As we reach out to you to renew your Wine Institute membership for the upcoming 2015/16 fiscal year, I want to share some recent accomplishments and updates. We work every day to protect and advance the interests of California wine to positively impact the bottom line of each and every member. We appreciate your support and ask that you return your dues computation documents by March 31.

ROBERT P. KOCH, Wine Institute President and CEO

State Public Policy

Fighting State Taxes and Fees: Eleven states attempted to impose tax and/or fee increases on wine in 2014. Connecticut, Hawaii, Illinois, Maine, Massachusetts, Michigan, Mississippi, New Jersey, Pennsylvania, Rhode Island and West Virginia were all unsuccessful because Wine Institute was on the ground actively opposing these measures. In Kentucky, the tax rate on wine was reduced with the passage of a bill that will bring the wholesale markup down from 11% to 10% by 2018. Bills to expand the local taxing authority in New Mexico and Pennsylvania were also defeated.

Massachusetts Becomes 42nd DTC Shipping State: DTC shipping was included in the Massachusetts budget agreement capping years of work by Wine Institute to remove discriminatory capacity caps and unworkable restrictions. Wineries are now being issued permits to ship to the 7th largest wine market in the U.S. A DTC shipping bill was signed into law in South Dakota bringing the total of DTC shipping states to 43 plus the District of Columbia covering, 90% of the U.S. adult population.

Trade Practice Regulations: Many states, including AZ, CO, IL, IA and NY, have increased their focus on trade practice regulations, and our team has coordinated member input into this regulatory review process. Issues
such as channel pricing, stocking and rotation services, private labels and quantity discounts are a few that have been under discussion in this expanding area of interest for state regulators. We have been active in several areas to preserve market access engaging in the debate on “Alcohol Impact Areas (AIA) in Washington and Oregon, defeating bottle deposit laws and monitoring GMO labeling bills in 15 states.

California Public Policy

**Beer Wholesalers’ Monopoly Protection Bill Defeated:** AB 816 (Hall) would have bound certain wine products to franchise agreements. Wine Institute actively opposed and it was defeated.

**“Split Roll” Parcel Tax Bill Defeated:** SB 1021 (Wolk) would have permitted local school districts to impose higher, uncapped parcel taxes on business properties than on residential houses. Due to enormous unfunded pension and health care costs, numerous school districts seek new revenue streams.

**Reauthorization of PD/GWSS Program:** AB 1642 (Chesbro) unanimously passed the Legislature. The law permits a vintner and grower referendum to continue an assessment on the value of their grapes crushed for purposes of finishing ongoing research. The research is designed to provide new management tools to keep PD/GWSS from destroying California’s vineyards. The referendum will be conducted this spring by the California Department of Food and Agriculture (CDFA).

**Wine Tastes at Farmers’ Markets Authorized:** The Legislature unanimously passed AB 2488 (Levine). The measure permits a CDFA-certified farmers’ market manager to allow one winery that produces 100% of the grapes in its wine to offer 3 wine tastes to any interested consumer. Previously enacted law allows wineries to sell their bottled wine, but wine sales were minimal because farmers’ market patrons were unable to sample the wine.

**Wage Lien Bill Defeated:** AB 2416 (Stone) would have authorized an employee to record and enforce a wage lien upon real and personal property of an employer for unpaid wages and other compensation owed the employee. The bill would have allowed a lien to be placed prior to a judgment finding a violation had occurred.

**Groundwater Legislation:** We negotiated several amendments to the groundwater legislative package SB 1168 (Pavley), SB 1319 (Pavley) and AB 1739
(Dickinson), which was passed and signed into law in 2014. The amendments will help protect individual water rights and ensure that wineries are afforded the opportunity to participate in groundwater agency formation and plan adoption.

**Sexual Harassment Prevention:** SB 1087 (Monning) passed and was signed into law with our support. The bill increases training requirements to help prevent sexual harassment of farm workers. We negotiated amendments which removed harmful language from the bill.

**Proposition 65 Settlement:** Wine Institute represented the industry in a two-year effort to settle a new round of Proposition 65 lawsuits. The claims were settled with the approval of the California Attorney General through a Consent Judgment that provides wineries with the opportunity to opt-in and take advantage of the terms of the judgment and at the same time gain protection from future lawsuits.

**Federal Public Policy**

**Excise Tax Legislation:** Wine Institute is closely following the introduction of at least three bills which would make changes to certain aspects of excise taxes as they relate to beer and cider. Wine Institute stands ready to respond if the congressional tax-writing committees consider excise tax legislation.

**Trade Promotion Authority (TPA) Legislation Gaining Momentum:** Congress is working to pass new fast track TPA legislation. The Administration has made passing TPA a priority and it is widely seen as one of the few areas where there is agreement between the President and the Republican Congress. Wine Institute has worked to ensure that TPA legislation includes language critical to growing wine exports and maximizing the potential benefit of future trade agreements. TPA will be critical to enacting major trade agreements such as the Trans-Pacific Partnership (TPP) and the Transatlantic Trade and Investment Partnership (TTIP). Both of these agreements have the potential to significantly increase U.S. wine exports.

**Country of Origin Labeling (COOL) Trade Dispute:** There has been significant progress in addressing this ongoing meat labeling trade dispute with Canada (our largest export market) and Mexico. The World Trade Organization is expected to announce a final decision on the issue within the next month and if the U.S. COOL rule is found to be non-compliant, Canada and Mexico could retaliate against U.S. wine and other
products as early as this summer. Wine Institute, working with the COOL Reform Coalition, successfully inserted language in a recent Omnibus funding bill that requires USDA to report back to Congress on the steps needed to bring the U.S. into WTO compliance.

Rewrite of U.S. Dietary Guidelines: Wine Institute has been actively engaged in the development of the 2015 U.S. Dietary Guidelines, the government’s principal vehicle for promoting a healthy diet for all Americans. In addition to submitting formal comments, we have met with senior officials at USDA and HHS to discuss our concerns about efforts by the distilled spirits industry to inject “equivalency” language in the guidelines in order to influence tax policy.

International Public Policy

Asia-Pacific Meetings Expand Export Opportunities: Wine Institute and the U.S. government hosted the Asia-Pacific Economic Cooperation Wine Regulatory Forum (WRF) conference in Beijing, China in September, which was attended by 80 government officials and stakeholders from 16 Pacific Rim countries. This was the WRF’s second technical meeting under the U.S.-sponsored, five-year “Good Regulatory Practices Action Plan” designed to facilitate wine trade among the Asia-Pacific countries. Sessions covered a potential agreement on regulatory principles and pesticide residue levels that could dramatically improve trade prospects across the region and deliver substantial savings to California wineries.

Trade Group Adopts Regulatory Principles: In August, the World Wine Trade Group governments of Argentina, Australia, Canada, Chile, Georgia, New Zealand, South Africa and the U.S. agreed to a set of international principles for nations to use when establishing wine regulations. The groundbreaking “Statement on Analytical Methodology and Regulatory Limits” encompasses 11 science-based regulatory principles to help governments remove unnecessary obstacles in the international wine trade. Importing countries are increasingly establishing unnecessary rules, which delay and add to government and winery costs, resulting in restricted market access and trade. The principles are a major step forward in bringing regulatory coherence in international wine trade.

5th Annual TTB/WI Technical Forum Advances Collaboration: Wine Institute hosted the annual TTB/Wine Institute Technical Forum in Livermore in April, with key TTB laboratory and policy officials

“To increase wine production, to expand trade, and to create jobs in the region, we commit to eliminating unnecessary export certification for wine by 2018 and instruct officials to advance this work.”

—APEC Economic Ministers
advancing projects on methods of analysis harmonization, wine authenticity, chemist certification and testing for compliance and composition limits. The Forum included government and scientific experts from Argentina, Australia, Canada, China and Europe, working to strengthen industry relationships with U.S. and international regulators. The California wine industry benefits from these collaborations, which translate into increased communication, science-based public policy and regulations that are valid and transparent.

Environmental Affairs

**Sustainability Grants:** More than $4.8 million in grants have been awarded to Wine Institute and the California Sustainable Winegrowing Alliance (CSWA) by foundations, companies and government to support the industry's commitment to sustainability. A grant completed last year resulted in a life cycle assessment for an average bottle of California wine and an online tool for wineries to be able to customize key factors that impact their own greenhouse gas footprint. A grant currently underway will examine costs and benefits of sustainable practices and create new tools and educational resources for winegrape growers and vintners.

**Sustainable Winegrowing Workshops Reach Record Attendance:** We continue to offer opportunities for member wineries and growers to learn about sustainable winegrowing practices through the California Code of Sustainable Winegrowing Workbook and educational events. More than 1,900 vineyard and winery organizations – representing more than 70% of California's vineyard acreage and wine production – are participants in the Sustainable Winegrowing Program. To date, CSWA has held over 400 educational workshops attended by more than 11,000 participants.

**Certified California Sustainable Winegrowing Increases:** Since the 2010 launch of Certified California Sustainable Winegrowing (CCSW-Certified) – a statewide certification option for wineries and vineyards that provides third-party verification of a winery or vineyard’s adherence to a “process of continuous improvement “with specific winery and vineyard prerequisites, 77 winery facilities (57.24% of total wine cases produced in CA) and 215 vineyards (14.22% of total CA vineyard acreage) are CCSW-Certified. The certification program helps vineyards and wineries pay close attention to their sustainability practices, increase efficiencies and benefit from promotional opportunities.

**New Tools, Outreach and Awards:** CSWA shares California wine’s commitment to sustainable winegrowing with public policy and market leaders. The California wine industry has been widely recognized as a sustainability leader.
and a model for other wine regions and agricultural sectors. In 2014, Wine Institute launched a number of tools, including a new book, “Down to Earth: A Seasonal Tour of Sustainable Winegrowing in California,” a new interactive sustainable winegrowing section on [www.discovercaliforniawines.com](http://www.discovercaliforniawines.com), and a California Sustainable Winegrowing Ambassadors course, an online course for trade, media and consumers. CSWA was recognized with a Drinks Business Green Award for the second year and CSWA also received the 2014 Governor’s Environmental and Economic Leadership award (our third time for this prestigious award). Wine Institute and CSWA have also been actively tracking and responding to retailers’ supply chain sustainability efforts such as The Sustainability Consortium, Wal-Mart, Sam’s Club, Marks & Spencer, the Nordic monopolies, and the Société des Alcools du Québec, among others.

### International Marketing

**California Wine Export Sales Maintain Record Level:** U.S. wine exports, 90% from California, reached $1.5 billion in 2014, the second highest on record. Volume shipments reached 442.7 million liters. U.S. wine exports have increased more than 85% over the past ten years. Nearly 35% of U.S. wine exports by value were shipped to the European Union, accounting for more than $518 million of the revenues. Other top markets were Canada $487 million, Japan $88 million, China $71 million, and Hong Kong $69 million. The public-private partnership of Wine Institute and the USDA contributes to this success.

**Market Access Program (MAP) Funding Supports Exports:** Since 1985, Wine Institute’s International Department has served as administrator of California wine export programs by the United States Department of Agriculture’s Foreign Agriculture Service. Wine Institute’s MAP allocation for marketing California wine outside the U.S. will be more than $7 million for the July 2015 – June 2016 program year. MAP funding allows Wine Institute to conduct programs to support California wines in more than 25 countries. Our trade representatives are located in the U.K, Continental Europe (Netherlands, Germany, Sweden, Denmark, Poland, Russia), Canada, Japan, China, Hong Kong, South Korea, Taiwan, Southeast Asia, and Mexico.

**Consumer Website Launched in Nine Markets:** Our consumer website, [www.discovercaliforniawines.com](http://www.discovercaliforniawines.com), is now translated and localized for nine markets around the world including Japan, South Korea, Taiwan, Hong Kong, Germany, Quebec, Mexico, the UK and English-speaking Canada. The site for China was previously launched at [www.discovercaliforniawines.com.CN](http://www.discovercaliforniawines.com.CN)

**More Than 170 Trade & Media Hosted:** Wine Institute hosted more than 170 international trade and media
visitors from 15 countries throughout California’s wine country during 2014.

**International Expansion of Social Media Campaigns:** Wine Institute's global social media campaign for “California Wines” via Facebook pages and Twitter now reaches more than 95,000 people throughout the world – 30,000+ fans on Facebook and another 65,000 on China’s equivalents, Weibo and WeChat.

**California Wines China Campaign Expands:** China is now the 4th largest export market for California wine. Our awareness-building campaign continues to link the aspirational California lifestyle to our world class winegrowing region covering top wine markets in China with print, digital and social media campaigns. Key initiatives also include California Wines Master Class seminars, promotions with online and traditional retailers, consumer events, and a delegation of 35+ California vintners traveling to China for our annual three-city trade tour in May which featured 120+ brands.

**Communications and California First**

**Statewide Celebrations Reach Legislators, Media, Trade & Consumers:** Wine Institute organized two annual celebrations to bring wineries, growers, regional associations and industry partners together to highlight to the excellence of our wines and the contributions of our industry. Governor Brown issued a proclamation declaring the 10th annual California Wine Month (CWM) in September and the event received widespread media coverage reaching more than 130 million consumers and connecting them with 100 winery and regional events and 52 retail and restaurant partners, including several from the UK. Forty wineries and regions hosted events for the 3rd Annual Down to Earth Month (D2E), recognized by a joint resolution of the California Legislature. Wine Institute hosted a successful legislative hearing and reception in Sacramento and coordinated a sustainability field trip for legislators. D2E generated nearly 50 million consumer impressions last year.

**California First Campaign Receives New Grant:** Wine Institute has secured more than $1.3 million in grants – including a 2014 Specialty Crop Block Grant - in the past seven years to supplement its funding for programs that communicate consistent messages about California wines and the people, places, culture, cuisine and sustainable commitment of its vintners and growers. Through a year-round program of publicity, media relations, social media...
and messaging that highlights the diversity of our regions and wineries – and invites their participation – the program resulted in 400 million consumer impressions in 2014.

**Visit California and California Grown Partnerships Promote Wine:** Our partnership with Visit California (VCA) to promote the state’s wine and food offerings in the U.S. and internationally continues to enhance awareness of our wines and increase traffic to wine regions and winery tasting rooms. Visit California passed a referendum in 2014 to double its budget to $100 million annually to maintain the state’s position as a premiere travel destination. Wine Institute rejoined California Grown last year to participate in its campaign, “Always in Season” which is implemented by VCA supported by CDFA grant funds. The campaign includes print and digital ads and advertorial in Food and Wine and Sunset magazines and participation in key events in California.

**Membership / Membership Benefits**

**Membership Grows:** In 2014, we welcomed 52 new members, making our collective industry voice even stronger.

**FedEx Discount Benefit:** Last year, 28 new winery members enrolled in the FedEx Program and currently more than 1,000 active accounts are using the Wine Institute discount. Members continued their savings of up to 63.5% on select Express shipments in the U.S. We also extended our contract through 2015 with FedEx to waive the Adult Signature Required fee of $5.00 per delivery. Members enrolled in the FedEx program save an average of $1,600 annually, with many saving over $10,000.

**More Member Benefits:** Members continued to enjoy guidance and access to regulatory and legal counsel, personalized support on labeling and the approval process with TTB. Additional benefits include staff expertise, issue updates, early registration to industry conferences, media access and unique marketing opportunities for members to showcase their wines. We are continually working to expand benefit programs to make it easier for members to conduct day-to-day business. Let us know how we can help you.