

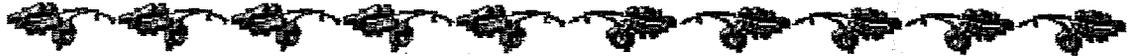


Mike Thompson's Congressional Wine Report

Summer 2002

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E.U. Pressed to Remove Trade Barriers

Recently Chairman Larry Combest of the House Agriculture Committee appointed Congressman Radanovich and me to represent the US House of Representatives on a U.S. trade mission to Europe, coordinated by the State Department. The mission, traveled to London and Brussels to meet with European trade and agriculture officials, and to speak to the International Federation of Wines and Spirits (FIVS). The purpose of the visit was to discuss pending wine trade issues, build ties with European leaders and press for a long-term resolution of stalled trade negotiations on wine.

While in Europe, the delegation met with the European Commission's top agriculture and trade negotiators, members of the European Parliament, the European Parliament Wine Intergroupe and its President, Parliament Member Astrid Lulling, members of FIVS and officials from the U.S./E.U. Mission (USDA, State Department, and USTR reps.). We also attended a U.S. wine promotion, sponsored by the USDA, called "USA Uncorked" at Harrod's in London and attended a hearing of the European Parliament Agriculture Committee, Brussels.

In these meetings, I emphasized that Congress is extremely concerned that the European Union (E.U.) imposes discriminatory regulations and high tariffs on U.S. wines, while increasing subsidies to its own industry, which already controls over 66 percent of the world's wine exports. The restrictions on U.S. wines are incompatible with the principles of the World Trade Organization and the Agreement on Agriculture. E.U. wines, when exported to the U.S., face some of the lowest tariffs in the world, while U.S. exports to the E.U. face tariffs that are 50% higher on average.

I also reiterated that the U.S. is committed to free and fair trade around the world. However, for American

wines to expand their distribution in Europe, it is essential to level this playing field with a permanent trade agreement that will open markets, lower tariffs and reduce unfair competition, as well as address health safety and environmental concerns.



Congressmen Thompson and Radanovich in E.U. Agriculture Committee Hearing

In addition to Rep. Radanovich and me, the U.S. delegation consisted of Bobby Koch of the Wine Institute, David Sloane of the American Vintners Association, Herb Schmidt of Robert Mondavi Winery, Pete Downs of Kendall Jackson Wineries, Washington D.C. attorney Robert Kalik, and Bert Silk and Jim Finkle of Constellation brands. The delegation found the European officials to be open to the

Americans' comments and willing to pursue solutions to international disagreements in trade regulations.

"The involvement of members of the Congressional Wine Caucus is extraordinarily helpful in the trade negotiations," stated Pete Downs. "This was a perfect opportunity to underscore the U.S. commitment to free trade and their participation did just that. Congressmen Radanovich and Thompson were able to highlight problems in hopes of bringing about the permanent elimination of trade barriers."

The U.S. and E.U. entered into a five-year agreement on wine issues in 1998. Negotiations for a permanent agreement must be completed by December 31, 2003. 🍷

In This Issue

Farm Bill	2
Sustainable Ag	2
Tiger Salamander	2
PD Appropriations	3
Excise Tax	3
Zinfandel/Primitivo Labeling	3

Wine Programs Get Support in Farm Bill

The Farm Security and Rural Investment Act of 2002 was signed into law on May 13, 2002. The "Farm Bill" governs farm programs for the next six years. In order to assist the public in understanding and accessing information about the Farm Bill, the USDA has implemented a Farm Bill website <<http://www.usda.gov/farmbill>>.

The following are Farm Bill programs which directly affect the American wine industry:

Market Access Program-

The MAP program is a longstanding program that provides export market assistance for agricultural products. Large wineries are not eligible for funds for branded promotions. While the overall program will experience an increase in funds from \$90 million to \$200 million over the next six years, the wine industry portion will remain at present levels of approximately \$4 million per year. This number has remained steady for the past six years, down from \$15 million in 1991.

Catastrophic Relief Program-

This program helps pay for replanting fruit trees, vines and plants which suffer mortality rates greater than 15% due to catastrophic weather or related conditions. Assistance is limited to \$75,000 per eligible farm. Many American growers suffer



devastating frost damage and need the program to assist in the replanting of their vineyards.

Value-Added-

The longstanding "value-added" grant program was designed to help small to medium-sized growers and farms increase profitability and viability through the production of crops that are processed into value added programs. The Farm Bill directed USDA for the first time to consider grant applications from farm-based wineries. The grants are based on a one-to-one match and are limited to \$500,000. They will be given to businesses who are expanding to include new markets or markets in which they have not traditionally participated. The rating system favors applicants who have more than one producer.

Conservation Security Program-

Conservation security is a matching grant program designed to help growers willing to meet the program's requirements to improve environmental qualities associated with their farming operations. To participate in and to be eligible for the matching grant program, the grower contracts with USDA to engage in appropriate conservation practices in areas such as nutrient management, integrated pest management (IPM), water management, fish and wildlife habitat conservation, contour farming and use of cover crops. Growers can receive up to \$45,000 per year in matching grants.

ATF Tackles Zinfandel/Primitivo Labeling

In response to research completed by Dr. Carole Meredith of UC Davis, which concluded that California Zinfandel and Italian Primitivo grape varieties are practically identical genetically, the Bureau of Alcohol Tobacco and Firearms (ATF) issued a proposed rulemaking which would allow U.S. wineries to use the names synonymously in labeling either variety or a blend of both.

The comment period has been extended until October 8, 2002 at the request of the Wine Institute which argued that the matter will have a significant impact on the California wine industry, and that the issues should be further evaluated. The decision would have no impact on foreign imports, which can label Primitivo grapes Zinfandel because the

European Union recognizes both names as synonymous. The ATF rulemaking seeks to update the U.S. definition of Zinfandel and Primitivo to match current scientific data.

Written comments about ATF's Zinfandel /Primitivo proposed rulemaking may be sent to: Chief, Regulations Division, Bureau of ATF, P.O. Box 50221, Washington, DC 20091-0221 (Attn: Notice No. 941). Comments may also be sent via facsimile (fax) transmission to (202) 927-8525. Finally, comments may be submitted using the comment form provided with an online copy of the full proposed rule found at: www.atf.treas.gov/alcohol/rules/index.htm. Comments may be viewed at: www.atf.treas.gov/about/foia/err.htm.

Spotlight on Sustainable Agriculture

U.S. agencies are highlighting successes to encourage vineyards and wineries to pursue sustainable practices, and to recognize achievement in that area. Sustainability is vital to the protection of both the agriculture industry and the environment for our posterity.

Sustainable agriculture does not have a set of regulated practices or protocols, but rather encompasses farming methods which utilize renewable resources, integrate biological cycles with pest controls, protect soil fertility and minimize threats to people, wildlife, resources, and the environment, while providing adequate profit and community involvement.

The USDA has started an annual award program to recognize achievements in sustainable agriculture. It is called the Patrick Madden Award for Sustainable Agriculture. The inaugural award will be presented later this year to a producer who has conducted innovative research in making farming more profitable, environmentally friendly, and good for communities, and who has served as an educator about sustainability to his/her peers and community.



The recipient will receive a \$1,000 cash prize, as well as a trip to the Sustainable Agriculture Research and Education National Conference in North Carolina. For additional information visit: <http://www.sare.org/htdocs/events/madden/>.

The EPA recognizes companies and individuals worldwide who have invested great effort in the protection of the environment. The wine industry received one fifth of the Environmental Protection Agency 2002 Stratospheric Ozone Protection Awards given to Companies.

Both Kendall-Jackson Wine Estates and Fetzer Vineyards received the prestigious award, and were honored at a ceremony in Washington D.C. in March. Fetzer discontinued use of methyl bromide and expects to certify all of its acreage as organic in 2002. Kendall-Jackson utilizes sustainable farming practices and has also halted its use of methyl bromide, as well as several other pesticides. For additional information visit: <http://www.epa.gov/ozone/awards/>.

Thompson Opposes Excise Tax Increase

Members of the Congressional Wine Caucus, and I recently sent a letter to Governor Davis expressing strong opposition to legislation that would increase the excise tax on alcohol. Such a tax would have a devastating impact on California's wine industry.

The California Legislature is considering a measure to increase the excise tax on wine by 25 cents per gallon, an increase of 125% over the current excise tax. AB 2744 would also increase the excise tax on sparkling wine by 100% (30 cents), beer by 50%, and distilled spirits by 80%. The revenue from this tax would go to the general fund with a statement of the Legislature's intent that it be used on health care. This bill is currently in the Assembly Health Committee. It will have to be approved by both the Assembly and the Senate before being sent to the Governor. Another bill, SB 928, would assess a five cents

per drink fee on alcoholic beverages. Wine is not currently included in the bill's assessment. However, the California Supreme Court decision *Sinclair Paint Company v. State Board of Equalization* (15 Cal 4th 866) suggests that wine cannot legally be omitted from the assessment, and the bill would have to be amended to include wine. Fees would go to emergency room and trauma center services for alcohol-related illnesses and accidents. The bill passed the Senate, and is in the Assembly Health Committee. This bill must be approved by the Assembly and go back to the Senate for concurrence before being sent to the Governor.

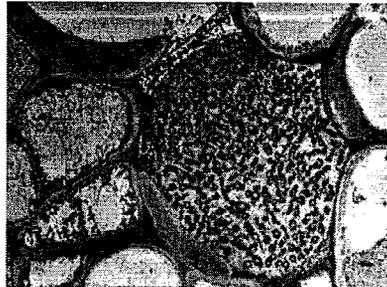
Neither bill recognizes the fact that the alcohol beverage industry has paid nearly \$3 billion in excise taxes in the last decade, nor the fact that scientific studies have shown health benefits resulting from moderate alcohol consumption. ❁

House Appropriates New Funds for Pierce's Disease

Earlier this year, in a letter to the House Agriculture Appropriations Subcommittee chair and ranking member, 62 House Members representing 12 states and I asked for \$27.7 million in the FY03 Agriculture Appropriations bill to fight Pierce's disease (PD) and its vector the glassy-winged sharpshooter (GWSS), which continue to pose a major threat to vineyards in California.

This broad-based, bipartisan coalition demonstrates the strong support that the American wine industry has on Capitol Hill. There's a real consensus that Congress must make every effort to wipe out this devastating disease.

In late June, the House Appropriations Committee's Subcommittee on Agriculture approved \$25 million for this purpose. The following funds were approved:



Grapevine Vascular tissue infected with PD. By UC PD Research Task Force

- \$17.5 million to USDA's Animal and Plant Health Inspection Service (APHIS) to support state and local inspection, containment, and control of the GWSS;
- \$2 million to the University of California as a special PD research grant;
 - \$2 million to UC Riverside for the Exotic Pest Center;
 - \$2 million to the Viticulture Consortium for PD research;
 - or the USDA's Agriculture Research Service increases of: \$600K for PD, \$300K for Sustainable Viticulture, \$250K for Exotic Pests, and \$300K for grape genetics.

On July 11, the House Appropriations Committee approved the bill. It must be approved by the House and the Senate before it goes to the President for signing. The federal government's 2003 fiscal year begins on October 1, 2002.

California Tiger Salamander Gets Emergency Listing

The U.S. Fish and Wildlife Service listed the Sonoma County population of the California tiger salamander under emergency protection on July 17. This action immediately placed the species and its habitat under all protective measures authorized by the Endangered Species Act. This listing will stay in effect for 240 days while the Service makes a final decision on the proposal to list the species as endangered.



Under the Endangered Species Act, all federal projects occurring within the habitat of a listed species, as well as any non-federal activities which involve federal funding or permitting, must be reviewed by the Service to ensure the species will not be harmed. Additionally harassing, harming, or killing any member of the species is prohibited.

The emergency listing, and proposed permanent listing comply with the court-approved settlement agreement of a lawsuit filed by the Center for Biological Diversity, and settled on June 6, 2002.

The California Tiger Salamander is a large stocky amphibian with a broad rounded snout, measuring 7 to 8 inches in length. They have yellow or white spots on a black body. Their underbellies vary from yellow or white to a pattern of black and yellow or white.

The Service will accept comments from the public on this listing until September 15, 2002. Comments may be sent to: Field Supervisor, Attn:SCCTS, Sacramento Fish and Wildlife Office, 2800 Cottage Way Room W-2605, Sacramento, CA 95825.

Thompson Urges Repeal of SOT

Members of the Congressional Wine Caucus and I sent a letter in early May calling for a repeal of the Special Occupational Tax (SOT). The letter, signed by 38 Members of Congress, urged the House Ways and Means Committee Chairman to end the tax.

The SOT is a tax on businesses that make, distribute, sell or deliver alcohol products. On an annual basis, licensed beverage retailers are required to pay \$250 per location, wholesalers pay \$500 per location, and manufacturers pay \$1,000 per location. The Congressional Wine Caucus is asking that H.R. 984, a bill to repeal the SOT, be approved by the committee, clearing the way for the bill to be considered by the House of Representatives.

This unfair tax is bad public policy and needs to be repealed. It disproportionately hits the "mom and pop" small businesses of America that we should be

helping, not hurting. This tax dates back to the 1860s, and is a needless burden on small businesses today.

Wineries aren't alone in the impact. Because the tax is imposed on a "per location" basis, it is not unusual for small retailers and wholesalers to bear a larger tax burden than the major licensed beverage manufacturers. Additionally, Congress' Joint Committee on Taxation determined last year that these taxes are not used directly to offset the cost of regulating the alcohol industry.

H.R. 984, which currently has 59 cosponsors, was introduced by Congressmen Dave Camp (R-MI) and Robert Matsui (D-Sacramento) and is being considered by the Ways and Means Committee. It must pass the committee as well as the full House and Senate before being sent to the President for signing. ☛

Working on Behalf of America's Vintners, Growers

The Congressional Wine Caucus now boasts 250 members representing all 50 states. Founded in 1999 by Congressman Radanovich and me, the bipartisan caucus consists of 18 U.S. Senators and 232 House members. It constitutes one of the largest caucuses on Capitol Hill.

In three short years, the bipartisan, bicameral caucus has become an important forum in Washington, providing information about wine issues to American vintners and to Members of Congress. Our growing membership demonstrates the recognition of the wine industry's importance in America's economy and culture. There is a growing recognition in Congress and across the

country that, in moderation, wine can be a part of a healthy diet.

Information about the Congressional Wine Caucus can now be accessed on the world wide web via a link on my web site: <<http://www.house.gov/mthompson>>. Caucus news, recent action, general wine information, and over 100 wine related links can be found on the website.

The Congressional Wine Caucus sponsors regular wine seminars and legislative briefings for congressional members and staff on issues such as Pierce's disease, and sends letters to government officials regarding current wine issues. ☛

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