steadily diminishing since 1975. The total acreage in 1975 was 42,653, while in 1990 it was 32,846. This is over a 23% decrease in grape acreage since 1975.

It is important to note that it is very expensive to establish a vineyard and bring it into production. Estimates range anywhere from $3,000 to $5,000 to bring an acre of grapes into production, not including the price of the land. Therefore, a farmer does not rashly tear out a vineyard that costs so much to establish. The fact that farmers are ripping out large amounts of expensive vineyards so quickly indicates that they believe there is little demand for wine grapes now or in the future. To add to the severity of this problem, it has been pointed out that some farmers would rip out more vineyards if they could, but are unable to due to the lack of money and the high cost of converting the land to another farming use.

The 23% decrease in grape acreage since 1975 still masks which segments of the grape industry have borne the brunt of these reductions. The acreage reduction and abandonment of vineyards of each of the three "families" of grapes, Native-American, French-Hybrid, and Vinifera, point to trends within the wine grape industry and also wine production in New York. The graph below represents the change in acreage by "family" since 1970.



The Native-American varieties demonstrated large reductions from 1975 to 1990. The major Native-American grape varieties constituted 37,313 acres in 1975 and dropped by approximately 28% to 26,810 in 1990. However, the acreage devoted to Concord production declined 23% from 27,568 acres in 1975 to 21,006 acres in 1990. Concord production devoted to sweet juice utilization as compared to wine utilization is approximately a 3 to 1 ratio. Except for the years 1983 and 1984, this ratio has remained about the same since 1980. Therefore, Concord acreage and production devoted to both sweet juice and wine processing seems to be decreasing.

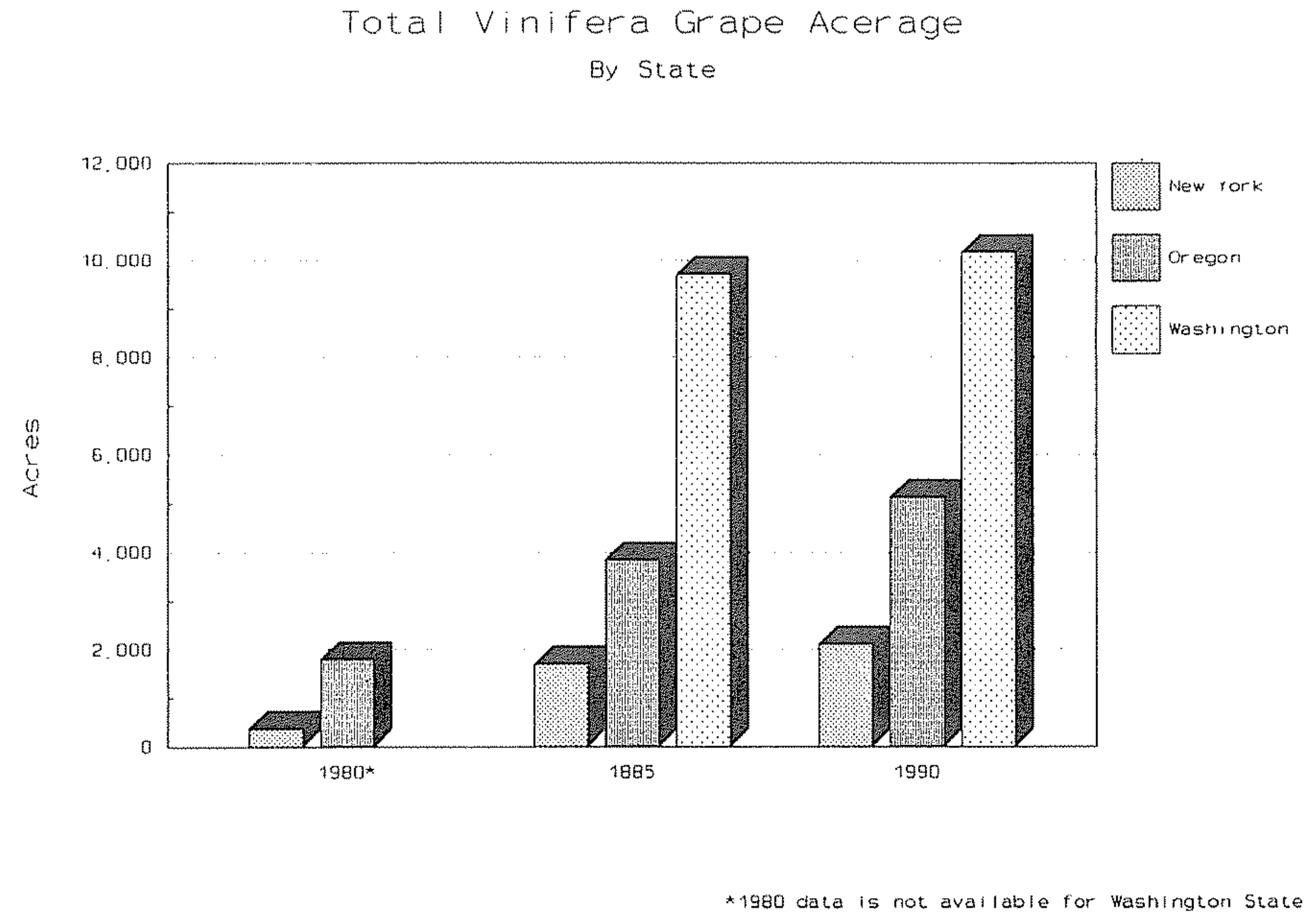
There are other Native–American varieties, such as Catawba, Delaware, and Dutchess, which are used primarily for table and sparkling wine production. The acreage of these varieties has been cut by 40 to 60%. Delaware grape acreage went from 2,051 in 1975 to 841 in 1990; Catawba acreage went from 3,477 to 2,102 during the same time period. The trend seems to be that Native–American grapes, such as Concord, which have both juice and wine applications have been reduced in acreage by approximately 23%. However, Native–American varieties such as Catawba, Delaware and Dutchess, that have more table and sparkling wine making applications and less sweet juice applications, have been cut in half in the space of 15 years. One reason for the significant decrease in Catawba, Delaware and Dutchess acreage is that these grapes were at one time primarily used by Taylor Wine Company for table and sparkling wine production. As Taylor's grape purchases have decreased, so has the overall acreage of these grapes.

The condition of both the juice and wine industries affect the overall price of Native–American grapes because they can be used for both purposes. Therefore, a substantial reduction in demand for Concords and other Native–American grapes for wine production will negatively affect the price of Concords used for juice. The number of acres in production has fallen because of the reduced demand for grapes.

The French–Hybrid grape varieties are the second largest component of grape acreage in New York. These grapes are used primarily for table wines and wine coolers. Acreage in 1970 for major French–Hybrids was 1,825. More were planted until over 5,000 acres were established in 1985. However, this grape type has experienced a drastic reduction of 33% in acreage in just the last five years. The reduced demand for these types of wine grapes coupled with drastic acreage reductions indicates that these grapes may have a questionable future in New York.

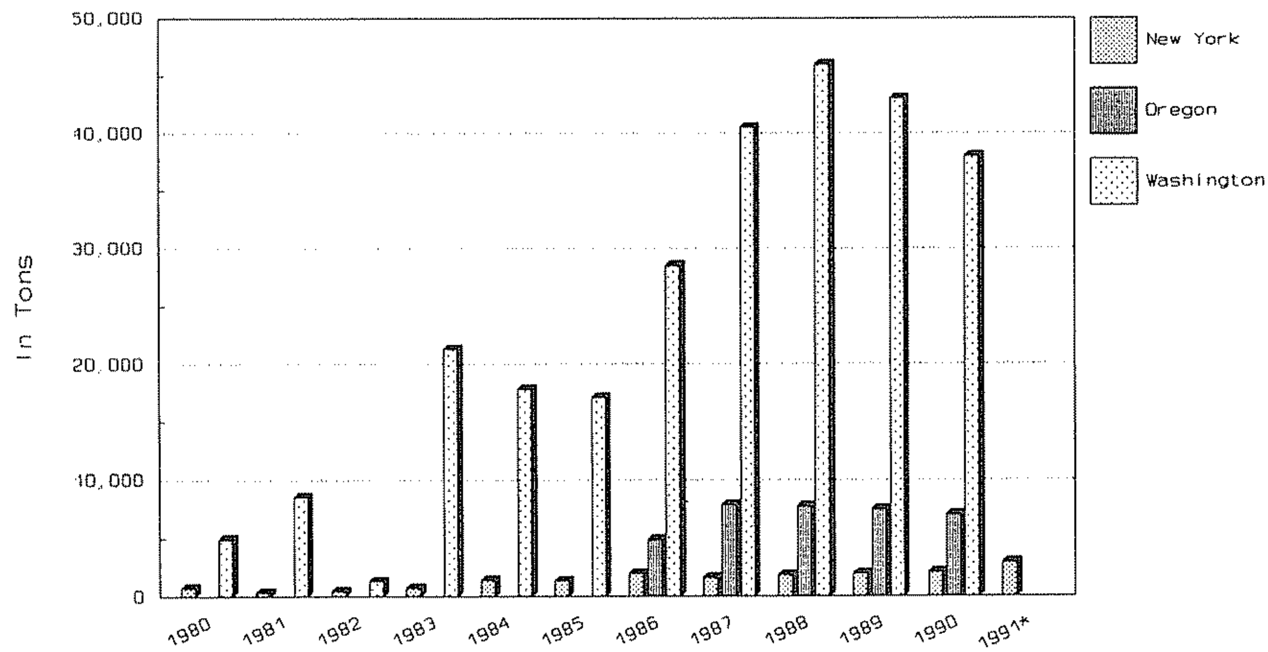
Acreage of French–Hybrid grapes is rapidly decreasing. This raises the question of whether there is a variety of wine grapes replacing French–Hybrids as the main source of grapes for the production of medium priced to premium quality wines. The answer unfortunately seems to be no. There has been a moderate increase in plantings of Vinifera grape varieties since 1985. However, it has not offset the losses incurred in the French–Hybrid varieties. About 1,700 acres of French–Hybrids have been lost since 1985, however, Vinifera plantings increased only by approximately 400 acres, for a net loss of 1,300 acres of grapes in cultivation in just five years.

This should not diminish the fact that there has been a rapid expansion of Vinifera plantings in New York. In 1980, there were only 371 acres of Vinifera grapes in the state, while in 1990 there were at least 2,111 acres. As stated earlier, today's wine market is shifting towards medium and premium priced dry Vinifera wines, particularly varieties such as Chardonnay, Cabernet Sauvignon, and Merlot. New York is very gradually shifting towards that end of the market and away from lower priced wines. However, other states that have cool climates similar to New York have increased their Vinifera acreage much more rapidly and are now filling in a void that could have been filled by New York grapes. Both Washington and Oregon have increased their Vinifera acreage even during the recent national downturn in wine consumption. Total acreage in Vinifera varieties in Oregon was 1,799 acres in 1980, but now is 5,135 acres. In 1990, Washington had over 10,000 acres of Vinifera grapes. These states are cool climate regions that produce Vinifera wines that are different from California wines. As a cool weather state, New York can similarly produce unique and superior Pinot Noir, Riesling, Chardonnay, Cabernet Sauvignon, Merlot, and sparkling wines made from Vinifera grapes.



A look at production data on the graph on the next page shows the substantial increase Oregon and Washington have experienced. In 1980, Washington produced 4,900 tons of Vinifera grapes, which increased to 46,000 tons in 1988. Oregon increased its production from 1986 to 1990 by 43%. New York, on the other hand, increased its Vinifera production by only 5% during the same time period.

Total Vinifera Production by State



* Only NYS data is available

These comparisons demonstrate that both Oregon and Washington's Vinifera acreage are now significantly larger than New York's. Further, trends indicate that New York will fall further and further behind these two states in premium wine production. This market niche of producing cool climate Vinifera wines is one New York could fill especially since the Northeast market, the largest in the U.S., is close to New York's production areas. However, it is clear that New York is not filling this expanding area of the wine market.

Overall, there has been a drastic drop in New York's grape acreage for Native–American and French–Hybrid grapes with a relatively small increase in Vinifera acreage. These reductions have been offset somewhat by increases in production per acre. However, the fact that grape acreage has declined so rapidly in such a short period of time demonstrates that the industry is having a difficult time. Not only is acreage declining, but few replacement acres or new vineyards are being established. This contrasts with the apple industry which has proven its vitality by a sizable program of replacing old orchards with plantings of new and more productive apple hybrids. These new apple orchards will both increase production per acre and reduce production costs. In the grape industry, no such replacement activity to increase productivity has occurred. The next section analyzes grape production in New York since 1970.

Grape Production

The first thing to note with grape production, as with any fruit crop, is that it can vary significantly each year depending on the weather. Climatic events such as wet, hot and humid summers, early fall rains, frosts, and cold winters can reduce grape production markedly due to no fault of the farmer. In light of New York's substantial grape acreage loss, the most noticeable trend is that grape production has not decreased as rapidly. Part of the reason is that much of this reduction was confined to poorer vineyard sites that did not produce high yields per acre.

Concord production since 1970 seems to be dropping gradually. In 1974, 130,356 tons of Concords were produced, while in 1987 and 1990, 122,688 and 97,551 tons were produced respectively. Note that there is less variability in Concord production today than there was in the 1970's. For example, 123,277 tons were produced in 1976, while only 67,407 tons were produced in 1977.

For Native–American varieties used primarily for wine, such as Catawba, Delaware and Dutchess, the decline in production has been steeper. In 1974, 6,045 tons of Delaware were produced, while in 1990 only 2,741 tons were produced. Catawba production has decreased from 12,243 tons in 1974 to 9,855 tons in 1990. It is important to note that these vineyards are getting older, with most being at least 25 years old. At some point, they will need to be replaced due to age. It is questionable whether there will be any grape variety that is profitable enough to replace them.

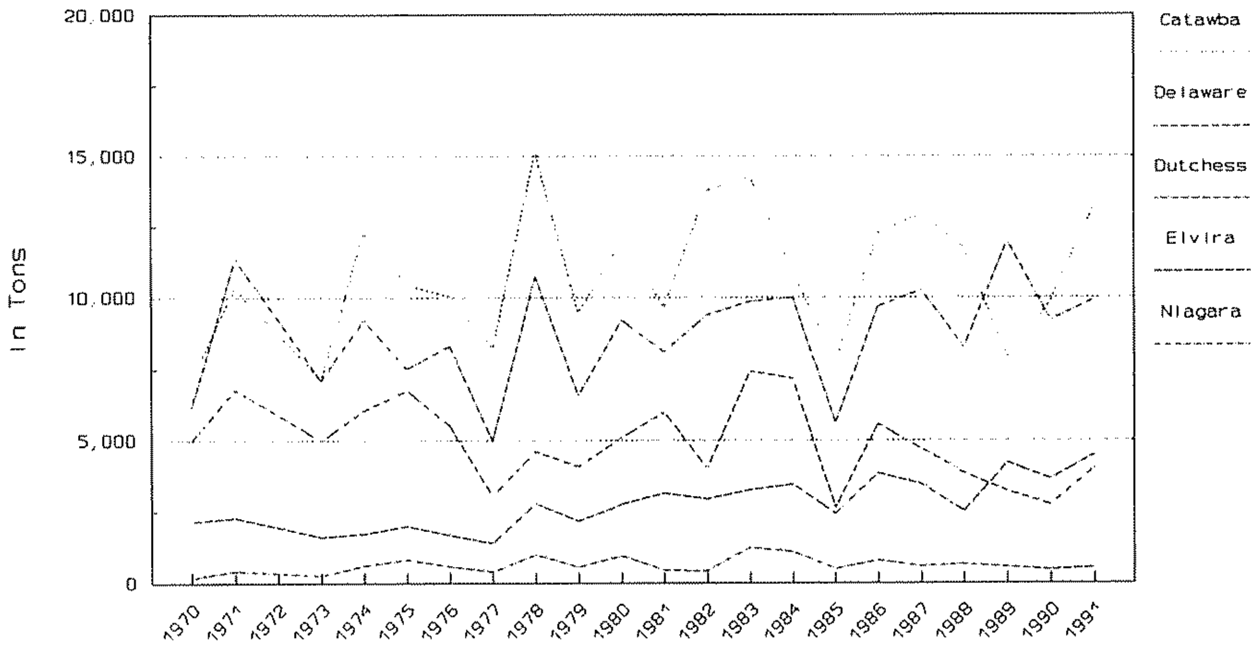
The average production of certain French–Hybrid grapes such as Baco Noir and DeChaunac have also been falling off since 1984. Other white hybrids such as Seyval Blanc and Cayuga White have increased production since 1984. However, the overall production of all French–Hybrid grapes has fallen off since 1984.

Vinifera production has steadily increased since 1980, from 749 tons in 1980 to 2,064 tons in 1990. However, as stated previously, Washington and Oregon's production is far greater than New York's. This makes New York a distant fourth after California, Washington, and Oregon in the production of Vinifera grapes and of premium wines made from these grapes. With premium wines, and the corresponding demand for Vinifera grapes, comprising the only segment of the industry that is either stable or increasing, this raises a substantial concern for the future of New York State's wine industry.

NY Grape Production

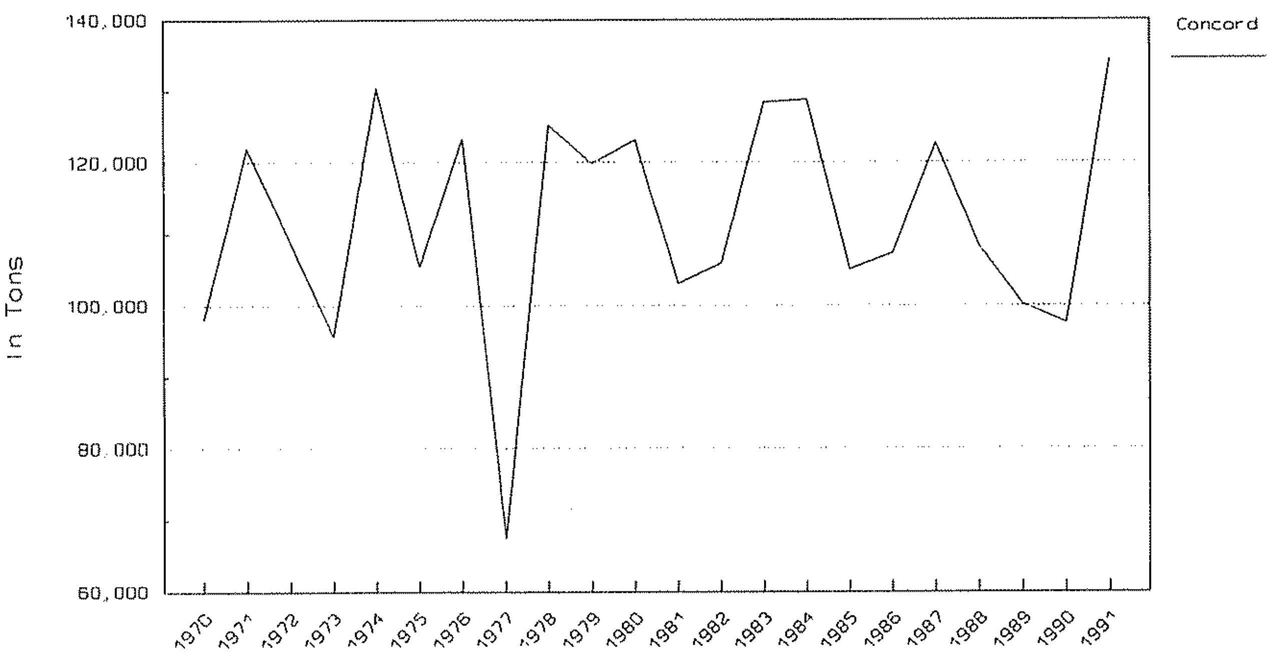
Native American Varieties

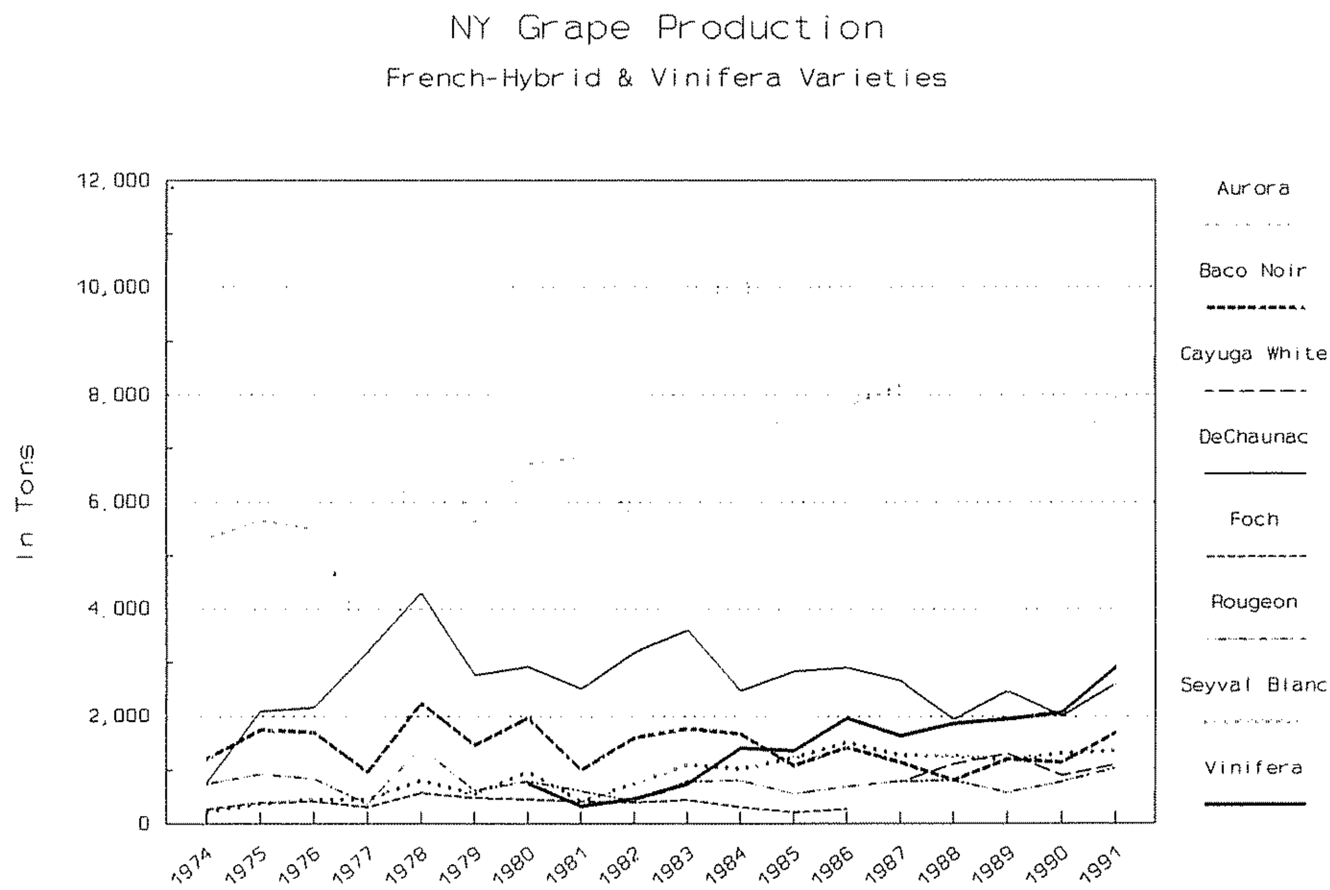
- Without Concords -



Native American Varieties

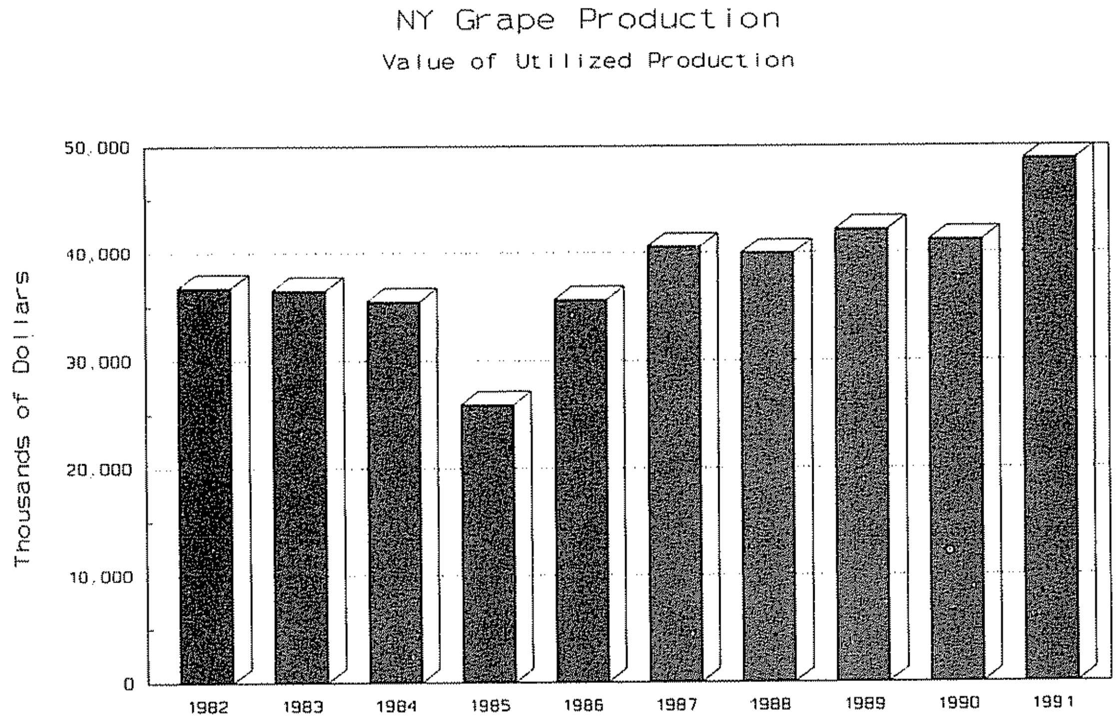
- Concord Only -





Overall, the data demonstrates that New York's grape production has declined moderately for both juice and wine grape utilization. The dramatic price reduction for certain wine grapes and the moderate decline for others, coupled with slow increases in yield per acre, seems to have caused wine grape growers' gross incomes to be lower than in the early 1980's when inflation and increased production costs are taken into account. The graph on the next page illustrates the value of utilized production for the state's grape crop. These values were arrived at by multiplying the total production for the state by the average price paid for grapes.

What is the cause of this drastic reduction in viticulture and the demand for grapes in New York State? The possibilities may be that: a) wineries are producing less wine and hence there is a diminished demand for grapes, b) wineries are producing wine that is sold at a lower per unit cost and hence wineries must pay less for grapes, c) the grapes under cultivation are not the varieties desired by wine producers, d) New York wineries are utilizing fewer New York grapes in wine production, or e) a combination of the above. The next section will review New York's wine production trends and total grape output utilized for wine production.

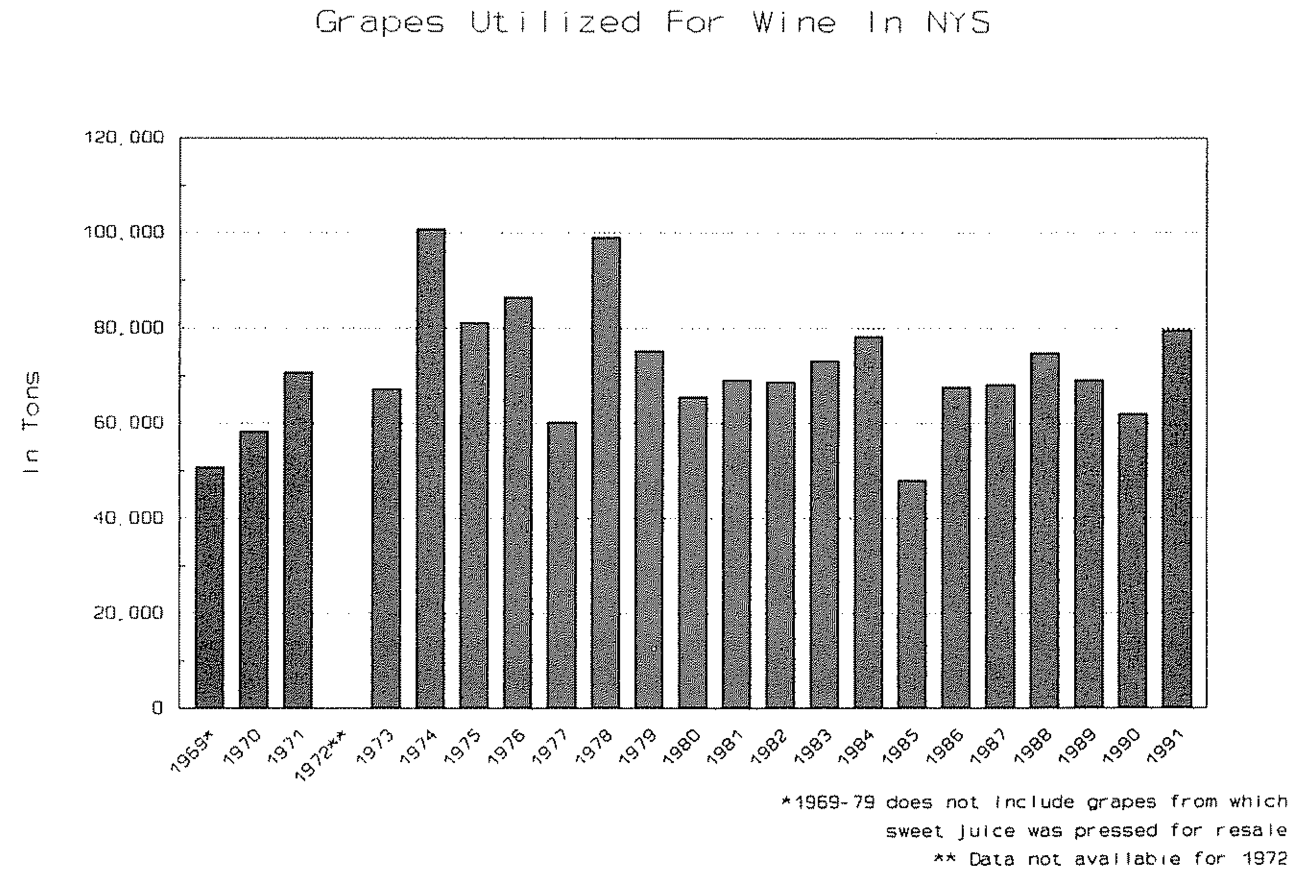


Note: The cost of living increase from 1982 to 1990 was 39%

Wine Production and Grape Utilization Trends

From conversations with several small winery owners, it seems that New York's small wineries are producing less wine and hence there is less demand for wine grapes. Further, it has become more expensive and difficult to market wine. Hence the profitability of many small wineries is declining. Grape demand has also declined because wine cooler sales, after a period of spectacular growth, have decreased by 50% since 1987. At present, New York producers make approximately 25% of all wine coolers consumed in the United States. More importantly, wine cooler production is a major portion of New York's total wine production. In addition, the sale of all wines and particularly dessert wines are down. All of these trends have negatively affected the demand for New York grown grapes.

Overall, the tonnage of grapes utilized in New York plants for the production of wine has been declining since the late 1970's. 1974 was the peak year for grapes utilized for wine production in New York plants. In 1974, 100,752 tons of grapes were processed in New York plants, the next highest year being 1978 in which 99,056 tons were processed. Grape utilization reached a low in 1985 when only 48,077 tons were processed. Since 1985, grape utilization has increased and ranged from a low of 62,026 tons in 1990 to a high of 79,611 tons in 1991. However, between 1974–1979 the average tonnage processed was approximately 83,800 tons each year. It seems that New York production facilities have been using fewer and fewer New York grapes with the low occurring in 1985. Since 1985, grape utilization has increased, but not to the levels experienced in the late 1970's.



Wine production in New York, which uses both New York and out–of–state grapes, has had surprisingly wide swings in the past six years. Production ranged from 27,553,000 gallons in 1985, 32,150,000 gallons in 1987, 24,944,000 gallons in 1989, and back up to 27,069,000 gallons in 1990. In 1987, production was high, most probably because of the popularity of wine coolers. New York wine production has probably not declined as rapidly as grape utilization in the state's plants because out–of–state juice and wine are often used for blending with New York processed grapes.

From government statistics, it is difficult to determine the exact volume of different categories of wine (i.e. sweet, dessert, red, white, etc.) produced in New York. Further, it is difficult to determine their average price or percentage of New York grapes contained within them. However, the Wine Institute of California has compiled statistics on domestically produced wines and reports on trends for California produced wines and for all "other states." The Wine Institute maintains that a substantial portion of the wines produced in the "other states" category are those produced in New York. Its statistics from 1981 to 1990 show that production of table wines by "other states" has decreased, but has retained approximately 4–5% of the domestic market just as it did in 1981, while California has increased its share from 69% in 1981 to 79% in 1990. California's market share increased due to reduced consumption of imported wines. New York's market share during the same period of time remained about the same.

New York's share of the dessert wine market has increased, but total production is still down slightly. In sparkling wine production, the "other states" category showed a substantial decline from 4,069,000 gallons in 1981 or 11.9% of the domestic market to 3,379,000 gallons or 9.5% of the market. Wine cooler production increased dramatically with the "other states" category producing 1,353,000 gallons or 17.9% market share in 1983, reaching a high of 39,644,000 gallons or 37.2% of the market in 1988 and declining to 28,551,000 gallons or 33.4% of the market in 1990.

Overall, it seems that New York is maintaining its market and production volume position in dessert wines, and retaining its market share in coolers even though production is steeply declining due to less consumption. Further, the state's market share and production volume in sparkling wines are substantially lower in 1991 than in 1981. In the table wine market, while retaining its market share of a declining market, New York has experienced a significant drop in wine volume produced. However, California, while also experiencing a slight reduction in wine volume of 4%, has increased its share of the U.S. market by 10%.

Both the tonnage of grapes utilized in wine production and the Wine Institute's statistics bear out that New York is still specializing in the declining dessert wine and cooler part of the market and is decreasing production in the expanding sparkling wine market. These trends demonstrate why prices for many wine grape varieties have been declining since 1981. To counteract this situation, New York needs to increase its share of the wine market.

In conclusion, it seems that New York grape growers are able to produce quality fruit at yields per acre sufficient to make a profit. However, the decreasing demand for wine grapes, due to the declining volume of wine produced with New York grapes, and the reduction in prices paid for most grape varieties, has substantially reduced the profitability of grape growing. It is important to note that production per acre seems to be increasing, which can increase the profitability of grape growing. However, the magnitude of price reductions coupled with the impact of inflation have more than offset any gains that farmers can expect from the productivity gains exhibited thus far.

The next section of this report will look at winery production and marketing problems. These problems may have in part caused the reduction in the volume of wine produced or the demand for wine grapes.

WINERY PRODUCTION AND MARKETING PROBLEMS

Many of the difficulties faced by New York wine grape growers, ranging from falling prices and production to reduced acreage, may be resolved if New York wineries were capable of purchasing more grapes at higher prices. This section will look at some of the problems faced by New York wineries in producing and marketing wine. Particular attention is given to the production of medium and premium priced wines and to the plight of small farm wineries.

Public Perception of Quality

New York State produces many award winning, premium table and sparkling wines and has the capability of producing good quality table wines at competitive prices for "everyday" use. Unfortunately, there may be a public perception that many New York wines have inconsistent quality. New York wines are rarely featured or even mentioned in consumer wine publications, such as the Wine Spectator, Wine Times, Wine Investor, or the Wine Advocate. These publications regularly feature information on wines from Europe, California, Washington, Oregon, Australia, and South America, but not New York. It is as if New York wines were not relevant or of interest to the greater national wine drinking public. The important item to note is that if national consumer publications do not deem New York wines relevant, then by definition they are not relevant to a large segment of the population most apt to purchase medium and premium priced wines. Some New York wines have been covered by consumer publications, but the tone of these articles generally seems to be that these wines are a novelty similar to those produced in small wine producing states such as Virginia or Texas. Regardless of actual wine quality, New York's wine media presence for medium and premium priced wines in the national and international market is small indeed.

Another indication of New York's weak wine presence is the lack of foreign interest or investment. In California, firms such as Tattinger, Mumm, Domaine Chandon, Baron Rothschild, Perrier–Jouet, Cordiniu and Maison Deutz, have invested money and established partnerships with California wineries. In Oregon, Joseph Drouhin of Burgundy, France has a strong interest in expanding Pinot Noir cultivation. However, few foreign wine producers have expressed serious interest in locating in New York or establishing a joint–venture with a New York winery.

Since 1989, a French champagne maker, Charbaut & Fils, has been interested in establishing a presence in New York to produce premium quality sparkling wine. This is an encouraging sign but, with the exception of Charbaut, no other major European wine producer has located in New York, as has occurred in California and Oregon. The lack of foreign interest in New York indicates the European wine industry's belief that quality wine production can only occur on the West Coast of the United States. Further, the lack of foreign investment confirms the impression among some U.S. wine consumers that quality wine cannot be made in New York.

The perception that New York wines are not "world class" is also supported by a survey entitled "The New York State Wine and Grape Market," dated May, 1989, which was prepared for the New York Wine and Grape Foundation. In that survey, both consumers and retailers of wine tended to believe that imported wines and domestic wines from California are superior to New York wines. It should be noted that this survey sampled only New York consumers.

Ideally, the logical base for any wine industry is the local market. That appears to be the case in California, Washington and Oregon, but not in New York. In Washington, during the early 1980's, most of the wine produced was consumed in that state. Since 1990, approximately 45% of all wine produced in Washington is still sold within the state. The reason for the drop is that Washington wine production is expanding and is now being marketed nationally. The in-state sales base in the 1980's gave Washington the financial stability to expand its national market share and production in the 1990's. It seems that Washington's local pride and consumer support gave that state's industry the backing it required to establish itself and expand into national markets. This trend of drinking local wines, which started in California and spread to Washington, has now expanded to Oregon, which in 1990, consumed 8.3 million gallons of wine, of which approximately 793,000 gallons was produced in that state.

The New York wine industry may need to establish a greater market share and loyalty for medium and premium priced wines on its home turf before it can attempt to expand again into national and international markets. The root cause of the public's perception of a lack of quality may be either improper marketing of quality wine or the lack of consistent quality for certain New York wines. Several wine merchants and consumers have remarked that there is a lack of consistency in the quality of New York wines, particularly those made by small wineries. It is not within the expertise of this report to determine whether it is the inability to market quality wine or the marketing of unpalatable wine that has contributed to the poor image of New York wines. However, the question of quality is one that the industry as a whole must face. If the problem in marketing New York wine is that it is unpalatable, then the industry should devise a way to either ensure quality or to aid wine makers to produce better quality wine.

State Regulatory and Business Climate's Effect on Wine Production

The survey entitled "The New York State Wine and Grape Market," conducted for the New York Wine and Grape Foundation, states that consumers are very price sensitive when purchasing wine. This is particularly true of medium priced wines for everyday table use and for use when entertaining. In a random sampling of wine and liquor stores in the Albany area and in the Hudson Valley, retailers stated that, on average, New York wines are priced too high when compared to other comparable products. This is especially true for wines produced by New York's smaller wineries. Whether accurate or not, the perception that New York produces high priced wines, coupled with the retailer's and consumer's lack of confidence in its consistency hurts wine sales.

There may be several causes for New York wines, particularly the medium and premium priced wines produced by small wineries, to cost more when compared to other comparable out-of-state wines. A common thread may be that New York's business and regulatory climate increases the cost of producing wine. For example, the "New York State Winery Handbook," which was published by the New York Wine and Grape Foundation in 1989, is a one inch thick document that identifies all of the statutory and regulatory requirements for New York State wineries. The document is designed to serve as a guide and handbook to make it easier for wineries to comply with federal and state regulatory requirements. The length and complexity of this document demonstrates the regulatory burdens that have been placed upon wineries in this state.

What follows is a discussion of several items that may increase the costs of producing wine in New York, including examples of state laws and rules which mandate either duplicative or burdensome reporting requirements.

1. Label Approval – The State Liquor Authority (SLA) is empowered by law to establish standards regarding the labeling of wines and other alcoholic beverages. The Federal Bureau of Alcohol, Tobacco and Firearms (BATF) also imposes requirements for label approval and registration.

The "New York State Winery Handbook" states that the SLA defers to the federal label approval requirements and, in fact, that the SLA requires that BATF approval be submitted with the state application. New York does not prescribe any different standards for what must be on the label. However, the state is more restrictive in determining the changes to a label that precipitates the registration of a new label. In addition, the SLA label registration and approval procedure is not a one time requirement, but an annual paperwork mandate.

It is duplicative for both BATF and the SLA to simultaneously register and approve new wine labels using the same criteria. For the winery, it is time consuming and costly to reregister with the state labels approved by BATF. The federal government, which sets the standard, requires a one–time registration and does not impose any fees, while the state uses federal approval to satisfy its labeling requirements, requires a $50 filing fee, a $50 annual fee and a $50 fee whenever the label is changed.

The only situation where duplication of label registration requirements may not exist is where the labeled wine is sold solely within New York. BATF label registration and approval is required only for those wines that enter interstate commerce. There are certain New York wines that have specialty labels and are sold just within the state. However, the vast majority of wine is not sold just in New York State and is subject to BATF approval.

2. <u>New York Excise Tax Returns</u> – The United States and New York State governments collect excise taxes from wineries on the amount of wine produced. Both require that monthly tax forms for excise tax collections be filed. These forms have the same ultimate goal: to collect excise taxes based on the volume and type of wine produced and sold.

Unfortunately, the federal law and monthly tax forms require that all wine volume be reported in <u>gallons</u>, while New York State law and monthly tax forms require that wine volume be reported in <u>liters</u>. Several winery operators have complained that they must complete the federal form in gallons and then convert those amounts to liters to complete the state form. Since this is a monthly report, twelve times a year a winery operator must convert wine volume from gallons to liters. This paperwork requirement seems to be an unnecessary exercise that is time consuming for the winery owner and of no benefit to the state.

3. <u>License to Purchase Farm Products</u> – Agriculture and Markets Law Article 20 requires that all persons who purchase more than $3,000 worth of grapes and do not sell solely at retail must obtain a license and provide bond to guarantee payment to growers for grapes received by the processor. The license costs $20 plus an additional fee of between $100 to $2,500, depending on the volume of grapes purchased, for the Agricultural Producers Security Fund. This fund was established to ensure that growers who deliver grapes to a winery obtain payment. If the winery is unable to pay the grower, then that grower can receive compensation from the Fund.

Many small New York wineries grow the majority of grapes needed for wine production themselves, and only purchase small amounts of grapes to supplement their production. Several small wineries purchase just over the $3,000 threshold, and hence must obtain a license, post a bond, and pay money to the Security Fund just like large wineries. The following provides an example of how low the threshold is for mandated entry into the Security Fund. For Concord grapes sold at a price of $245 per ton, $3,000 will buy approximately 12 tons of grapes. Twelve tons is a very small quantity when one considers that New York in 1991 produced 163,191 tons of grapes.

The smaller wineries may be bearing an inordinate burden by being required to participate in the Security Fund since they pay a relatively high fee and purchase a relatively small percentage of the total tonnage of grapes used by New York processors. The payment schedule as embodied in Agriculture and Markets Law section 250 states that all processors who purchase between $3,000 – $19,999 worth of grapes must pay the $100 fee, while a processor who purchases over $5,000,000 worth of grapes must pay $2,500. For a winery purchasing only $3,000 worth of grapes, the fee represents 3% of its purchase price, while a winery purchasing $5,000,000 worth of grapes must pay a fee representing only .05% of its purchase price.

It is very important that the Security Fund remain strong and solvent to protect growers. However, it may not be necessary to require a winery to enter into the Security Fund when it purchases small quantities of grapes.

4. Duplicative Inspection of Winery Operations – Both Ag. & Markets and the SLA have jurisdiction over wine production facilities. Ag. & Markets, pursuant to Article 20-C of the Agriculture and Markets Law, is required to inspect and license all wineries because they are food processing establishments. The SLA is also required to license and inspect all wineries since they manufacture and sell an alcoholic beverage. Both the winery license and food processing establishment license applications request much of the same information. Further, both SLA and Ag. & Markets inspectors must inspect the premises before the respective licenses are issued.

These inspections may represent duplication of work by these state agencies. Not only does it cost the state more to have two agencies inspect the same premises, but it is confusing and time consuming for the winery owner. In these difficult budgetary times, the state should strive to eliminate such agency duplication.

5. Unnecessary State Agency Mandates and Burdens – The wine industry is a highly regulated industry that is monitored by the SLA, as well as the Departments of Ag. & Markets, Environmental Conservation, Health, Taxation & Finance, and Labor. There are many laws and state agency regulatory mandates that could be eliminated or revised to reduce administrative

burdens for both the state and the industry. For example, the SLA requires approval for any physical change to a winery tasting room, including minor alterations. For certain alterations, sketch plans and forms describing all aspects of the alteration must be filed and approved. This requirement was first instituted after Prohibition and used primarily for monitoring taverns and other drinking establishments for public safety reasons. A winery tasting room may need to be treated not as a tavern, but more like any other farm or a winery operation.

As another example, the SLA requires that before a wine tasting can be held in a liquor store, it must be notified in writing five days prior to the date of the tasting. This requirement serves only as a notification and SLA approval is not necessary to conduct a tasting. Overall, there are many instances where state agencies could reduce their paperwork mandates and still maintain adequate control over winery operations.

Several winery owners have complained that certain state agencies, particularly the SLA, are not helpful when called upon to answer a question. Many times, the question relates to which form the winery should complete to conduct an activity or what information should be placed on a form. There have been instances where an agency has refused to answer legitimate questions by a person attempting to comply with the law. In the SLA's case, it has been suggested that the problem may be that the bulk of the Authority's work involves taverns and alcohol distributors and wholesalers, and not wineries. Hence, many SLA forms are not geared towards the needs or operations of a winery and are therefore confusing to the wine producer and are difficult to complete. Further, many SLA personnel are not conversant on winery operations and are unable to assist a winery with many of the questions that they may have.

6. Stated Grape Price Law – Agriculture and Markets Law section 250–d(2)(b) requires that a New York grape processor, including juice plants and wineries, which receives or purchases grapes must state and file on or before August 15th of each year the price it will pay for all grape varieties it plans to purchase during the fall harvest.

Prior to enactment of this law, processors would establish a price at the time of delivery or would have growers deliver their crop and then at a later date determine a price for the crop. By setting August 15th as the date to put grape growers on notice of grape processor purchase prices, the price for grapes is established before the crop is picked and delivered. This is intended to provide the grower sufficient time to find a new purchaser if the processor's price is not satisfactory. The law also stabilizes the price of grapes during the harvest period. Before the law was enacted, the price of a variety of grapes might fluctuate weekly, or even daily, depending on the supply and demand of that grape variety delivered on that day. The law was intended to reduce uncertainty of price before and during the harvest.

Several problems with the law have been cited by small wineries, particularly those producing premium Vinifera wines. First, the law requires a winery to state a price before it can ascertain the crop's general quality, which greatly affects its value for wine making. Also, the law implies that one price be stated for each variety. Vinifera wine makers, particularly, complain about this because a grape variety can have a wide range of value depending on quality factors such as its sugar levels, where it was grown, acid balance, and the output an individual grower obtained per acre. These quality factors cannot be fully determined by August 15th because of unpredictable climatic conditions that may occur between that date and harvest.

Second, a small winery may discover after the August 15th deadline that it was able to purchase a unique grape variety that the winery thought was unavailable. The law precludes the grower from selling the grape to that winery if the winery failed to state a price for that grape variety. In other instances, the winery may need more grapes than anticipated, but may be unable to buy them at the stated price if prevailing market prices are higher.

Third, in situations where the grape crop is bigger than expected, growers will often be looking for anyone to purchase their excess grapes. This law reduces the ability of a winery to purchase more grapes at a lower price than what was established on August 15th. In this scenario, the grower needs to sell grapes and the winery, which has already purchased all the grapes it needs, might be enticed to purchase more if the price is right. If every winery established a high price for grapes in August and there are grapes that do not have a purchaser, the law precludes any processor from purchasing them except at the high August 15th price. Hence, these growers are unable to find a willing New York purchaser and must either sell the grapes out–of–state, assume the expense of putting them in cold storage, or let them rot on the vine. In these situations, the law in its present form restricts sales that can be beneficial to both the processor and the grower.

What the Stated Grape Price Law attempted to rectify was the situation where several big processors were alleged to have created a monopoly and purchased the bulk of New York's Native–American and French–Hybrid grapes in a collusive manner from unorganized grape growers who had little time to find a new market or negotiate a better price for their crop once the harvest began. In the purchase of Vinifera grapes, the law may not benefit the grower or small winery because in this situation there are many small growers and purchasers of Vinifera grape varieties. This may not be a monopoly situation, but one which more closely resembles a free competitive market.

7. <u>Large Winery Problems</u> – Large wineries in New York often have different problems than small farm wineries. In many ways, a large winery is more like a large food processor, while a small farm winery is more similar to a small farm or business. Over–regulation of a large winery can affect its operations and compel it to operate differently than it would otherwise. According to the Office of Business Permits and Regulatory Assistance, nearly half of the permits issued by state agencies take more than one month to process, with some averaging more than six months. This lag time between applying for and obtaining numerous state permits reduces large processors' ability to plan or expand production.

For example, some have said that DEC has been slow in reviewing State Pollutant Discharge Elimination System (SPEDES) permit applications for water treatment and discharge facilities. These permits are required any time a person or company discharges effluents into a stream, river, or lake. Large wineries commonly need SPEDES permits to operate. With the present budgetary constraints, it may be difficult for DEC to promptly issue all the permits a large winery may need. However, permit processing lag time slows down the large wineries' ability to plan and change its operations to remain competitive. Reducing the number and complexity of permits and the lead time to obtain them will not only reduce business costs, but reduce the state's cost in reviewing these applications.

Another concern for large wineries is the national trend in both the federal and state governments to increase revenues by routinely increasing excise taxes on alcoholic beverages, including wine. In New York, these excise taxes are levied based on the quantity of wine produced, regardless of the wine's value. Therefore, an excise tax has a greater impact on a large volume producer of inexpensive wines than on a producer of premium priced wines. For example, a $3.99 bottle of wine has the same tax levy as a $15.00 bottle of wine.

New York's wine industry has several large volume producers of inexpensive wine which make most of the state's wine, and scores of very small wineries that produce medium and premium priced wines but make up a small percentage of the state's total production. Any increase in the excise tax would greatly affect a large New York winery's ability to market its products. This is because even a small increase for an inexpensive wine is more likely to reduce the demand for that wine substantially since it raises the price on a percentage basis far more than an expensive premium wine. Any increase in the state's excise tax would place a greater tax burden on New York wines than California places on comparable products. Furthermore, consumers are more price sensitive and more likely to shift to a comparable quality, but more inexpensive California wine if a future New York excise tax increase raised prices.

8. Sparkling Wine Production – California and New York are the primary producers of sparkling wine in the United States. California produces approximately 60% of the sparkling wine consumed in the U.S., New York produces under 10%, with foreign production making up the bulk of the difference.

However, New York's excise tax rate on sparkling wines is over three times that of California's. New York's excise tax levy for the production of sparkling wine is 25¢ per liter (i.e. approximately 95¢ per gallon). California's tax rate is 30¢ per gallon. New York's high excise tax is a clear disincentive to the production of sparkling wine in New York. This is of particular concern since the two largest sparkling wine producers in New York have subsidiaries in California and could easily shift production to California. Such a shift would hurt New York's economy and its prestige as a wine making state.

New York has suitable weather and climatic conditions for the production of premium quality sparkling wines. Evidence of this is New York's already large production of quality sparkling wines and Charbaut's interest in establishing sparkling wine production facilities in New York. However, production of sparkling wine in New York is declining.

Sparkling wine production is a desirable segment of the wine industry that New York State should promote. This is because sparkling wines in general utilize premium quality grape varieties, including Viniferas such as Pinot Noir, Chardonnay and Native–American varieties such as Delaware, Catawba and Dutchess, which command high prices. Fostering a market for high priced grapes can increase growers' incomes. Further, sparkling wine production is a labor intensive process that requires more employees and capital than other wine products. The combination of increased grape prices and increased percentage of employees to produce sparkling wine is a strong economic incentive for New York to promote its production.

The Plight of Small Wineries

New York's small wineries are an important segment of the industry that needs assistance to expand, but there are numerous economic obstacles that hinder their growth. Since most New York wineries are small farm wineries producing less than 20,000 gallons each year, the per unit cost for a bottle of wine is higher than if the wine was made by a winery that produces over 100,000 gallons. This is because larger wineries produce enough volume to realize economies of scale and can produce wine at a lower cost per unit. Small wineries have many advantages, such as producing small amounts of wine to fill particular specialized markets and the perception of producing quality wine because it is often a small, family–run enterprise. Further, a small winery has the ability to react quickly to market changes in taste or style of wines.

The disadvantage for a small winery is that its per bottle cost is higher than a winery that produces a large amount of wine because its overhead costs are a higher percentage of total production costs. Not only is the per unit cost higher, but to make a profit the smaller winery needs to make more profit per bottle to be a successful business. In sum, the economies of scale can not be attained by the small winery when its comes to wine production. The only way a small winery can capitalize on the economies of scale is by expanding production.

Production at an "average" California winery, excluding Gallo, is over 500,000 gallons of wine per year, with many "smaller" California wineries producing over 100,000 gallons per year. However, the average New York winery, excluding Canandaigua and Taylor, produces approximately 27,000 gallons per year. Of New York's 94 wineries in 1990, 35 produced less than 10,000 gallons per year and 54 produced 20,000 gallons or less. New York wineries in many instances are true small businesses which employ no more than 4 or 5 people. The problems facing small wineries are the same problems faced by other small businesses in New York: relatively high expenses for production, extensive governmental regulations and reporting requirements, high taxes, and high overhead costs.

To expand wine production, the industry and state government will need to work together to find ways to reduce the costs of production for small wineries and encourage their growth so that they can begin to capitalize on the economies of scale that California has benefitted from. Reducing costs of production will permit New York wineries to reduce prices and expand the market for New York wines.

New York Wineries' Inability to Sell Wine

A common complaint among many smaller wineries throughout New York is the inability to expand wine sales. Some have gone as far as to state that they plan to reduce production to more accurately reflect their inability to sell higher volumes of wine made in previous years. Detailed information on production levels for all wineries in the state is hard to obtain because it is proprietary information wineries do not want to divulge. Therefore, it is difficult to determine which particular wines and wine styles made by New York wineries are moving in the market place and which segments of the wine industry are doing well commercially.

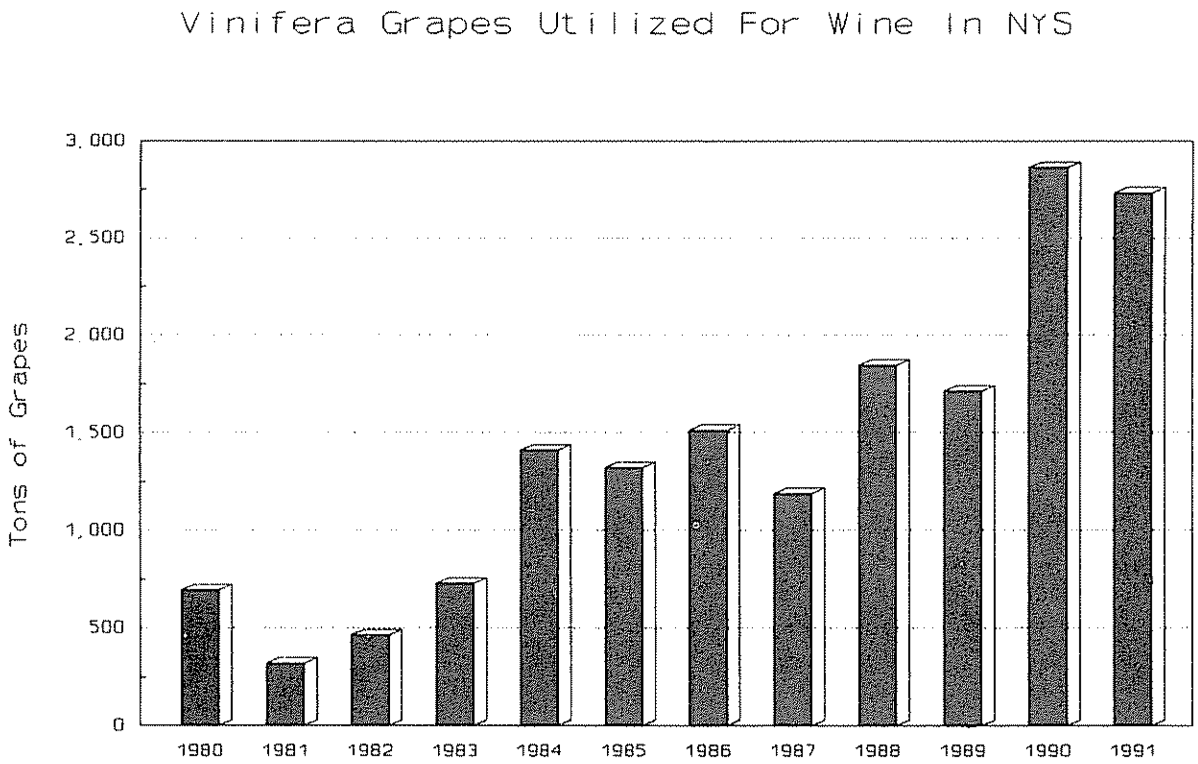
The New York Wine and Grape Foundation maintains data that summarizes statistics for a number of wineries which include the amount of wine produced each year, total storage tank capacity, and wine varieties produced. This data gives some indication of the prosperity of New York wineries in general. Many of the wineries in the Foundation's survey had a total storage capacity well in excess of annual production. The data reveals that storage to production ratios range between 2 to 1 and 9 to 1, with the average being approximately 3 to 1. Long Island wineries had better ratios of approximately 1.25 to 1. A high storage capacity to annual production level ratio can be indicative of the winery's operation. It can indicate that either the storage tanks are near or at capacity with older wines that cannot be sold, or the winery has excess storage capacity because it is unable to produce more wine due to economic reasons and/or its inability to sell wine. In either case, if wine is being produced and kept in storage, or the facility is producing at below capacity, these wineries are not operating as profitably as they could. This situation is not a promising reflection on the economic condition of New York wineries.

A third option, which does not apply to the wineries surveyed for this report, is that excess capacity is filled with wine that is aging for future sales. That would be the case if the winery devotes a substantial portion of its production to sparkling wine or certain dessert wines that need anywhere from 3 to 6 years of aging before being released for sale.

Another way to determine winery production levels and prosperity is to look at winery purchases of New York grapes. For example, New York wineries accepted and processed less Vinifera tonnage in 1991 than in 1990. (see graph on next page) The 1991 grape crop tonnage was one of the largest recorded in New York's history. However, in the production of Vinifera wines New York wineries took in 2,731 tons in 1991, which is less than the 2,862 tons taken in 1990. This reduction indicates that wineries took in fewer grapes in 1991 even though there was a 41% increase in Vinifera grape production between 1990 and 1991. Further, the reported excellent quality of the 1991 grapes should have prompted wineries to purchase more, not fewer, grapes. This reduction in grape purchasing activity by wineries in 1991 may indicate the inability to either process or sell more wines made from Vinifera grapes.

In addition, as the graph on page 20 illustrates, there has been a gradual reduction of grapes utilized for wine production in New York. This trend, which began in 1975, occurred throughout the late 1970's and early 1980's when U.S. wine consumption levels were rapidly increasing. That increase in demand for wine was satisfied by increased production in California, Washington and Oregon, and the importation of foreign wine, and not by increased New York wine production.

In sum, it seems that the problem for some New York wineries may be that they are unable to sell more wine or even maintain past production levels. This affects the grape grower in that



lower levels of grape utilization for wine translates into lower demand for grapes and hence both lower prices and quantities purchased. The next section looks at some potential problems in marketing New York wines.

Wine Marketing

This report has already reviewed some of the issues that affect the marketability of New York wines. Among them are the general public's lack of confidence in the consistent quality of New York wines and the relatively high price paid for medium to premium quality wines. One issue that was not discussed earlier is the diversity in taste of New York wines. In places like France, California, and Oregon, the question of what types of grapes to grow and wine to be produced from them has been settled. In all of these areas, the wine industry has chosen one or another species of Vinifera grape to make wine. However, New York's industry is marked by a wide diversity in wines because they are made from three very different "families" of grapes which produce very different wine styles. Some maintain that making wine from such divergent grape families makes New York a very interesting wine making state, however, consumer confusion may occur when such wide varieties of grapes and styles of wine are all called a "New York" wine.

For example, in the market today some of the most popular wines are fruity, dry white wines, be it a Chardonnay or a dry generic "Chablis." If a consumer purchases a standard "New York" white wine, he or she might get a Niagara, a Seyval Blanc, Vidal, Chardonnay, Riesling, or a generic blend of the above. All of them may be good, however, the wine consumer purchasing a New York white could get something very different from what he or she expected. If one was hoping to find something similar to a California "Chablis," that person may be disappointed. In fact, the consumer may be so disappointed that he or she could shy away from buying another New York white wine. The converse can also be true; the consumer could be disappointed if he or she wants to purchase a real grapey New York white such as a Niagara and instead obtains a generic white wine that does not contain Niagara, but Riesling, Chardonnay, or a Seyval Blanc.

Conversations with several wine merchants, retailers, and consumers suggest that this confusion and disappointment happens often. In the long run, the prudent consumer may shy away from the varied assortment of tastes that are contained in different New York wines and go back to more consistent California wines with which the public is more familiar.

Labeling of New York wines can sometimes add to the public's confusion over the type of wine contained in the bottle. The confusion due to vague wine labeling may be a contributing factor which reduces New York wine sales. At present, there are no labeling standards for New York wines to indicate its sweetness or acidity, style, quality, or grape varieties used in blended generic wines. An industry standard or protocol may alleviate some consumer questions and increase wine sales.

The advantage of New York's ability to produce such diverse wines is that it can target sales of a particular wine to markets that are more receptive to that style of wine. For example, the New York City market tends to consume more California and imported wines which are made from Vinifera grapes. If New York Vinifera wines were promoted in New York City where the market is more receptive to such wines, perhaps New York producers could increase their share of that market. In western New York, several winery owners maintain that people from Ohio and Pennsylvania and persons who are over 50 years old tend to prefer Native-American wines such as Niagara and Catawba. New York's marketing strategy should look at developing promotions for Native-American wines in those Midwestern markets and to persons over 50 years old.

Mary Ross, a columnist for Vineyard & Winery Management magazine, recently stated that people are looking for quality "everyday" dry wines costing between $4.00 and $5.99. New York's French-Hybrids can be made into nice wines to fill this marketing niche. Distribution of those wines could be directed to states that sell wine in food stores. In states such as

Massachusetts, Ohio, Illinois, and Florida, which sell wine in supermarkets, the marketability of a good, inexpensive French–Hybrid wine may be easier since these "everyday" wines move more readily in the supermarket.

Wine Distribution

Many New York wineries, particularly small wineries, have difficulty in economically distributing their wines. There may be several reasons for this distribution problem.

As stated earlier in this report, since small wineries have relatively high production costs and overhead and limited wine volume, they need to make a relatively high return per bottle to make a reasonable profit. Selling wine through a distributor may increase sales, but it substantially reduces per bottle profitability because of the lower purchase price paid by the distributor for the product. A disincentive for a distributor to represent a small winery is the volume of wine that it needs to sell to make a profit. Logically, a distributor can not devote its resources toward selling wine that will not produce large numbers of sales due to the small quantity produced or to the unavailability of additional quantities of wine if the first shipment sells out. A distributor's business is dependent upon selling on a large volume basis and moving wines that have brand name recognition. It is beneficial for a distributor to have in its portfolio wines that have wide brand name loyalty so that large volumes can easily be sold.

A small winery's limited brand name recognition and availability serves as a disincentive for a distributor to push that product. This encourages these wineries to seek sales by other means. Many small wineries sell wine solely on site, to restaurants and to nearby liquor stores, and do not have a distributor to sell their product. However, it is difficult to sell large quantities of wine in this manner. The ultimate problem for the small winery is to find the most cost effective method to distribute its product and make it readily available to the public for sale.

One alternative is the further development of wine trails. The New York Wine and Grape Foundation devoted approximately $160,000 during FY 1990–91 for six wine trails in New York. A wine trail is an association of several small wineries in close proximity to each other that collectively advertise or produce a tourist brochure with a map identifying the participating wineries. Some wine trail associations have special tasting events and accept associate members in related businesses such as hotels, bed & breakfasts, restaurants, and local tourist attractions. The whole point of a wine trail is to attract tourists to a region of the state for a day or weekend trip to sample wines and patronize other local businesses. Wine trails have proven to be a successful way to expand local winery tours and on–site sales. They also have the collateral affect of bringing in tourists from out of the region who spend money in local restaurants, hotels, and other tourist businesses.

The paradox of the wine trail concept is that once an out-of-state tourist finds a wine he or she likes, the wine will probably not be available to them in their home state. Typically, the only way for the consumer to obtain more New York wine is to travel back to the winery for another purchase. Obviously, this reduces potential out-of-state sales for many small New York wineries. To be more successful, smaller wineries will need assistance in expanding their product's distribution, both in New York and out-of-state, in a cost effective manner.

Probably the most cost effective manner to expand distribution is to facilitate responsible access to New York markets and to expand sales into neighboring jurisdictions such as Connecticut, Massachusetts, Vermont, New Jersey, Rhode Island, and Washington, D.C. All of these jurisdictions are close to New York which reduces transportation costs, plus they have high per capita wine consumption rates and have large populations.

The next section will enumerate some recommendations that both the state and industry can adopt to increase the viability of the New York wine industry and its grape growers.

RECOMMENDATIONS

New York has a diverse wine and grape industry that has large and small wineries producing both inexpensive and premium priced wines. Any new policies New York State adopts to promote the wine and grape industry will need to assist and foster growth both in large and small wineries in addition to helping the grower receive a fair return for his or her labors. Unfortunately, the industry has declined significantly in the past 15 years as evidenced by lower grape prices, lower acreage, lower wine grape utilization, and the reduced profitability of many New York wineries.

The danger of further decline in the New York wine industry is that it will lose its critical mass to be a true large scale industry that can support all of the specialized ancillary services that it needs to exist. These services include such things as harvester and tractor sales and repair, winery and vineyard equipment sales and repair, a readily available pool of specialized labor, and other professional services. The most important consequence of a weakening in the wine and grape industry is that it will be difficult to find replacement industries for areas such as Chautauqua County, Niagara County, and the Finger Lakes region where grape growing and wine production are a significant part of the local economy. Further, since many parts of the state are excellent potential grape growing areas, it would be a lost economic opportunity for New York not to expand grape cultivation.

The difficulties that the industry is facing have no one overriding cause. They are the culmination of many obstacles that have reduced the profitability of growing grapes, making wine and, finally, selling wine. Therefore, many different actions need to be taken to reduce these obstacles.

Discussed below are a number of actions that can be taken to improve the state's wine and grape industry. These actions range from introducing new grape varieties and growing techniques, to encouraging the shift of wine production to those products now in most demand, to reducing the costs of production, and, finally, to reducing distribution costs so that more people will have the opportunity to purchase New York wines instead of some other wine.

Grape Growing

There are activities that the state can do to assist grape growing and increase the demand for grapes. Reducing the cost of producing grapes and increasing demand will invariably increase farmers' incomes.

1. Promote More Research – The New York Wine and Grape Foundation, through the Geneva Experimental Station and other research facilities, has supported grape growing research to increase the profitability of the wine and grape industry. The research includes: improving the methods of growing grapes; improving methods for the production of wine; reducing grape production costs; increasing fruit quality and production; improving the genetic stock of Vinifera vines; reducing disease susceptibility; developing new hybrids to increase production and which require less pesticides; studying insect and fungal diseases to reduce pesticide applications; and mechanized picking and pruning. This important work has recently been curtailed due to the reduction in industry supported research and to state budget cuts. However, research needs to be expanded if the industry is to stabilize and flourish.

Another important long term project that needs more support is the development of new hybrids that can be grown in the state to increase production and reduce production costs for quality everyday table wines that are moderately priced. For New York to remain competitive, grape yields per acre will need to increase. The development of new hybrids is one way to accomplish this goal. The work at the Geneva Experimental Station has had a long history of providing new plant material in attempts to advance the quality of New York grapes and their production. Varieties such as Cayuga White, Steuben, and the new Geneva series of seedless grapes have helped to advance viticulture in New York. This work should continue so that New York's grape industry can remain competitive.

2. Expand the Marketing of Grapes – A greater effort should be made to encourage the sale of New York grape products. Expansion of New York's market for grape products could include: increased utilization of fresh table grapes; greater marketing efforts for New York grapes and grape products to out-of-state markets; more use of grapes by home winemakers; and increased use of grape juice and other grape products by state institutions. New York State should encourage its own institutions, local governments, and school districts to purchase more fresh grapes and more grape juices, jellies and preserves. Further, at state controlled or leased restaurants that serve wine, the state should encourage the use of New York wine products.

The Department of Agriculture and Markets and the Wine and Grape Foundation should place greater effort toward expanding sales of New York grapes to home winemakers. Presently, in the New York metropolitan area and much of the Northeast, many home winemakers use California grapes such as Zinfandel, Aligote and Muscat. These California grape varieties are used because they ship well, not because of their wine quality or taste. Further, they cost between $15 – $22 per 30 pound box. There may be a large potential market for the sale of New York grapes in the Northeast to home winemakers because, due to the proximity to the market, they are cheaper, fresher, and more flavorful than California shipped fruit. The red French–Hybrid DeChaunac may be a candidate for utilization by home winemakers because it ships well and makes a dark robust wine. An additional benefit to encouraging local home winemakers to use New York grapes is that as they become more accustomed to using New York fruit, they may be more inclined to purchase New York produced wines in stores because of familiarity with the grape varieties contained in the product.

3. Increase Grape Sales to Out–of–State Wineries – The Wine and Grape Foundation, Ag. and Markets, and New York's grape grower associations should encourage the export of New York grapes to out–of–state wineries. States such as Massachusetts, Rhode Island, Connecticut, Pennsylvania, Virginia, and Ohio have many wineries that may be able to purchase New York grapes for the production of wine. Further, these winemakers may be receptive to the New York fruit because many of them use these grape varieties in their current operations.

4. Expand New York Winemaking – Any action that expands the state's market share of wines consumed or expands the market for responsible consumption of wine will expand the production of New York wines and hence the demand for New York grapes. New York should particularly encourage expansion of sparkling and premium wine production since these are the few growing segments of the wine market. Further, they are more labor and capital intensive than the production of other wine types and would have increased benefits for the New York economy in numbers of persons employed and capital invested. However, the large volume producers of moderate priced table and dessert wines should not be overlooked since they provide most of the employment in New York's wine industry today.

Wine Production and Marketing

Wine quality, increased production, and increased winery profits should remain the primary responsibility of each individual winery. To increase production and profits wineries will need to cooperate and work with each other either informally, through the New York Wine and Grape Foundation, or by joint regional action. There are, however, actions that New York State can take to help facilitate the expansion of the state's wine industry. The following are actions that state agencies and the Legislature should to consider.

1. <u>Reduce Regulatory Mandates</u> – As discussed earlier, one of the largest hindrances to the sale of New York wines is the small size of most New York wineries. Small wineries are unable to capitalize on the economies of scale in production, market their wines cost effectively, and lower prices to compete with cheaper, but comparable, out–of–state wines. By lowering small wineries' administrative costs, the state can increase their profitability. The following are examples of state laws, rules and forms that could be revised to reduce administrative costs for both New York State and the wine and grape industry. If implemented, these administrative steps could help to reduce winery administrative costs and give owners more time and money to devote to selling their product and expanding their markets

   a. <u>Label Approval</u> – The Alcohol Beverage Control law and SLA rules should be reviewed and amended to end duplicative annual review and approval of wine labels that already have been reviewed and approved by the BATF.

   b. <u>Excise Tax Law Conformity</u> – The New York excise tax laws which require that volume be measured in liters should be reviewed and amended to conform with federal excise tax laws which measure volume in gallons. Once the federal and state excise tax laws have been conformed, then the Department of Taxation & Finance should revise its tax forms so that the state excise tax return can be either eliminated or simplified.

   c. <u>Agriculture Producers Security Fund</u> – The exemption for participating in the Security Fund should be reviewed and amended to increase the exemption from $3,000 to between $5,000 and $10,000. This will reduce administrative and financial burdens placed on small wineries, and yet not hurt the fund that protects grape growers.

   d. <u>Consolidate State Operations</u> – Where possible, the winery licensing procedures and inspections conducted by the SLA and Ag. & Markets should be consolidated and simplified.

   e. <u>Unnecessary State Mandates</u> – The Departments of Ag. & Markets, Health, Labor and Taxation & Finance, and the SLA should review their operations to reduce paperwork requirements that are not essential to adequate monitoring of the industry. Further, the SLA should review its present operations and consider the creation of a special winery division to process all forms and answer all inquires.

2. Enhance Wine Quality – New York is relatively new at producing wines from French–Hybrid grapes, many of which were developed in the last 60 years in France, and Vinifera grapes which have been grown in New York in significant numbers for only the last 15 years. Further, many small wineries in New York are owned and operated by people that came to the winemaking business by way of farming, by pursuing a second career, or by hobby winemaking. This combination of new grape varieties being grown in a new climate and being made into wine by new winemakers is an exciting prospect as to the new and different wines that may be produced. However, it can also lead to inconsistent wine quality because of the lack of knowledge on the best methods to vinify wine from grapes grown in New York.

Small wineries due to lack of time and money may be unable to communicate with each other or exchange ideas on common problems they face in vinifying wine from New York grown grapes. It is important to foster discussions among winemakers on proper wine making techniques and on producing marketable styles of wine from New York grapes. To this end, the New York Wine and Grape Foundation, with the assistance of Cornell University, periodically sponsors excellent seminars to assist winemakers in producing superior wines. These seminars also give wine producers a forum to exchange ideas. These seminars should be encouraged and expanded to help increase New York wine quality.

The extension service for winemakers should be expanded so that small wineries can obtain current information on new vinification techniques. The Department of Food Sciences and Technology of the New York State Agriculture Experiment Station at Geneva, with the assistance of the New York Wine and Grape Foundation, has established the Wine Analytical Laboratory and Wine Data Bank. These serve two functions among others.

First, it assists small wineries with technical services for juice and wine analysis for quality assurance and problem solving by offering advice and performing tests. Tests such as acidity, residual sugar, organic acids, stability problems, and sterility are performed. This testing of wine by qualified technicians ensures the integrity of the test results and reduces the winery's cost of production because it can ship out samples for testing instead of maintaining its own laboratory.

Second, test data is entered into a data bank to determine if common problems or concerns with New York produced grape juice or wines exist for specific grape varieties or regions of the state. Ultimately, this information will identify common problems in making wine from particular grape varieties or from certain regions that can then be disseminated to all New York wine makers to increase general wine quality. This data would also assist the Lab and any extension agents responding to questions from wine makers on technical problems.

Expansion of the Wine Laboratory, the Wine Data Bank, and extension services would greatly assist New York wineries by reducing production costs and increasing wine consistency and quality.

3. Establish Wine Label Standards – The accuracy and consistency of labeling New York wines may be one way to increase consumer confidence in New York wines and permit consumers to make educated choices in the selection of wine. West Germany successfully did this in the early 1970's with their Rhine wine classification system.

New York wineries do produce many variations of wine out of a single grape variety. A French–Hybrid grape like Seyval Blanc, for example, can be made alternatively into wines that are dry, acidic, bubbly, mellow, semi–sweet, barrel aged, or barrel fermented. However, without an adequate description on the label, a consumer may shy away from purchasing any Seyval Blanc wine because he or she is uncertain what style of wine it is.

Identification of the grapes utilized in the production of a generic white or red wine may also assist the consumer in selecting a New York wine. For example, red French–Hybrid wines produced from DeChaunac, Chancellor, or Baco Noir can be very different in their structure, and can be clearly different from reds made with Native–American or Vinifera grapes. Disclosing the grapes utilized in a particular generic red blend and the style of wine made, i.e. sweet, dry, mellow, oak aged, etc, may assist the consumer in selecting and purchasing a New York wine. More importantly, if the consumer finds that he or she likes a particular style of New York wine, adequate label information may encourage that consumer to purchase similarly styled New York wines, i.e. barrel fermented Chardonnay, barrel aged Baco Noir, light, semi–sweet Seyval Blanc, and sweet or mellow Concord or Niagara wine.

The New York wine industry, and not the state government, should arrive at and enforce objective standards for the accurate labeling of wines. This could be accomplished either through the New York Wine and Grape Foundation or some other industry organization. Standards for labels could include wine descriptors such as, residual sugar, total acidity, pH, vinification technique, grape variety utilized, aging potential, and a description of how the wine should be served and with what foods. Disclosure of this information on the wine label could increase wine sales by helping wine retailers make informed suggestions to consumers and permitting consumers to make knowledgeable selections depending on the style of wine the purchaser wishes to consume. Hopefully, more information on the label will increase the number of repeat purchases by satisfied customers.

4. <u>Promote Winery Cooperation and Tourism</u> – Promoting tourism in New York's four wine regions can expand New York winery exposure and increase wine sales. In addition to being an industry that manufactures wine, wineries are tourist attractions which the state should capitalize upon. Increased tourism would not only benefit wineries, but also local tourist related establishments such as hotels, motels, bed & breakfasts, restaurants, and local tourist attractions.

In the Napa Valley, a premium wine producing area in California, tourism and its related activities are major components of the local economy. In fact, it has been reported that touring Napa Valley wineries is the second largest tourist attraction in the United States after Disney World. Increased tourism in New York's wine regions would increase on-site wine sales and sales in local restaurants.

The New York Wine and Grape Foundation has greatly assisted tourism in New York's wine regions by sponsoring and supporting wine trails. These wine trails are located in areas that contain clusters of wineries that are in close proximity to each other. The wineries work cooperatively to attract tourists to visit each winery on the wine trail. Some wine trails have associate members in related businesses such as hotels and restaurants, and also sponsor special joint events to increase attendance at all of their establishments.

These associations of predominately small wineries should continue to expand the scope of their cooperative arrangements. For example, it may be in all of their interests to jointly ship or deliver wine to distant cities or marketing areas. This would reduce the per unit cost of shipping wine for each small producer. Also, winery associations could, as a group, attempt to market themselves as a wine region that produces unique regional wines and promote that concept to wine writers and consumer wine magazines. The general public's identification of a unified wine region offering quality wines may raise the interest of writers who report on wine trends. This too may increase wine sales. Further, the public's identification of a particular region with quality wines will, as proven by Napa Valley, increases wine sales and encourages tourist trade to bolster the local economy.

New York State should promote the concept of regional wines and cooperative associations of small wineries so that they can jointly act to reduce overhead costs by marketing and delivering wine, sharing wine making or laboratory equipment, establishing joint insurance policies for health or general liability, or establishing press relations. The spirit of cooperation must come from a voluntary association of wineries. However, New York State should determine if state laws need to be amended to permit these associations to act in concert to expand sales, reduce production costs, or cooperatively ship wine. The Wine and Grape Foundation has and should continue to share information and new strategies that are working on one wine trail with other New York wine trail associations.

5. Improve Media Relations – The New York wine industry, through the New York Wine and Grape Foundation and certain individual wineries, has made efforts to promote the sale of New York wine by obtaining media exposure. The main sources of wine publicity comes from daily newspapers, and consumer wine periodicals and guides. It is difficult for New York wines and wineries to get media space due to the number of competing wineries from Europe, Australia, Chile, and the West Coast of the United States. However, individual wineries and the industry as a whole should increase their efforts to obtain more space in consumer wine publications and periodicals that gear their readership to premium wine sales. The reason for concentrating on premium wine publications is to capitalize on this growing segment of the wine market. Further, the premium market is one in which many smaller New York wineries may be able to effectively compete and obtain an increased market share.

The number of wine writers that influence the national wine market is relatively small. Fortunately for the New York industry, many of the top national and international wine writers live and work in New York City. These writers are the people that evaluate many of the world's wines and select those that have merit for publication in newspapers, consumer guides and periodicals. Effectively demonstrating the quality of New York wines to this select group of writers and providing them with useful information for articles could increase the state's presence in publications that strongly influence consumer purchasing habits of premium wines.

Long Island wineries have been effective in communicating with New York City's wine writers and in conveying an image of quality for their premium wines. This has helped increase their share within the New York City market. Other New York wine regions or wine trail associations may need to contact these top New York writers on an on-going basis, and provide them with reliable and useful information to help promote their wines.

6. Simplify Wine Distribution – The wine industry, particularly small wineries, would benefit from any reduction in the costs of distributing wine. Further, the expansion of the points of sale for wine products in New York to responsible adults may increase wine sales and encourage the substitution of out-of-state wines with New York products. There are several ways to facilitate the distribution of wines to responsible adults for moderate consumption.

a. Interstate Shipment of Wine by U.S. Mail – Representative Benjamin A. Gilman (R–NY) at the request of Senator Jess J. Present, introduced a bill into the U.S. Congress to facilitate the shipment of wine by the U.S. Mail. The bill, HR 551, would permit a winery to ship small quantities of wine through the U.S. mail.

This bill would allow out-of-state tourists who visit a New York winery to mail wine home if they are unable to bring it with them on their journey. Once home, these tourists would be able to order more New York wines that presently are unavailable in many out-of-state package stores. This legislation would particularly assist small New York wineries because many of them sell between 20% – 50% of their inventory at the winery site to tourists, a large number of whom are out-of-state visitors. Facilitating access to New York wines for out-of-state visitors opens an entirely new market. HR 551 should be enacted to increase repeat sales of New York wines.

b. Wine Tastings in Liquor Stores – Legislation was enacted several years ago to permit a New York winery to conduct wine tastings in liquor stores. However, Alcohol Beverage Control Law section 76(2) and the Rules of the State Liquor Authority section 63.11 require that a representative or agent of the winery sponsoring the event must be present at all times and actually conduct the tasting. The requirement that a winery employee or agent conduct the tasting increases the cost of such tasting and consequently reduces the number of tastings performed, particularly in areas far away from the winery. As stated earlier, most New York wineries are small businesses that employ 4 or 5 people. These wineries do not have the personnel or resources to give their wines state-wide exposure by conducting tastings throughout the state or in the all important metropolitan New York market.

The Legislature should look into reforming this requirement by permitting other persons to conduct the tasting. This would decrease the cost of conducting a tasting, increase their number, and hopefully increase the sale of New York wine.

c. Pooled Transportation of Wine – Small wineries often experience relatively high costs for delivering wine to restaurants, liquor stores, etc. This is because the small amounts of wine transported do not fill up the delivery vehicle. The Alcohol Beverage Control Law makes it difficult for small wineries to pool their resources to deliver full shipments of wine to their market and to solicit new sales. To reduce shipping costs, the Legislature should look into revising the Alcohol Beverage Control Law to increase the ability of small farm wineries to cooperatively combine shipments of wine and solicit new sales. This would decrease the per unit cost for shipping wine, particularly for small wineries, and increase their ability to sell and bring wine more easily and frequently into large metropolitan markets.

7. Revise New York's Excise Tax Policy – New York has an excellent climate for the production of premium and medium priced sparkling wines. As stated earlier, sparkling wine production is an activity that New York State should foster because it requires higher than average priced grapes, and is more labor and capital intensive in its production than table wines. In sum, sparkling wine production is beneficial to New York because it earns more money for grape growers, employs more people, and requires more capital investment than the production of other wine products.

If sparkling wine production increases, New York State would collect five times the excise tax revenue than would be generated by a similar increase in table wine production. The excise tax for table and dessert wines is 5¢ per liter, while sparkling wine is 25¢ per liter. Even if the excise tax rate was cut in half, fostering the growth of sparkling wine production in the long run will increase New York's total excise tax collections much more than a similar increase in table wine production.

New York State should refrain from again increasing the excise tax on sparkling wines. In fact, New York should consider significantly reducing its sparkling wine excise tax rate so that it is more in line with our main competitor, California. Any reduction in the rate should encourage sparkling wine production and, in the long run, may increase total revenues collected in addition to increased demand for New York grown premium grape varieties and more New York employment.

8. Revisit the Stated Grape Price Law – The operation of the stated grape price law should be monitored to determine if it needs to be revised to resolve some difficulties that have restricted grape sales and wine production and lowered farm income. Many of the problems were raised earlier in this report. Senator John R. Kuhl, Chairman of the Senate Agriculture Committee, has held several hearings throughout the state on the Stated Grape Price Law. He has also introduced legislation that remediates many of the problems with this law.

One problem that will need to be addressed in the future concerns the sale of premium Vinifera grapes and production of Vinifera wine. The problem seems to be that predicting and stating a price on August 15th for the delivery of grapes that may occur as late as mid–October has created production obstacles that hinder grape sales that are advantageous to both the seller and purchaser. This is particularly true for the production of Vinifera wines. The value of Vinifera grapes for wine production, unlike Native–American grapes used for juice or bulk wine production, is very dependent on the quality of the fruit, i.e. percentage of rot, sugar content, acid balance, size of berry, location of vineyard. To make premium quality Vinifera wine, the condition of the grape is critical, hence its quality significantly affects its value. As written, the stated grape price law does not permit fruit quality to be factored into the purchase price. This is because it is impossible for a wine producer or grape grower to predict on August 15th what the quality of the grape will be when it is picked a month or two later. Quality can be affected by too much rain, frost, heat, etc. Further, the processor must state a single price for all of a Vinifera variety purchased and not base the price on the quality of each shipment of grapes and pay accordingly.

To promote the production of premium wine and to give small wineries some flexibility, while at the same time ensuring the protection of grape growers and the stability of the grape market, the following revisions to the law should be investigated:

- establish an exemption from the stated price law for all processors that wish to purchase at a price different from their stated price of up to 10 tons per grape variety and not to exceed a maximum of 20 tons total, and
- exempt from the law all Vinifera grape varieties such as Chardonnay, Riesling, Cabernet Sauvignon or Merlot.

These changes will not affect the vast majority of the grape market which in general sells Native–American and French–Hybrid grapes to large processors. However, it will provide flexibility to small and medium sized wineries for the production of premium quality Vinifera and French–Hybrid wines. The ultimate goal of such an amendment would be to increase premium wine production and hence increase the demand for grapes to the farmer's benefit.

9. Encourage Foreign Investment – New York State should encourage European and Californian wine producers to establish premium wine production facilities in the state. A way to accomplish this is to encourage and foster growth in those firms, such as Charbaut & Fils of France, that have expressed an interest in New York. The community of major wine producers is a small, close knit group that closely observes its competitors. If Charbaut & Fils is able to produce premium sparkling wine at a competitive price in New York, other sparkling wine producers may follow its lead. If the Charbaut project does not prove successful, that will discourage others who may be looking at New York from exploring the possibility of establishing production facilities.

It is significant that no major European producer has established facilities in New York, while at the same time establishing numerous facilities in California, Washington, and Oregon. To change this, New York State should recruit foreign wine producers and foster their growth should they arrive. The attraction of one or two foreign producers will substantially increase the prestige of New York wines, hopefully increasing sales of all New York wines.

CONCLUSION

The New York wine industry is a large industry that produces many premium and everyday table, dessert and sparkling wines. It directly employs approximately 14,000 workers, increases New York's tourism and ancillary business activity, and generates $288,360,000 in tax revenue for the state and its local governments. It is an important industry that unfortunately is not changing as quickly as is required to remain competitive in a rapidly shifting national and international wine market. In fact, the industry has been in a slow decline for the past 15 years.

As in California, there has been significant displacement within the New York industry of growers and producers. New York State government should assist the wine industry in its transition, while at the same time minimizing the number of people displaced.

The problems that this report has attempted to show were not caused by any one factor. They are in part a reflection of the changing national and international wine industry. However as outlined in this report, there are numerous things that the New York State Legislature, the New York Wine and Grape Foundation, the Department of Agriculture & Markets, the Department of Economic Development, the State Liquor Authority, and the Office of Business Permits and Regulatory Assistance working singularly or together can do to help promote the industry and hence employment opportunities for all New Yorkers.

There are many problems in the industry, from grape growing and wine production to the inadequate marketing of wines that New York State acting in concert with the industry can help mitigate. The end goal should be to promote wine grape growing for the production of all types of wine from inexpensive table, dessert and sparkling wines to premium world class wines. To maintain a strong and vibrant industry, New York must be capable of producing a wide range of wine products so that it can rapidly shift production to meet changing consumer tastes. Further, the strengthening of the wine grape market will have beneficial effects on the grape juice industry and its growers. A wine industry that is prosperous can invest in research to increase grape yields, to improve grape quality, and to reduce labor and capital inputs for production. The benefits of such research can prove to be helpful to both the wine and juice industries.

Finally, it is important that the New York wine industry stabilize and begin to grow for those local economies that rely heavily on this industry. If this industry is allowed to decline further, there may be no other source of employment in those areas that concentrate in grape and wine production. It is hoped that this report will be received and looked upon as a starting point to spur discussion among those both in government and industry to find solutions to long standing problems.

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