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PROPOSED INCREASE IN WINE EXCISE TAX

HEARING

BEFORE THE

SUBCOMMITTEE ON TRADE, PRODUCTIVITY, AND ECONOMIC GROWTH

OF THE

JOINT ECONOMIC COMMITTEE

CONGRESS OF THE UNITED STATES

NINETY-NINTH CONGRESS

SECOND SESSION

APRIL 9, 1986

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WEDNESDAY, APRIL 9, 1986

CONGRESS OF THE UNITED STATES,
SUBCOMMITTEE ON TRADE, PRODUCTIVITY,
AND ECONOMIC GROWTH
OF THE JOINT ECONOMIC COMMITTEE,
Washington, DC.

The subcommittee met, pursuant to notice, at 9:35 a.m., in room SD-628, Dirksen Senate Office Building, Hon. Pete Wilson (member of the subcommittee) presiding.

Present: Senators Wilson, Specter, and Gorton; and Representative Fiedler.

Also present: Kenneth Brown, professional staff member; and J. Patrick Boyle, legislative assistant to Senator Wilson.

OPENING STATEMENT OF SENATOR WILSON, PRESIDING

Senator WILSON. Good morning, ladies and gentlemen, I am Pete Wilson, and I am pleased to welcome you to this morning's Joint Economic Committee subcommittee hearing on the recent Senate Finance Committee tax reform proposal to raise the Federal wine excise tax. With me this morning is Congresswoman Bobbi Fiedler. We anticipate that we will be joined by other members from both the House and the Senate.

In the interest of time we will get underway, because I am happy to say that we have a number of witnesses prepared to testify. We wish to hear from all of them and have ample time for questions.

As I am sure you are all aware, the Senate Finance Committee has developed a tax reform proposal which now proposes a major overhaul of our Nation's tax laws. Included within this so-called tax reform proposal or simplification proposal are significant changes affecting the Federal excise taxes and tariffs that are imposed on wine.

Specifically, the legislation, which has been sponsored by Senator Packwood, would make three changes regarding excise taxes.

First, Federal income tax deductions would be disallowed for payments of excise taxes or tariffs. The Treasury Department estimates that this will raise $67 billion between fiscal years 1986 and 1991; of which $1.2 billion is attributable to the disallowance of the deduction for wine excise taxes. This will have the effect of raising the per gallon cost of wine by 73 cents.

Second, the excise tax on tobacco, motor fuel, and alcohol, including wine, would be adjusted to reflect future price increases, instead of the current flat percentage tax by volume which remains constant. According to the Treasury Department, this change will generate $6.2 billion over the next 5 years, with $500 million resulting from increased wine excise tax revenues.

Third, the tax rate on wine having an alcohol content of 21 percent or less would be increased to a rate equivalent, on an alcohol content basis, to the rate presently imposed on beer. The result will be a 400-percent increase in the excise tax on wine.

Together, these three proposals in the Packwood plan are estimated to raise $75 billion over 5 years. Of this amount, the American wine industry will be asked to contribute $3.5 billion. Under existing excise taxes and tariffs, wine sales and imports generate $295 million annually. Next year, if this tax bill were enacted, these revenues would reach $1 billion—a twofold increase, which, in my view, would have a devastating impact upon our Nation's wine grape growers and vintners.

It is clear to me that this proposed increase in the excise tax rate is both unfair and regressive and, if enacted, would have a devastating impact on the U.S. wine industry—an industry which has already been plagued with steadily declining market share, because of exclusionary tactics by our trading partners, lower economic returns, and plummeting land value.

While I appreciate the need to bring greater fairness and equity to our tax system, I cannot support a package which, under the guise of tax simplification, would severely penalize much too narrow a segment of our economy, even of our agricultural economy—that being the domestic wine industry and the grape growing industry.

For the most part, this industry is still in its infancy. In many regions across the Nation, wine grapes are being grown and wineries are emerging as new, primarily family-owned, small businesses in some 34 States. Collectively, these domestic wine producers account for not quite 70 percent of the U.S. wine sales, while imports comprise the remaining 30 percent of the domestic market.

The economic vitality of our Nation's wine industry is of particular interest to me. I am privileged to serve as the chairman of the Senate Wine Caucus. My home State, California, obviously has a very large stake in this small but proud industry. In California there are more than 500 wineries accounting for about 65 percent of our national wine sales. The 15 largest of the California producers generate the lion's share, almost 92 percent, of California's total wine production. What that means essentially is that there are about 485 California vineyards competing for the remaining 8 percent of the California pie of the U.S. market. There are small wine makers in California, quite a lot of them.

And all across the Nation there are other small vintners, over 400 wineries, competing for the remaining 4 percent of the U.S. market. It is these small vintners, along with the vast majority of the California producers, who are also small vintners, who will be immediately and perhaps irreversibly injured by the proposed excise tax increase.

And it is not just the vintners, those producing the wine, who will be harmed by the tax reform bill, as is now proposed in the Senate version. It is our wine grape growers who will feel the excise tax "bite" very severely. Unfortunately, the proposed tax increase comes in the wake of a number of years in which the growers have lost money. Since 1982, returns in some wine grape growing regions of California have dropped from $142.76 per ton to $86.18 per ton, a staggering decline of 40 percent. Last year, nearly 57,000 acres of California vineyards were either abandoned or not harvested.

Under the Finance Committee plan, the wine industry estimates that the increase in the excise tax from 17 cents per gallon to 87 cents translates to a per ton tax increase of $150. Similarly, the proposed nondeductability of excise taxes translates into a $270 per ton increase. These projected increases are occurring at a time when growers in my State are receiving an average return of $160 per ton.

The consequences of this massive tax increase will no doubt result in markedly higher prices for consumers and less income for America's wine grape growers and wine producers. Based upon established economic theory and indexes, higher prices would translate into an overall loss in sales of approximately 10 percent, which converts to a grape marketing loss of 350,000 tons.

According to industry officials, this projected loss coupled with a 6-percent decline in the past 2 years in table wine shipments, which are essentially the backbone of the entire wine industry, could result in the failure of as many as 400 vineyards across the Nation.

Of additional concern to the American wine industry is the increasing volume of low-priced, highly subsidized foreign imports. Presently, imported wines account for 30 percent of the U.S. market, a 100-percent increase from just 15 years ago. In response to these subsidized imports, the industry has petitioned the U.S. International Trade Commission and the Department of Commerce for relief under our trade laws. Also, the U.S. Trade Representative has initiated formal consultations under the Wine Equity Act with a number of our trading partners to increase American wine exports.

Given these trade-related developments, I find it ironic, to put it charitably, that at a time when domestic producers are availing themselves of trade remedies and when our Government is negotiating to expand U.S. wine exports, the Finance Committee is considering a potentially devastating tax upon these domestic producers.

Moreover, industry statistics show that approximately 92 percent of all domestic wines sold in the United States was priced at $4.25 or less per bottle. An increase to the cost of production due to the Finance Committee proposal would no doubt be passed along to the consumer in the form of a price increase. This inevitable action would threaten to push a significant amount of wine sold into the higher price ranges where demand is low.

Given the willingness of our trading partners to subsidize their wine grape growers, it is safe to expect these same governments will subsidize a further increase in the excise tax rate. This will give our foreign competitors, who already enjoy a 30-percent share of the U.S. market, an edge over the domestic wine industry which receives no form of Government subsidy. In fact, highly subsidized foreign imported wine will probably increase its market share at the expense of our Nation's wine grape growers.

It is for the purpose of better assessing the impact of the proposed excise tax increase that we are holding today's hearing, and I greatly appreciate our witnesses taking time to provide this subcommittee with their views on this critical matter. I am looking forward to their testimony.

In all candor, I was also looking forward to receiving testimony from officials from the Departments of Treasury and Agriculture. The subcommittee had requested witnesses from both Departments because of the unique expertise which both agencies possess regarding this important economic issue. Last week, I was surprised and displeased to learn that the Treasury Department had apparently not yet compiled an economic analysis of the changes in the Finance Committee's tax reform package and was, therefore, unprepared to participate in this hearing.

Last night I was angered to learn that despite having prepared, at my request, an assessment of the effect that this proposal would have on wine grape growers, the U.S. Department of Agriculture officials had been prohibited from participating in today's hearing. They were unable to receive the approval of the Office of Management and Budget.

Their absence this morning I find both troubling and instructive. I find it troubling because Treasury officials should be responsible for preparing such assessments in order to provide Congress with economic data upon which informed decisions can be made. An even more troubling development is the last minute refusal of USDA to provide to a congressional committee data which has been requested and prepared.

The instructive nature of this unfortunate and regrettable series of events is that it is clear to me that if a record of the potential impact of these excise tax increases is to be created, it will be incumbent upon those of us on this side of the rostrum and you to do so today. For that reason, your presence here is greatly appreciated.

While we anticipate pressing those agencies further, because of the importance of your testimony, it is I think incumbent upon us to make a complete record.

Before we proceed to do so with our first panel of witnesses, let me point out that we will have as panel one representatives of growers, also panel two. We will take a very brief recess, reconvene with panel three representing the wineries and panel four also representing wineries.

Now before we entertain testimony from the first panel, let me invite my colleague, Congresswoman Fiedler, to make such comments as she may wish to.

OPENING STATEMENT OF REPRESENTATIVE FIEDLER

Representative FIEDLER. Thank you very much, Senator. I would like to commend you for your wisdom in bringing together these panels today so that we can directly assess the potential impact seeing that it does appear that the administration is unwilling to present whatever evidence they may have gathered for our perusal.

I must say that as a member of the Budget Committee and the Joint Economic Committee, I am somewhat shocked at the fact that the administration is unwilling to present this information. It seems clear to me if they are not willing to do it, then it obviously is favorable to the point of view this is not consistent with their advocacy of the incerase in this tax.

After having looked at the state of affairs in terms of the industry, I am deeply concerned about the potential of further negative impact on the industry and I look forward to hearing what your assessment is of what the potential impact will be, both in terms of domestic sales as well as the encroachment on our domestic market by importers who do not have to face some of the same problems that you have. So I look forward to hearing the testimony.

Senator WILSON. Thank you very much.

We have made one slight change in the order in that we have moved Mr. John Martini, the president of the New York State Wine Grape Growers, from the second to the first panel to accommodate his schedule. As I understand it, Mr. Martini is on an airplane that will not wait and for that reason we will have him as a participant in panel one; and Mr. Jerry Bookwalter, of the Washington Association of Wine Grape Growers, has agreed to participate in panel two.

Our first panel consists of Mr. Monty Stamp, president of the Winegrape Growers of America; Mr. Robert Hartzell, president of the California Association of Winegrape Growers; Mr. John Martini, president of the New York State Wine Grape Growers, Inc.; and Mr. Richard Garabedian, president of the California Raisin Bargaining Association.

Gentlemen, welcome. We are eager to hear from you. We have prepared statements from several of our witnesses this morning. Those who have submitted prepared statements may summarize and their prepared statements will be placed in the record in their entirety.

With that, let me invite Mr. Stamp to lead off.

STATEMENT OF MONTY STAMP, PRESIDENT, WINEGRAPE GROWERS OF AMERICA, INC.

Mr. STAMP. Good morning, Senator and Congresswoman, my name is Monty Stamp. I am a New York State vineyard owner and president of the Winegrape Growers of America, a national organization representing 12 State wine grape grower organizations. The following State grower associations are members of the Winegrape Growers of America: California, Idaho, Maryland, New Mexico, New York, Ohio, Oregon, Pennsylvania, Texas, Virginia, Washington, and West Virginia. Winegrape Growers of America was formed to represent the wine grape growers' national interests. Before moving into my presentation, I want to thank Senator Pete Wilson and his Senate colleagues for forming the Senate Wine Caucus. The caucus has given our wine grape growers renewed faith in the legislative process.

Today you will hear from both vineyard owners and vintners. This group represents all regions of our Nation and will discuss their views on the economic impact of the proposed wine excise tax increase. The wine grape growers in particular will present a case which I am sure the Department of the Treasury and Senate Finance Committee staff did not consider when preparing their proposal for an increase in wine excise taxes.

The announcement by the Senate Finance Committee that an increase in excise tax, especially wine excise tax, would be an essential part of its revenue neutral tax reform package came as a great shock to the already struggling wine grape growers of America.

I would like to put the wine excise tax in proper perspective. When we first heard of the wine excise tax, our Washington representative visited the Department of the Treasury to request information on their studies. It is Treasury's contention that the excise tax will be passed on to the consumer. However, in reality, it is the wine grape growers who will absorb the tax. Any agricultural economist will testify that when there is a surplus of a commodity, the farmer absorbs the increased cost. We requested Treasury to release its study on the excise tax and Treasury refused. Since Treasury will not release its study, I would like to submit an excise tax study prepared by the Institute for Research on the Economics of Taxation.

It is interesting that both of the President's Tax Reform Proposals did not include an excise tax, nor did the House of Representatives' tax bill. If I may make an observation, this is not tax reform. This is a tax increase. Recently the Senate Finance Committee voted 19-0 not to make interest from tax-exempt bonds a preference item for minimum tax. Also, in the Senate proposal we have a program to give a 20-percent tax credit for the restoration of old buildings mainly in cities. Yet the same committee proposes to impose a tax which will be borne by family vineyard owners. The shame of the tax bill is the plan to transfer the revenues from wine excise tax to pay for the tax-exempt bonds and rehab tax credits and other loophole programs.

Where I farm we have dairy and grain farms all subsidized by the Federal Government. Last year when this Congress wrote the Farm Act of 1985, none of the wine grape growers petitioned for a subsidy. Now we only ask not to be taxed out of business.

Credit has to be given to the distilled spirits industry, especially the Seagrams Co., for generating interest in the excise tax. For years, their lobbyist and their trade association, the Distilled Spirits Council of the United States, has been lobbying to increase the tax on wine, not realizing that DISUS was sowing the seeds of increased excise tax for many industries. Their equivalency program, claiming a shot of gin is the same as a drink of Chardonnay, has not fooled the public. The truth behind the program is simply the public turning its back on hard liquor. Consequently, the profitable distilled liquor industry has lost sales. Here is a letter written by Seagrams opposing the excise tax, but urging an increase in excise tax on wine. If Seagrams is so anxious to raise taxes for the U.S. Treasury, I recommend Congress increase the excise tax on hard liquor.

Therefore, I would recommend careful consideration of any increase of Federal excise taxes on wines. It will prove to be counterproductive to both the Federal Government and the wine industry and, in particular, the wine grape growers of America. Thank you.

Senator WILSON. Thank you very much, Mr. Stamp. Mr. Hartzell.

STATEMENT OF ROBERT P. HARTZELL, PRESIDENT, CALIFORNIA ASSOCIATION OF WINEGRAPE GROWERS

Mr. HARTZELL. My name is Robert Hartzell, I am president of the California Association of Winegrape Growers and also serve as executive director of the American Grape Growers Alliance for Fair Trade. The California Association of Winegrape Growers represents approximately 1,100 wine grape growers producing about 65 percent of the nonwinery owned grapes crushed for wine in California. California produces approximately 90 percent of American wine. The American Grape Growers Alliance for Fair Trade represents grape growers and several processors of grape products in the States of Washington, New York, and California.

I would like to thank the other State wine grape grower associations, the Association of American Vintners and the California Wine Institute for participating in this important hearing initiated by Senator Pete Wilson, of California, in response to a request from the Winegrape Growers of America.

My role will be to discuss the impact the proposed wine excise tax increase would have on wine grape growers, particularly emphasizing many wine grape growers' current precarious financial situation resulting from an erosion of the market for wine made from their grapes due to subsidized and/or dumped foreign wines.

Before doing that, however, Senator, I would like to submit for the record a letter from California Governor, George Deukmejian, to Hon. James Baker conveying his strong objections to the Packwood proposal, and that is a part of my testimony.

In your opening remarks, Senator, you really set the stage that describes the problems that the wine grape growers are having. You submitted a lot of good statistics and I don't think I will repeat that. I would like to just update the figure you gave of last year's 57,000 acres of grapes that were abandoned or not harvested in California. This year it looks like that number will increase to something between 75,000 and 85,000 acres.

In October 1985 the International Trade Commission found that "there is reasonable indication that some domestic producers of ordinary table wine and growers of grapes used to produce ordinary table wine are experiencing material injury."

I guess there was reasonable indication of material injury. The attached report indicates that in 1982, 45 percent of the wine grape growers surveyed were losing money. By 1984, 86 percent of those analyzed were reporting losses. That was an ITC study and I repeat, 86 percent.

Given this background, the following will be some of the impact that wine grape growers and vintners will experience should Congress impose the proposed wine excise tax. Please keep in mind that the increased excise tax will either be entirely: (1) absorbed by vintners; (2) passed back to wine grape growers in the form of reduced grape prices; or (3) passed forward to consumers in the form of increased wine prices.

First. It is unlikely that it can or will be absorbed by vintners. The 1985 ITC study of wineries producing approximately 83 percent of American nonpremium table wine showed that in 1982, 70 percent of the wineries sustained operating losses. By 1984, 80 percent of the wineries were experiencing operating losses. Again, this is the ITC's own survey when they did the case.

Second. If the increase is passed back to wine grape growers in the form of reduced grape prices, it would amount to a reduction of $272 a ton. That's $1.60 a gallon times 170 gallons per ton. That reduction is still $111 per ton more than the average price paid for all California grapes crushed for wine in 1985, and that was $160.95. So the impact if it were passed back is more than the price growers received for their grapes last year in California.

Third. It has been estimated if the cost were passed forward to the consumer, wine sales will decrease by at least 10 percent or approximately 58 million gallons. You gave those statistics in your opening remarks. But not only does that decrease mean reduced sales to vintners, but growers will lose a market for 350,000 tons of their grapes. That's equivalent to the production of about 50,000 acres.

The results in two of the three possible scenarios, wine grape growers lose significantly. This is not the fault of the vintner, the wholesaler or the retailer. It is simply the way our economy works.

In conclusion, the proposed wine excise tax increase would:

First. Have a disastrous effect on America's growing wine grape and wine industry consisting of about 7,000 wine grape growers and over 1,200 vintners producing in 34 States. Most of these are family enterprises, as you pointed out.

Second. It would probably result in all or a substantial portion of the increase being passed back to the wine grape growers: (1) Because of the current tough marketing situation faced by vintners; and (2) because of the economic losses experienced by vintners.

Unfortunately, it is a well-documented historic economic fact of American agriculture that cost increases are passed back to the farmer, especially when supply exceeds demand, as is the current grape situation in California and when competition in the consumer market is intense as is the current situation in the U.S. wine market.

I ask the subcommittee to consider the fallacy of increasing the burden through the application of a discriminatory excise tax on nonsubsidized American farmers in order to generate funds to pay subsidies to other American farmers. It has been my understanding that Congress and administration policy is to encourage free market, nonsubsidized American agriculture. They are not doing that in this case.

I ask that the Finance Committee and the Department of the Treasury reveal any economic evidence that all or a substantial portion of the proposed wine excise tax will not be passed back to wine grape growers in the form of reduced grape prices.

I ask whether it is sound policy to increase the U.S. excise tax on wine at the same time U.S. trade negotiators are carrying out the mandates of the Wine Equity Act, and you commented on that in your opening remarks.

This proposal is not tax reform. It is taxation of small farmers, farm wineries, and the politically weak.

Those of us who labor in the vineyard suffer the risks, cycles, and problems of farming. Those of us who make and sell wine experience the complexities of winemaking and the realities of the marketplace. But we are all united in admiration of the most revered agricultural products in recorded history—grapes and wine.

I'd like to conclude by quoting from the Psalms: "He causeth the grass to grow for the cattle, and the herb for the service of man; that he may bring forth food out of the Earth; and wine that maketh glad the heart of man."

Thank you, Senator.

[The prepared statement of Mr. Hartzell, together with the attachments referred to, follows:]

PREPARED STATEMENT OF ROBERT P. HARTZELL

My name is Robert P. Hartzell. I am President of the California Association of Winegrape Growers (CAWG) and also serve as Executive Director of the American Grape Growers Alliance for Fair Trade. The California Association of Winegrape Growers represents approximately 1,100 winegrape growers who produce about 65 percent of the non-winery owned grapes crushed for wine in California. California produces approximately 90 percent of American wine. The American Grape Growers Alliance for Fair Trade represents grape growers and several processors of grape products in the states of Washington, New York and California.

I would like to thank the other state winegrape grower associations, the Association of American Vintners and the California Wine Institute for participating in these important hearings initiated by Senator Pete Wilson of California in response to a request from the Winegrape Growers of America.

My role will be to discuss the impact the proposed wine excise tax increase would have on winegrape growers, particularly emphasizing many winegrape growers current precarious financial situation resulting from an erosion of the market for wine made from their grapes due to subsidized and/or dumped foreign wines.

I will set forth reasons the proposed wine excise tax will be so devastating to winegrape growers. I have attached detailed statistical information for the Committee to review and analyze.

The following demonstrates the current economic environment in which winegrape growers must operate:

1. The value of vineyards in the San Joaquin Valley of California, south of Stanaslaus Co., where 70 percent of the grapes crushed for wine in Calfornia are grown, has declined dramatically. In 1982 values were around $11,000/acre; owners are currently asking around $4,500/acre with few, if any, buyers coming forward.

2. In 1985 approximately 57,000 acres of grapes in California were abandoned or not harvested. Indications are that in 1986 the number of acres abandoned or not harvested will increase to 75,000 to 80,000 acres.

3. The price paid in California for grapes for crushing has declined precipitously. In 1981, the weighted average grower price was $246.63/ton. In 1985 the price had fallen

to $160.95/ton -- a drop of $85.68/ton. Based on average yields, per-acre returns have dropped by $600/acre during the past five years.

A major factor contributing to the current economic plight of winegrape growers is the various governmental subsidies provided to winegrape growers and/or vintners by the European Economic Community (EEC), and the governments of France, Italy, West Germany and Canada.

The subsidies received by foreign winegrape growers and vintners range from government purchase of grapes that cannot be sold, to government paid distillation of surplus wine, to subsidized low interest loans, to financial incentives to remove vineyards.

These subsidies have resulted in foreign wines increasing their share of the U.S. wine market by 16 percent during the past 15 years. (13 million cases - 1970 to 59.9 million cases - 1984).

In October 1985 the International Trade Commission (ITC) found that "there is reasonable indication that some domestic producers of ordinary table wine and growers of grapes used to produce ordinary table wine are experiencing material injury."

I guess there was reasonable indication of material injury! The attached report indicates that in 1982 45 percent of the winegrape growers surveyed were losing money. By 1984, 86 percent of those analyzed were reporting losses. I repeat 86 percent!

Given this background, the following will be some of the impact that winegrape growers and vintners will experience should Congress impose the proposed wine excise tax ($.87/gal.) as well as the non-deductibility provision (an additional $.73/gal.). Please keep in mind that the increased excise tax will either be entirely:

1. Absorbed by vintners; or
2. Passed back to winegrape growers in the form of reduced grape prices; or
3. Passed forward to consumers in the form of increased wine prices.

1. It is unlikely that it can or will be absorbed by vintners. The 1985 ITC study of wineries producing approximately 83 percent of American non-premium table

wine, showed that in 1982 70 percent of the wineries sustained operating losses. By 1984 80 percent of the wineries were experiencing operating losses.

2. If the increase is passed back to winegrape growers in the form of reduced grape prices, it would amount to a reduction of $272.00/ton ($1.60/gal. x 170 gal./ton). That reduction is $111.00/ton <u>more</u> than the weighted average price paid for all California grapes crushed for wine in 1985 ($160.95/ton).

3. It has been estimated if the cost were passed forward to the consumer, wine sales will decrease by at least 10 percent or approximately 58 million gallons. Not only does that decrease mean reduced sales to vitners, but growers will lose a market for 350,000 tons of their grapes -- the production of about 50,000 acres.

The results -- in two out of three of the possible scenarios -- <u>winegrape growers lose significantly!</u> This is not the fault of the vintner, the wholesaler or retailer, it is simply the way our economy works.

In conclusion, the proposed wine excise tax increase would:

1. Have a disastrous effect on America's growing winegrape and wine industry consisting of about 7,000 winegrape growers and 1,200 vintners producing in 34 states (most are family enterprises).

2. Would probably result in all or a substantial portion of the increase being passed back to winegrape growers (1) because of the current tough marking situation forced by vintners; and (2) because of the economic losses experienced by vintners.

Unfortunately, it is a well documented historic economic fact of American agriculture that cost increases are passed back to the farmer, especially when supply exceeds demand, as is the current grape situation in California and when competition in the consumer market is intense as is the current situation in U.S. wine market.

I ask the Committee to consider the fallacy of increasing the burden through the application of a discriminatory excess tax on non-subsidized American farmers in order to generate funds to pay subsidies to other American farmers. It has been my understanding that Congress and Administration's policy is to encourage free market, non-subsidized American agriculture.

I ask that the Senate Finance Committee and the Department of Treasury reveal any economic evidence that all or a substantial portion of the proposed wine excise tax will not be passed back to winegrape growers in the form of reduced grape prices.

I ask whether it is sound policy to increase the U.S. excise tax on wine at the same time U.S. trade negotiators are carrying out the mandates of the Wine Equity Act designed to reduce tariffs and taxes and other restraints to free trade? It is inconsistent to expect other countries to reduce taxes on wine when the U.S. is substantially increasing its excise by 400 percent.

The proposal is <u>not</u> tax reform, it is taxation of small farmers, farm wineries, and the politically weak.

Those of us who labor in the vineyard suffer the risks, cycles and problems of farming. Those of us who make and sell wine experience the complexities of wine making and the realities of the market place. But we are all united in admiration of the most revered agricultural products in recorded history -- grapes and wine.

The Psalms tell us --

"He causeth the grass to grow for the cattle, and the herb for the service of man; that he may bring forth food out of the earth; and wine that maketh glad the heart of man." (Psalm 104:14)

GEORGE DEUKMEJIAN
GOVERNOR

State of California
GOVERNOR'S OFFICE
SACRAMENTO 95814

April 3, 1986

The Honorable James Baker, III
U.S. Department of Treasury
15th & Pennsylvania Avenue, N.W.
Washington, D.C. 20220

Dear Secretary Baker: Jim

I am writing to convey my strong objections to a proposal by Senator Robert Packwood that would substantially increase the excise tax on wine.

It is my understanding that the Packwood proposal would alter the basis upon which the wine excise tax is calculated and would repeal the deductibility of such taxes as a business expense. The combined effect of these changes would severely impact the competitive position and financial solvency of our domestic wine industry at a time when it is already threatened by adverse market conditions created by the influx of inexpensive, and in many cases, government subsidized foreign wine. Such market conditions would most surely require growers to absorb any increased excise taxes.

I urge you to join me in opposing this tax increase proposal and I have instructed my Washington office to communicate our concerns to Senator Packwood and members of the Senate Finance Committee before whom this matter is pending.

Most cordially,

Duke

George Deukmejian

ksp

Exhibit I.
Wine Consumption In The
United States By Origin

Source:
American Wine Market
Review and Forecast, 1985 Edition

III. WINE CONSUMPTION BY ORIGIN

The wine cooler's effect on the market for American wines can be gauged in the fact that 1984 figures reversed a three year downtrend for California products and a nearly decade-long downtrend for wines from "other" states. As we have seen, no other domestic wine category showed growth last year; the wine cooler did it all on its own.

Though California's greatest spurt of growth came in the early seventies, with annual growth averaging 7% between 1970-1975, the state's wines continued to turn in solid performances through 1981. It was around this time, however, that internal circumstances (further detailed in Chapter Six) combined with the effects of the recession to take the wind out of California's sails. The 4.6% expansion enjoyed by California wine shipments in 1981 dropped suddenly to 0.7% in 1982, and staggered to a 1.5% increase in 1983. Behind the troubles was the stagnation of the gargantuan table wine market; behind what good news there was were mainly sparkling wines and the infant wine cooler category.

Last year the wine cooler provided *all* the glad tidings for California wines. Thanks to the strength of the category however, the overall year for California looked reasonably healthy. Shipments of all California wines topped the 150 million case mark at 153.6

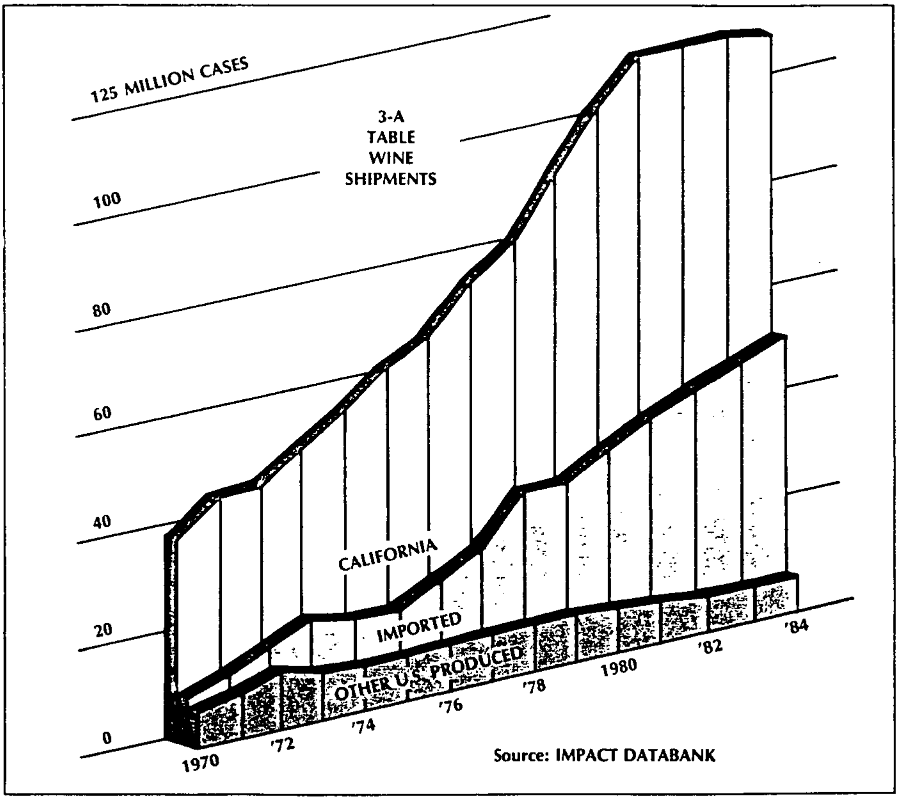

TABLE 3-B
WINE ENTERING DISTRIBUTION CHANNELS BY ORIGIN
(thousands of nine-liter cases)

Origin	1970	1980	1983	1984	Average Annual Compound Growth Rate[1] 1970-1980	Average Annual Compound Growth Rate[1] 1980-1984	Percent Change[1] 1983-1984
California	82	139.5	149.1	153.6	5.5%	2.4%	3.0%
Other States	18	18.7	18.0	18.8	0.4	0.1	4.7
United States	100	158.2	167.1	172.4	4.7	2.2	3.2
Imports	13	43.1	55.1	59.9	13.1	8.6	8.8
Total Wine[2]	112	201.3	222.2	232.3	6.0%	3.5%	4.6%

[1]Based on unrounded data.
[2]Addition of columns may not agree because of rounding.
Source: IMPACT DATABANK

TABLE 3-C
SHARE OF MARKET TREND
WINE ENTERING DISTRIBUTION CHANNELS BY ORIGIN

Origin	1970	1980	1983	1984
California	73%	69.4%	66.8%	66.1%
Other States	17	9.3	8.4	8.1
United States	90	78.7	75.3	74.2
Imports	10	21.3	24.7	25.8
Total[1]	100%	100.0%	100.0%	100.0%

[1]Addition of columns may not agree because of rounding.
Source: IMPACT DATABANK

million, on growth of 3% over the previous year. California wines have underperformed the wine market generally since 1975, when the state's wines comprised 74% of the market's shipments. By 1984 the steady gains by imports had cut California's market share to just 66.1%. Whether the wine cooler will remain strong is an open question, but certainly it cannot continue forever at its present pace. Ultimately, growth for California must depend in part on the revival of its table wines.

Wines from "other states" have not done as badly in the American marketplace as, say, the *Edsel*, but they have not exactly caught on fire either. Since 1970 they have rattled around between 18 and 19 million cases, and the years since 1975 have seen a steady dwindling. But that was P.C.—pre-cooler. Thanks largely to New York state's position in the wine cooler market, "other states" wines performed well in 1984, picking up 4.7% on shipments of 18.8 million cases, and holding onto their 1983 8.1% share of the wine market.

As described in the previous chapter, imported wines chalked up an impressive 8.8% increase in 1984 on shipments of 59.9 million cases, or better than one case out of four. It should be noted that this growth is well down from the torrid 15.8% average annual increases posted by imports over the latter seventies, when the Lambrusco category exploded. But then, what area of the alcoholic beverage market *isn't* down from those years?

One big reason for the import market's "slowdown" is the peaking of Italian wines. Between 1975 and 1980, shipments of these wines burgeoned at an incredible average of 29.1% a year, rocketing from 7 million cases in 1975 to 25 million in 1980, when Italy captured a 58.1% share of total import shipments. Like all good things, however, this remarkable streak seems to have an end. Growth in 1983

TABLE 3-D
TOTAL WINE IMPORTS INTO THE U.S. BY COUNTRY OF ORIGIN
(thousands of nine-liter cases)

Country	1970	1980	1983	1984	Average Annual Compound Growth Rate 1970-1980	Average Annual Compound Growth Rate 1980-1984	Percent Change 1983-1984
Italy	3,497.7	25,045.3	30,068.0	30,769.0	22.0%	5.3%	2.3%
France	3,718.3	5,591.8	10,662.4	13,460.1	4.3	24.6	26.2
Germany	1,219.5	4,994.4	6,489.5	6,885.0	15.2	8.4	6.1
Spain	1,419.3	3,217.6	3,400.8	3,822.8	8.5	4.4	12.4
Portugal	1,703.6	2,438.6	1,978.8	2,161.2	3.9	−3.0	9.2
Other	1,069.9	1,828.0	2,473.5	2,794.5	5.6	11.2	13.0
Total[1]	12,628.2	43,115.6	55,073.1	59,892.7	13.1%	8.6%	8.8%

[1]Addition of columns may not agree because of rounding.
Source: IMPACT DATABANK

plummeted to 2%, a figure scarcely picked up by last year's 2.3% gain for Italian wines. Still, Italy's 30.8 million cases continue to hold more than half (51.4%) of the import market.

France, which stumbled badly through the early seventies, and continued to underperform the import market throughout much of the decade, has come decisively awake. French wines have added shipments at an average annual rate of 24% over the first four years of the eighties. Last year added to the trend, with French wines chalking up a 26.2% gain on shipments of 13.5 million cases or 22.5% of the import market, the country's highest share in a decade.

Germany, whose wines enjoyed a vogue in the seventies, averaging double digit growth throughout the decade, has found the going more erratic in the eighties. After a robust 14.5% gain in 1983, German wines turned in a disappointing 6.1% increase in 1984 on 6.9 million cases, or 11.5% of the import market.

Spain, which has underperformed the market every year on average since 1975, found the wine market of 1984 much to its liking. Spanish imports picked up 12.4% on shipments of 3.8 million cases, and the growth was in non-Sangrias. Portugal, which has suffered some thumping losses over the past decade, also turned things around last year, gaining 9.2% on 2.2 million cases. The "other" countries posted their usual fine year, accounting for a 4.7% share of the imports market on 2.8 million cases.

TABLE 3-E
SHARE OF MARKET TREND
TOTAL WINE IMPORTS INTO THE U.S. BY COUNTRY OF ORIGIN

Country	1970	1980	1983	1984
Italy	27.7%	58.1%	54.6%	51.4%
France	29.4	13.0	19.4	22.5
Germany	9.7	11.6	11.8	11.5
Spain	11.2	7.5	6.2	6.4
Portugal	13.5	5.7	3.6	3.6
Other	8.5	4.2	4.5	4.7
Total[1]	100.0%	100.0%	100.0%	100.0%

[1]Addition of columns may not agree because of rounding.
Source: IMPACT DATABANK

Exhibit II
Report of The U.S. International Trade
Commmission on "Certain Table Wine from The Federal
Republic of Germany, France and Italy," October 1985

Table 4.—Nonpremium table wine: U.S. producers' shipments, imports for consumption, and apparent consumption, 1982-84, January-June 1984, and January-June 1985

(1,000 gallons)

Year	Producers' shipments 1/	Imports 2/	Apparent consumption
1982	262,633	82,843	345,476
1983	257,278	87,786	345,064
1984	245,140	88,628	333,768
January-June—			
1984	124,236	41,806	166,042
1985	116,382	43,876	160,258

1/ Shipments data prepared by Gomberg, Frederikson & Associates, Wine Industry Consultants (Antidumping petition, p. 103, as updated to include nonpremium varietal wines).

2/ These data were estimated by deriving the ratios of ordinary table wine imports to table wine imports for 1982-84, January-June 1984, and January-June 1985, as obtained from responses to Commission questionnaires, and applying these ratios to official import statistics of the U.S. Department of Commerce for the same years.

Consideration of Alleged Material Injury to an Industry in the United States

U.S. grape growers

U.S. production.—During 1982-84, U.S. production of grapes declined steadily from a record-high 6.6 million tons in 1982 to 5.2 million tons in 1984 (table 5).

Table 5.—Grapes: U.S. production, 1/ by States, 1982-84

(1,000 tons)

State	1982	1983	1984
California	6,076	4,919	4,640
New York	157	191	198
Washington	169	227	169
Pennsylvania	47	63	60
Michigan	59	60	49
All other	47	46	48
Total	6,555	5,506	5,164

1/ Includes unharvested production plus harvested but not sold grapes, totaling 690,200 tons in 1982, 145,500 tons in 1983, and 13,000 tons in 1984.

Source: U.S. Department of Agriculture, Noncitrus Fruits and Nut Production, Use, and Value, Midyear Supplement, July 1985.

California accounted for 91 percent of total annual U.S. grape production during 1982-84. Production in that State declined each year from the record crop in 1982 of 6.1 million tons to 4.6 million tons in 1984. Combined production of all other producing States increased overall, from 479,000 tons in 1982 to 524,000 tons in 1984.

Utilization.—Table 6 shows California's utilization of its three grape types: wine grapes, raisin grapes, and table grapes. Overall, California's utilization of grapes decreased from 5.4 million tons in 1982 to 4.6 million tons in 1984 (table 6). The quantity of all grapes crushed decreased from 3.1 million tons in 1982 to 2.3 million tons in 1983, or by 26.0 percent, and then increased by 10.7 percent to 2.6 million tons in 1984. For all grape types, the quantities used as fresh fruit decreased from 1982 to 1984, and quantities canned and dried declined irregularly over the period.

During 1982-84, data published by the Wine Institute indicate that the quantity of California raisin-type grapes utilized as dried grapes increased as a share of total utilization of raisin-type grapes. 1/ In 1982, about 58 percent of raisin-type grapes were utilized as dried grapes, compared with 74 percent in 1983 and 62 percent in 1984. The petitioner states that the significant increase in utilization as dried grapes was due to the wineries' decreased demand for raisin-type grapes for crushing. 2/ Respondents argue that the decreased utilization of raisin-type grapes (primarily Thompson Seedless) for crushing reflects a growing consumer preference for more complex, varietal wines and the increased availability of wine grapes. These factors allegedly resulted in decisions by Gallo and other wineries to curtail or eliminate their purchases of Thompson Seedless grapes. 3/

1/ Raisins are covered by a marketing order issued by the Secretary of Agriculture, which legally obligates all raisin handlers to abide by the order's terms. Before harvest, a "free" or "salable" percentage is determined from the size of the crop and other market conditions. Every handler is required to apply the stated percentage to his total handlings to determine the quantity of raisins that may be marketed without restriction. Sales in excess of the "free" or "salable" allocation must be made in "noncompetitive" markets (exports, livestock feed, etc.). The restricted portion of the crop is held in a reserve pool, out of which sales can be made on the primary market if demand strengthens or if supplies fall short of initial expectations. The order also specifies the desirable level of carry-over reserves, which for the 1984 marketing year (beginning Aug. 1) was 60,000 sweatbox tons.

2/ Antidumping petition, p. 77.

3/ Postconference brief on behalf of Banfi Products Corp., pp. 46-47.

Table 6.—Grapes: California utilization, by types, 1982-84

(1,000 tons)

Item	1982	1983	1984 1/
Wine:			
Fresh	66	93	75
Canned	–	–	–
Dried 2/	–	–	–
Crushed	2,086	1,787	1,815
Total	2,152	1,880	1,890
Raisin:			
Fresh	303	252	230
Canned	35	35	30
Dried 2/	1,530	1,774	1,387
Crushed	774	330	580
Total	2,642	2,391	2,227
Table:			
Fresh	311	301	300
Canned	–	–	–
Dried 2/	18	11	3
Crushed	265	193	162
Total	592	504	465
All grapes:			
Fresh	681	646	605
Canned	35	35	30
Dried 2/	1,548	1,785	1,390
Crushed	3,123	2,310	2,557
Total	5,386	4,775	4,582

1/ Preliminary.
2/ Includes fresh weight equivalent of substandard raisins used for wine spirits production and fruit lost in the field because of weather.

Source: Compiled from official statistics of the Wine Institute and the California Crop & Livestock Reporting Service.

U.S. exports.—U.S. exports of grapes are either in the form of fresh grapes or raisins. 1/ As shown in the following tabulation, exports of fresh grapes declined from 246.2 million pounds valued at $95.2 million in 1982 to 244.3 million pounds valued at $86.4 million in 1983. In 1984, although the quantity exported increased only slightly, to 244.4 million pounds, the value rose to $88.6 million. Major 1984 export markets were Canada and Hong Kong.

Year	U.S. exports of fresh grapes: Quantity (1,000 pounds)	Value (1,000 dollars)
1982	246,213	95,169
1983	244,318	86,401
1984	244,391	88,571

Exports of raisins increased by nearly 8 percent, from 113.6 million pounds valued at $105.5 million in 1982 to 122.4 million pounds valued at $90.2 million in 1983. In 1984, the quantity of raisin exports fell to 120.9 million pounds with a value of $80.1 million. 2/ The quantity of raisin exports for the first half of 1985 rose 18 percent over the corresponding period of 1984, as shown below:

Year	U.S. exports of raisins: Quantity (1,000 pounds)	Value (1,000 dollars)
1982	113,579	105,509
1983	122,430	90,243
1984	120,864	80,124
January-June—		
1984	51,591	32,185
1985	61,090	35,941

Inventories.—As shown in the following tabulation compiled from data of the USDA, inventories of raisins (as of July 31) dropped from 118,267 sweatbox tons in 1982 to 115,560 sweatbox tons in 1983, then climbed to 192,497 sweatbox tons in 1985:

1/ Grapes may also be crushed and exported in the form of must; however, such exports are believed to be negligible.

2/ The primary export markets for raisins in 1984 were the EC, Japan, and Canada.

Year	U.S. raisin inventories Quantity (sweatbox tons)
1982	118,267
1983	115,560
1984	186,560
1985	192,497

Employment.—Employment during the January pruning season increased 2.6 percent from 1983 to 1984 and then declined 14.4 percent from 1984 to 1985. Pruning season wages rose steadily from $3.82 per hour in January 1983 to $4.17 per hour in January 1985. Employment during the September harvest season rose 27.3 percent from 1983 to 1984 and 0.3 percent from 1984 to 1985. Harvest season wages were virtually unchanged during 1983–85, as shown in the following tabulation: 1/

	Employment		Wages	
	January	September	January	September
			Per hour	
1983	21,900	51,750	$3.82	$3.87
1984	22,480	65,860	3.92	3.86
1985	19,240	66,080	4.17	3.86

Financial experience of grape growers.—The petitioners conducted a survey of gross revenues and expenses of grape growers in California. Questionnaires were sent to major cooperatives and to the California Association of Wine Grape Growers, which in turn mailed the questionnaires to their member producers. Respondents were requested to separate their revenues by grape use, i.e., wine, raisin, table, and other, but were not asked to provide similar breakdowns for expenses because of the presumed difficulty in providing such data. Touche Ross & Co. analyzed the results of the survey, using responses from 494 growers 2/ that provided data for all time periods. The Commission staff obtained copies of all of the questionnaire responses (over 1,000), and selected 73 responses 3/ submitted by growers that derived

1/ Data on employment and wages of laborers engaged in work related to the growing and harvesting of grapes were obtained from monthly farm labor reports issued by the State of California. These data are for the months of January and September, which are peak months for pruning and harvesting, respectively. The data shown are somewhat understated because counties that did not report for all three years are excluded. Wages shown are weighted-average rates for those counties that reported hourly rather than piecemeal rates.

2/ These 494 growers accounted for 9.1 percent of the tonnage of all grapes crushed in 1984.

3/ These 73 growers accounted for 7.1 percent of the tonnage of all grapes crushed in 1984.

the majority of their revenues during 1982-84 from grapes used to produce wine. The aggregate gross revenue, expenses, and income or loss experienced by these 73 growers are presented in the following tabulation:

	1982	1983	1984
Gross revenue——————1,000 dollars—	37,809	28,400	25,866
Expenses 1/————————————do——	48,116	46,332	46,327
Income (loss)———————————do——	(10,307)	(17,932)	(20,461)
Ratio of income (loss) to gross revenue percent—	(27.3)	(63.1)	(79.1)
Number of growers 2/————————	73	73	73
Number of growers reporting a loss————	33	52	63

1/ Includes materials and supplies (including contracting fees and harvest), labor, interest (operating and debt service), depreciation, and other expenses (including salaries of owner, property taxes, utilities, irrigation, etc.).
2/ The 73 growers include 64 for which grapes produced for wine accounted for 100 percent of gross revenue and 9 for which grapes produced for wine accounted for more than 50 percent of gross revenue.

Gross revenue declined from $37.8 million in 1982 to $28.4 million in 1983, then dropped to $25.9 million in 1984. While the gross revenue decline from 1982 to 1983 amounted to 24.9 percent, expenses decreased by only 3.7 percent, from $48.1 million in 1982 to $46.3 million in 1983. In 1984, gross revenue was down 8.9 percent to $25.9 million while expenses remained virtually unchanged at $46.3 million. The aggregate loss doubled from 1982 to 1984, from $10.3 million to $20.5 million. The ratio of loss to revenue deteriorated sharply from 27.3 percent in 1982 to 79.1 percent in 1984. In 1982, 40 of the 73 growers reported income after expenses while only 10 of the 73 did so in 1984.

The financial experience of the 494 growers of grapes for all uses (as analyzed by Touche Ross & Co.) was better than that of the predominantly wine grape growers but worsened in a similar manner during 1982-84, as shown in the following tabulation:

	1982	1983	1984
Gross revenue——————1,000 dollars—	110,715	86,672	75,221
Expenses 1/————————————do——	108,752	107,047	101,837
Income (loss)———————————do——	1,963	(20,375)	(26,616)
Ratio of income (loss) to gross revenue percent—	1.8	(23.5)	(35.4)

1/ Includes materials and supplies (including contracting fees and harvest), labor, interest (operating and debt service), depreciation, and other expenses (including salaries of owner, property taxes, utilities, irrigation, etc.).

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Gross revenue earned by the 494 growers declined from $110.7 million in 1982 to $75.2 million in 1984, or by 32.1 percent. During the same period, expenses fell by only 6.4 percent, from $108.8 million in 1982 to $101.8 million in 1984. As a result, the growers, which earned an aggregate income of $2.0 million, or 1.8 percent of gross revenue in 1982, sustained aggregate losses of $20.4 million, or 23.5 percent of gross revenue in 1983 and $26.6 million, or 35.4 percent of gross revenue in 1984.

U.S. wineries

In the course of these investigations, questionnaires were sent to 23 wineries that are believed to have accounted for approximately 97 percent of U.S. shipments of nonpremium table wine in 1984. The 12 questionnaire respondents represent an estimated 87.6 percent of nonpremium table wine shipments in 1984. Questionnaires were also sent to six major producers of wine coolers; the three respondents to these questionnaires accounted for approximately * * * percent of shipments in 1984. 1/ This section of the report also includes, as a supplement to questionnaire data, information based on official statistics published by the USDA, the California Crop & Livestock Reporting Service, the Wine Institute, and other sources.

U.S. production.—U.S. wine production, as measured by the amount of standard wine removed from fermenters (as reported by the BATF), increased 2.1 percent to 438 million gallons in 1984, compared with 429 million gallons in 1983. However, the 1984 production level was 20 percent below the record level of 550 million gallons reached in 1982, as shown below:

Year	Production 1/ (million gallons)
1980	509
1981	467
1982	550
1983	429
1984	438

1/ These data reflect standard wine removed from fermenters and used in production of table wine, still wines containing over 14 percent of alcohol, vermouth, other special natural wines, and other wine such as wine coolers.

* * * * * * *

1/ In addition, three other domestic producers of nonpremium table wine, accounting for * * * percent of domestic shipments of coolers in 1984, provided usable data on their shipments of wine coolers.

Capacity.—Published data on capacity in the wine industry relates to total storage capacity of California wineries. 1/ It includes all tanks, barrels, fermenters, and casks that are usable for the storage of crushed products such as wine and wine concentrates. 2/ Total storage capacity on December 31 increased by 5 percent from 1982 to 1984, as shown in the following tabulation:

Year	Total storage capacity 1/ (million gallons)
1982	1,007
1983	1,043
1984	1,059

1/ These data were obtained from the Wine Institute. California capacity is estimated to account for about 90 percent of total U.S. storage capacity.

Domestic shipments.—Domestic shipments of all table wine, as reported by the BATF as taxable withdrawals, 3/ declined overall during 1982-84, from 291 million gallons in 1982 to 286 million gallons in 1984. The level of table wine shipments in January-June 1985 showed a decline of 8.3 percent compared to January-June 1984, as shown in the following tabulation:

Year	Taxable withdrawals of table wine (1,000 gallons)
1982	291,391
1983	292,401
1984	286,269
January-June—	
1984	141,975
1985	130,148

Domestic shipments of nonpremium table wine declined nearly 7 percent during 1982-84, from 262.6 million gallons in 1982 to 245.1 million gallons in 1984. The level of shipments for January-June 1985 declined 6.3 percent when compared with shipment levels for January-June 1984, as shown in the following tabulation:

1/ Data on utilization of such capacity are not available.

2/ Total storage capacity is generally not in use at any one point in time.

3/ Taxable withdrawals are considered by the trade to be a good indication of domestic shipments of table wine, since wine is generally stored in bonded premises until acquired by a purchaser in order to delay payment of applicable Internal Revenue taxes.

Year	Domestic shipments of nonpremium table wine 1/ (1,000 gallons)
1982	262,633
1983	257,278
1984	245,140
January-June—	
1984	124,236
1985	116,382

1/ Based on data prepared by Gomberg, Frederikson & Associates, (Antidumping petition, p. 103, as updated to include nonpremium varietal wines).

Industry sources estimate that domestic shipments of wine coolers grew from 7.7 million gallons in 1983 to 36.7 million gallons in 1984. 1/ Data provided by six domestic producers of wine coolers show shipments rising from * * * gallons in 1982 to * * * gallons in 1983 and * * * gallons in 1984. During January-June 1985, the level of shipments was * * * gallons, compared to the * * * gallons shipped in the first half of 1984.

U.S. exports.—Exports of table wine declined from 7.7 million gallons, valued at $31.4 million, in 1982 to 5.1 million gallons, valued at $21.2 million in 1984 (table 7). Canada, the primary export market during this period, accounted for nearly 52 percent of the quantity and 28 percent of the value of total exports in 1984. The majority of exports to Canada are believed to be in bulk form, as reflected by the average unit values reported for such exports.

Exports of nonpremium table wine reported by four questionnaire respondents 2/ also declined, from * * * million gallons in 1982 to * * * million gallons in 1984. Exports for January-June 1985 were down * * * percent from January-June 1984. Export markets included Canada, Europe, Japan, and South America.

1/ Impact, 1985 Review, p. 5.
2/ These companies accounted for almost * * * percent of domestic shipments of nonpremium table wine in 1984.

Table 7.—Table wine: U.S. exports, by principal markets, 1982-84, January-June 1984, and January-June 1985

Market	1982	1983	1984	January-June— 1984	January-June— 1985
	Quantity (1,000 gallons)				
Canada	4,112	3,314	2,655	1,422	1,105
United Kingdom	1,148	1,146	904	437	280
Japan	218	382	395	234	318
Bahamas	213	203	191	94	23
Belgium	212	201	159	129	90
All other	1,824	1,151	821	401	375
Total	7,727	6,398	5,125	2,718	2,191
	Value (1,000 dollars)				
Canada	9,643	7,529	5,990	3,058	2,487
United Kingdom	7,164	6,737	5,370	2,551	1,624
Japan	1,542	2,302	2,561	1,468	1,507
Bahamas	1,049	957	804	393	176
Belgium	1,101	1,399	991	807	607
All other	10,863	7,558	5,509	2,747	2,403
Total	31,362	26,477	21,226	11,024	8,804
	Unit value (per gallon)				
Canada	$2.35	$2.27	$2.26	$2.15	$2.25
United Kingdom	6.24	5.88	5.94	5.84	5.81
Japan	7.09	6.02	6.48	6.26	4.74
Bahamas	4.93	4.72	4.22	4.19	7.74
Belgium	5.20	6.95	6.22	6.24	6.76
All other	5.96	6.56	6.71	6.85	6.41
Average	4.06	4.14	4.14	4.06	4.02

Source: Compiled from official statistics of the U.S. Department of Commerce.

U.S. inventories.—Inventories of table wine held at bonded wineries and wine cellars 1/ have risen irregularly in recent years, as shown in the following tabulation compiled from data provided by the Wine Institute:

	Inventories 1/ (1,000 gallons)
As of April 30—	
1981	415,787
1982	432,653
1983	519,470
1984	481,305
1985 2/	449,068

1/ Excludes substandard wine produced as distilling material.
2/ Wine Institute officials indicate this figure may be slightly understated.

The inventory level achieved in 1983 was the largest in history and reflects, in part, the effects of the record harvest and crush in 1982.

Five firms, accounting for 61 percent of 1984 shipments of nonpremium table wine, provided data on their inventories of bottled nonpremium table wine. Such inventories declined overall during 1981-84 from 28.0 million gallons in 1981 to 23.4 million gallons in 1984. Inventory levels as of June 30, 1985 declined 2.6 percent from June 30, 1984, as shown in the following tabulation: 2/

	Inventories of nonpremium table wine 1/ (1,000 gallons)
As of Dec. 31—	
1981	28,008
1982	25,663
1983	26,632
1984	23,411
As of June 30—	
1984	31,574
1985	30,753

1/ * * *.

1/ These data include inventories of both bulk and bottled wine.
2/ Five domestic producers, representing about 18 percent of 1984 shipments, reported inventory data for both bottled and bulk wine. Such inventories fell steadily from 95.7 million gallons in 1982 to 83.6 million gallons in 1984. Inventories as of June 30, 1985 were down 12.7 percent from June 30, 1984.

Imports by producers.—Three U.S. wineries, * * *, * * *, and * * *, import ordinary table wine from the FRG, France, and Italy. Each firm's domestic shipments and imports from these countries, as reported in response to the Commission's questionnaire, are compared below:

*   *   *   *   *   *   *

Employment.—Eight firms that accounted for almost 64 percent of U.S. shipments of nonpremium table wine in 1984 provided data on employment of workers producing nonpremium table wine. 1/ As shown in table 8, the number of workers employed in the production of nonpremium table wine by these firms declined by 7.2 percent between 1982 and 1984, and then decreased by 2.5 percent in the first half of 1985 over the corresponding period of 1984. A similar trend occurred in the number of hours worked. Wages paid and total compensation both declined overall between 1982 and 1984; data for January-June 1985 also show a decline when compared with that of January-June 1984.

Twelve firms provided information regarding union representation. Of these, two firms had no union employees, while workers at the other firms were represented by the Distillery, Wine, & Allied Workers, AFL-CIO.

Financial experience of U.S. wineries.—Ten wineries, accounting for approximately 83 percent of domestic shipments of nonpremium table wine in 1984, furnished usable income-and-loss data concerning both their overall establishment operations and their operations producing table wine.

Overall establishment operations.—Net sales of all products produced in the establishments within which table wine is produced averaged close to $2.1 billion a year during 1982-84 (table 9). Net sales rose to $1.2 billion during the interim period ended June 30, 1985, compared with net sales of $1.1 billion during the corresponding period of 1984. During 1982-84, operating income ranged from a low of $116 million, or 5.6 percent of net sales, in 1982 to a high of $134 million, or 6.6 percent of net sales in 1983. Operating income was $94.7 million, or 8.0 percent of net sales, during the interim period ended June 30, 1985, compared with an operating income of $101 million, or 9.0 percent of net sales, during the corresponding period of 1984. These wineries reported a positive cash flow for each of the reporting periods.

Table wine operations.—Net sales of table wine during 1982-84 ranged from a low of $886 million in 1983 to a high of $977 million in 1982 (table 10). Net sales were $468 million during interim 1985, compared with net sales of $503 million during the corresponding period of 1984. In the aggregate, the 10 reporting wineries operated profitably in each of the reporting periods. During 1982-84, operating income ranged from a high of

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1/ Two firms, * * * and * * *, provided data for all table wine. One firm, * * *, provided data on employment for wine and brandy production.

Table 8.—Average number of production and related workers engaged in the manufacture of nonpremium table wine, hours worked by such workers, wages paid, and total compensation, 1982-84, January-June 1984, and January-June 1985 1/

Period	Number of workers	Hours worked	Wages paid	Total compensation
		Thousands	1,000 dollars	
1982	2,116	4,151	48,189	57,489
1983	1,966	3,954	47,223	56,518
1984	1,964	3,854	46,592	56,609
January-June:				
1984	1,826	1,785	21,177	25,781
1985	1,781	1,753	20,741	25,468

1/ Based on data provided by 8 firms accounting for about 64 percent of domestic shipments of nonpremium table wine in 1984. Two firms, * * * and * * *, provided data for all table wine. * * * provided data on employment for wine and brandy production.

Source: Compiled from data submitted in response to questionnaires of the U.S. International Trade Commission.

$38.5 million, or 4.3 percent of net sales, in 1983 to a low of $7.3 million, or 0.8 percent of net sales, in 1984. Operating income was $35.3 million, or 7.5 percent of net sales, during interim 1985, compared with an operating income of $36.3 million, or 7.2 percent of net sales, during the corresponding period of 1984. Seven of the 10 wineries sustained operating losses in 1982 and 1983, 8 wineries sustained such a loss in 1984, as did 5 wineries in each of the interim periods. These wineries reported a positive cash flow in each of the reporting periods.

Nonpremium table wine.—Net sales of nonpremium table wine slipped from $947 million to $843 million, or by 11 percent, between 1982 and 1983, and then rose 3 percent to $869 million in 1984 (table 11). Net sales fell 8 percent to $436 million during interim 1985, compared with net sales of $476 million during the corresponding period of 1984. The 10 wineries sustained an aggregate operating loss of $5.4 million, or 0.6 percent of net sales during 1984, compared with operating incomes of $34.2 million, or 3.6 percent of net sales, and $29.0 million, or 3.4 percent of net sales, during 1982 and 1983, respectively. Operating income declined slightly to $27.2 million, or 6.2 percent of net sales, during interim 1985, compared with an operating income of $29.8 million, or 6.3 percent of net sales, during the corresponding period of 1984. Six of the 10 reporting firms sustained operating losses in 1982. Seven wineries sustained such a loss in 1983, as did eight wineries in 1984, and six in each of the interim periods. These wineries reported positive cash flows in each of the reporting periods.

ble 9.—Income-and-loss experience of 10 U.S. wineries on the overall operations of their establishments within which table wine is produced, 1982-84 and interim periods ended June 30, 1984 and June 30, 1985 1/

Item	1982	1983	1984	Interim period ended June 30— 1984	Interim period ended June 30— 1985
Net sales——1,000 dollars	2,052,974	2,026,336	2,122,116	1,123,381	1,182,749
Cost of goods sold——do	1,435,730	1,372,786	1,451,410	746,762	798,162
Gross income——do	617,244	653,550	670,706	376,619	384,587
General, selling, and administrative expenses——1,000 dollars	501,488	519,211	543,483	275,148	289,887
Operating income——do	115,756	134,339	127,223	101,471	94,700
Depreciation and amortization 1,000 dollars	25,916	43,868	54,993	29,087	30,965
Cash flow from operations——do	141,672	178,207	182,216	130,558	125,665
Ratio to net sales:					
Gross income——percent	30.1	32.3	31.6	33.5	32.5
Operating income——do	5.6	6.6	6.0	9.0	8.0
Cost of goods sold——do	69.9	67.7	68.4	66.5	67.5
General, selling, and administrative expenses——percent	24.4	25.6	25.6	24.5	24.5
Number of firms reporting operating losses	7	7	7	4	5

1/ Interim data are for 8 wineries.

Source: Compiled from data submitted in response to questionnaires of the U.S. International Trade Commission.

Table 10.—Income-and-loss experience of 10 U.S. wineries on their operations producing table wine, 1982-84 and interim periods ended June 30, 1984 and June 30, 1985 1/

Item	1982	1983	1984	Interim period ended June 30— 1984	Interim period ended June 30— 1985
Net sales——1,000 dollars——	976,641	886,367	922,403	502,639	467,648
Cost of goods sold——do——	691,043	597,432	644,443	335,712	296,877
Gross income——do——	285,598	288,935	277,960	166,927	170,771
General, selling, and administrative expenses——1,000 dollars——	249,004	250,427	270,681	130,619	135,473
Operating income——do——	36,594	38,508	7,279	36,308	35,298
Depreciation and amortization 1,000 dollars——	18,741	27,976	35,770	19,579	19,844
Cash flow from operations——do——	55,335	66,484	43,049	55,887	55,142
Ratio to net sales:					
Gross income——percent——	29.2	32.6	30.1	33.2	36.5
Operating income——do——	3.7	4.3	0.8	7.2	7.5
Cost of goods sold——do——	70.8	67.4	69.9	66.8	63.5
General, selling, and administrative expenses——percent——	25.5	28.3	29.3	26.0	29.0
Number of firms reporting operating losses——	7	7	8	5	5

1/ Interim data are for 8 wineries.

Source: Compiled from data submitted in response to questionnaires of the U.S. International Trade Commission.

Table 11.—Income-and-loss experience of 10 U.S. wineries on their operations producing nonpremium table wine, 1982-84 and interim periods ended June 30, 1984 and June 30, 1985 1/

Item	1982	1983	1984	Interim period ended June 30— 1984	1985
Net sales—1,000 dollars	947,324	842,595	868,502	476,055	436,063
Cost of goods sold—do	671,015	578,708	618,361	323,522	282,870
Gross income—do	276,309	263,887	250,141	152,533	153,193
General, selling, and administrative expenses—1,000 dollars	242,082	234,916	255,569	122,744	126,032
Operating income or (loss)—do	34,227	28,971	(5,428)	29,789	27,161
Depreciation and amortization 1,000 dollars	16,253	24,516	31,127	17,491	17,507
Cash flow from operations—do	50,480	53,487	25,699	47,280	44,668
Ratio to net sales:					
Gross income—percent	29.2	31.3	28.8	32.0	35.1
Operating income or (loss) percent	3.6	3.4	(.6)	6.3	6.2
Cost of goods sold—do	70.8	68.7	71.2	68.0	64.9
General, selling, and administrative expenses—percent	25.6	27.9	29.4	25.8	28.9
Number of firms reporting operating losses	6	7	8	6	6

1/ Interim data are for 8 wineries.

Source: Compiled from data submitted in response to questionnaires of the U.S. International Trade Commission.

Senator WILSON. Thank you, Mr. Hartzell. It's not every day that the Scriptures are part of congressional hearings, although God knows we could use their help. [Laughter.]

Mr. Martini.

STATEMENT OF JOHN H. MARTINI, PRESIDENT, NEW YORK STATE WINE GRAPE GROWERS, INC.

Mr. MARTINI. Good morning, Senator. My name is John Martini. I'm president of the New York State Wine Grape Growers, but more importantly, I am a farmer. Together with my wife, Ann, and our four children, I grow grapes in a small vineyard in the Finger Lakes region of New York. I am not here to bemoan the plight of agriculture, either my own or others, but I am here to express our concern that a further burden might be placed on the shoulders of grape growers everywhere.

There is in this Capital City a perception that to raise necessary funds and at the same time reduce personal taxes it would be a good idea to raise the excise tax on wines.

Wine is grapes, directly and succinctly. Juice from grapes naturally ferments to produce a like amount of wine. Wine, therefore, is an agricultural crop. Wine is food and a beverage of moderation that belongs on the dinner tables of the American family. It is part of the heritage our ancestors brought with them when they came to these shores in search of the future.

To be part of that heritage I grow grapes, specifically I grow wine grapes, along with hundreds of other farmers in New York. These grapes we grow have no value other then that which they find in wine.

So how are things down on the farm? As with all agriculture, it has not been rosy. The domestic grape and wine industry has been experiencing hard times in recent years. Average returns for grapes in New York have declined for the past 5 years. In New York we have seen our market share fall from roughly 12 percent in 1970 to 4 percent in 1985.

In New York alone, wine grapes accounted for just shy of $20 million of farm income annually. That income was primarily spent on labor. Grapes are a labor-intensive crop. Each vine—and there are roughly 600 to 700 per acre—must be touched three to five times every year depending on the cultural practices that the farmer employs. Cornell University estimates that each 20 acres of vineyard requires a one-man equivalent. In the Finger Lakes in the last several years we have lost 1,000 acres of vineyards. That's 50 people not earning income dollars. The communities in the grape growing regions suffer reduced revenues as vineyard acreage declines, not only in fewer dollars spent but also in reduced property tax income. Vineyards are taxed or assessed at a higher rate than is bare farmland.

My bread and butter as a grape grower is the Taylor Wine Co. and their Lake Country series of wines. These wines are called non-premium or popular priced. Such wines and their counterparts in California and other States account for 79 percent of the domestic production. They are sold to a very price sensitive segment of our population. Any decline in sales will result in a direct reduction in grapes needed by the vintners. That will mean more vineyards abandoned, bankrupted, or foreclosed.

As well, we expect that an attempt will be made to pass part of the tax in our direction. We cannot absorb a further decline in the prices we receive for grapes. The expenses for cultural practices have increased to a point where it costs over $1,100 an acre to operate a vineyard in New York State. The 5-ton per acre average yield does not cover these costs with $139 per ton grapes. That was a 1985 price estimate. There is no more blood in this stone. Ask our bankers. They may well be the grape growers of the future.

It seems that the Federal Government, in its collective wisdom, wishes to sacrifice part of its agricultural heritage in some type of Peter to Paul exchange that they can call tax reform. There will still be wine here. It will pour in from Europe, Argentina, Chile, and from nearly everywhere else in the world that grapes are grown. Dollars will pour out into foreign treasuries. Wine imports have already risen to 30 percent of the domestic market. The juice and wine industry of this country imported over 7 million gallons of grape concentrate in 1985. As grape growers, we will see more and more cheap imported concentrate go into domestic wines at our expense.

Perhaps with the hoped for increase in revenues the Federal Government might consider a whole vineyard buy out plan and save us all some agony. This tax will be regressive in its effect on the New York grape industry.

It will cause continued loss of jobs, farms, and livelihoods; a serious erosion of the local community tax base; and increased imports of wines and juices.

It will not cause a reduction in the national debt; moderation in alcohol consumption; an improvement in the balance of trade.

Thank you for your time and concern, Senator.

[The prepared statement of Mr. Martini follows:]

PREPARED STATEMENT OF JOHN H. MARTINI

I am a farmer. A simple statement but one that I feel has to be made. Together with my wife, Ann, and our four children, I grow grapes in a small vineyard in the Finger Lakes Region of New York. In the national view of things we are certainly small potatoes; but we are real and struggling. I am not here to bemoan the plight of agriculture, either my own or others, but I am here to express our concern that a further burden might be placed on the shoulders of grape growers everywhere.

There is in this Capitol city a perception that, to raise necessary funds and at the same time reduce personal taxes, it would be a good idea to raise the excise tax on wines. It is not to be a nominal increase, mind you, but a whopping 400% increase. The rationale eludes me but I feel it is based on some weak premises. A.- Only the rich drink wine and they'll never notice. and B.- all the increase can be passed through to the consumer with no loss in sales. I will try to address the fallacy of these premises in giving a brief sketch of what such a tax will mean to the grape growers of New York and their communities.

Wine is grapes - directly and succinctly. Juice from grapes naturally ferments to produce a like amount of wine. Wine, therefore, is an agricultural crop and was recognized as such before Jesus Christ turned water into wine at Cana. Wine is food and a beverage of moderation that belongs on the dinner tables of the American family. It is part of the heritage our ancestors brought with them when they came to these shores in search of the future. I recall Thomas Jefferson's words, "No nation is drunken where wine is cheap; and none sober where the dearness of wine substitutes ardent spirits as the common beverage. It is, in truth, the only antidote to the bane of whiskey."

To be part of that heritage I grow grapes, specifically I grow wine grapes, along with hundreds of other farmers in New York. These grapes we grow have no value other than that which they find in wine. They include American varieties such as Catawba, hybrids such as Seyval Blanc and vinifera such as Chardonnay. The vineyards dot the beautiful scenery of the Finger Lakes, the shores of Lake Erie, along the history rich Hudson Valley and most recently the fertile and gentle tip of Long Island. New York State is grape country. Those grapes produce many and varied wines rich in style and differences. We growers can be and are proud of them.

So how are things down on the farm? As with all agriculture it has not been rosy. The domestic grape and wine industry has been experiencing hard times in recent years. Average returns for grapes in New York have declined for the past five years. In New York we have seen our market share fall from roughly 12% in 1970 to 4% in 1985. Dessert wines, which historically have been a good outlet for our grapes, have gone from a 28% share in 1970 to a 6.8% share in 1984.

In New York alone wine grapes accounted for just shy of 20 million dollars of farm income annually. That income was primarily spent on labor. Grapes are a labor intensive crop, each vine, there are 600-700 per acre, must be touched 3 - 5 times every year. Cornell University estimates that each 20 acres of vineyard requires a one man-year equivalent. In the Finger Lakes we have lost 1000 acres in the last several years. That's fifty people not earning income dollars. Those dollars once found their way into refrigerators, stoves, clothing and food. The communities in the grape growing regions suffer reduced revenues as vineyard acreage declines. Not only in fewer dollars spent but also in reduced property tax income (vineyards are taxed at a higher rate than is bare farmland).

The factors that affect our livelihood are complex but we are making efforts to surmount them. The State of New York has put up $2,000,000 to fund the New York Wine/Grape Foundation. The State sees the value in retaining an industry that ranks second to California in grape production and that has within its borders the oldest winery in the United States. We have a proud tradition and we want to preserve it. An increase in excise tax will strike another blow at our already wobbly segment of agriculture.

Small estate wineries have blossomed recently in New York and manage to survive but I feel it important to point out that they do not support the grape industry. My 'bread-and butter' as a grape grower is the Taylor Wine Co. and their Lake Country Series of wines. These wines are called non-premium or popular-priced. Such wines and their counterparts from California and other states account for 79% of domestic production. Call them jug, call them cheap, call them what you want; but do not call for an additional tax on them. They are sold to a very price sensitive segment of our population. Any decline in sales will result in a direct reduction in grapes needed by the vintners. That will mean more vineyards abandoned, bankrupted or foreclosed.

If we assume that the proposed excise tax will decrease the sales of non-premium wines by 20%, even only briefly, there will be, in New York, no need for approximately 14,000 tons of grapes. That translates into over 3,000 acres, 150 people and 50-75 farms. Grapes are perennial and capital intensive. One does not get in and get out. If the vineyards are abandoned or lost one year they can not be resurrected the next without great financial inputs.

Some will say that rather than increase the retail price the industry should and can adsorb the tax and not pass it on to the consumer. As growers we suspect that an attempt will be made to pass part of the tax in our direction. We can not adsorb a further decline in the prices we receive for our grapes. The expenses for cultural inputs have increased to the point where it costs over $1100.00 an acre to operate a vineyard in New York. The 5 ton per acre average yield does not cover those costs with $139.00 per ton grapes.(1985 estimate). There is no more blood in this stone; ask our bankers, they may well be the grape farmers of the future.

It seems that the federal government, in its collective wisdom, wishes to sacrifice part of its agricultural heritage in some type of Peter to Paul exchange that they can call tax reform. There will still be wine here, it will pour in from Europe, Argentina, Chile and from nearly everywhere else in the world that grapes are grown. Dollars will pour out into foreign treasuries. Wine imports have already risen to 30% of the domestic market. The juice and wine industry of this country imported 7,512,982 gallons of grape concentrate in 1985. As grape growers we will see more and more of cheap, imported concentrate go into domestic wines at our expense.

Perhaps with the hoped for increase in revenues the federal government might consider a whole vineyard buy out plan and save us all some agony. This tax will be regressive in it's effect on the New York grape industry.

It will cause:

Continued loss of jobs, farms and livelihoods

A serious erosion of local community tax base

Increased imports of wines and juices

It will not cause:

A reduction in the national debt

Moderation in alcohol consumption

An improvement in the balance of trade

Thank you for your time and concern.

Senator WILSON. Thank you very much, Mr. Martini. Mr. Garabedian.

STATEMENT OF RICHARD GARABEDIAN, PRESIDENT, CALIFORNIA RAISIN BARGAINING ASSOCIATION

Mr. GARABEDIAN. Good morning, Senator, my name is Richard Garabedian. I am president of the California Raisin Bargaining Association which represents over 2,000 grape growers who produce raisins. In many instances these growers also market the same grapes to wineries for crushing. Because grapes like the Thompson variety are used in both raisin and wine production, a reduction in market demand for any single use will immediately adversely affect the price received by growers in all markets.

The association and its members, therefore, have the direct interest in the health of the U.S. wine industry and in recent proposals for an increase in the excise tax on wine. Taxes that affect the well being of U.S. wine producers and the competitiveness of their products have an immediate impact both on the price that association members receive for their grapes and raisins and on their ability to sell those raisins.

If domestic wine shipments decline because of higher net prices to consumers, wineries produce less or reduce the level of their purchases from grape growers. Vineyard owners which traditionally send a portion of their harvest to wineries are then forced to either leave the grapes on the vine to rot or find another market, and this other outlet is the raisin market. The grapes that are normally crushed are forced into raisin production creates a desperate price situation for our industry. This situation is evident by declines in sale revenue, increased inventories, loss in land values, and a record number of farm foreclosures.

Thus, raisin inventories more than tripled in the last 4 years as wine shipments declined. Current inventories are more than twice the volume of total annual sales. Moreover, the value of vineyards in California alone declined by approximately one-third or $3 billion since 1981. In my area alone, which is the San Joaquin Valley, in 1982–83, vineyard lands were going for between $15,000 and $20,000 an acre. Today it's $3,000 an acre. This reflects the inability of many grape growers and raisin producers to recoup their production costs in a market where prices have been suppressed.

An increase in the excise tax applicable to wine and the elimination of the business deduction for excise taxes on wine could not come at a worse time for the domestic wine industry and the U.S. grape growers and raisin producers. Reduced shipment levels have made it impossible for U.S. wineries to raise prices without risking further sales volume reductions. We're in trouble. Many U.S. wineries are shipping products at prices that do not cover their production costs. Low wine prices and a no-growth market for table wines translate into lower prices and sometimes insolvency for grape growers and raisin producers as well.

Some wineries confronting increased production costs in a market that has made price increases impossible have ceased or reduced their operation. One major California winery has placed four of its five facilities on the block for sale. Others have cut back their production to 20 percent of levels in earlier years. All have sought and many have obtained lower input costs by persuading or forcing suppliers, which are grape producers, to lower their prices to the wineries.

These factors reflect a decline in the revenue per ton received by grape growers in the State of California which produce almost 90 percent of U.S. table wines. Between 1979 and 1981, the revenue per ton received by growers ranged from $156 to $205. Since 1981, revenue per ton steadily has declined until it equals an average of $108 in 1985.

In my area, the Thompson seeded grapes last year, the top price was $72.50. Cash costs of production, however, have increased to more than $140 per ton with total costs substantially higher. Statewide revenues also reflect this downward price spiral. In 1981, total revenues for wine grape varieties was $327 million. In 1984, that sum was reduced to $189 million, or by 42 percent.

The current condition of the marketplace will make it impossible for wine shipment levels to remain constant while the price per bottle of wine will be increased by no less than 70 cents because of an increased excise tax. The 70-cent price increase is equal to between 15 and 30 percent of the current retail price for a bottle of table wine. A price increase of that magnitude will accelerate an already sharp decline in shipment volume.

We in the raisin industry have instituted a PIK program. In the 1984–85 crop year, we dropped 60,000 tons of raisins, equivalent to 300,000 tons of grapes on the ground. In this 1986–87 crop year, we are dropping over 100,000 tons of raisins or equivalent to 500,000 tons of grapes on the ground and all this is because of the foreign wine inroads into our marketplace and the sharp drop of purchases by the local wineries for our grapes. That's why we are very concerned in the California grape industry.

For these reasons I strongly urge this subcommittee recommend that the proposal for an increase in the excise tax or elimination of the deductibility under our tax laws be rejected. I thank you.

[The prepared statement of Mr. Garabedian follows:]

Prepared Statement of Richard Garabedian

Good morning. My name is Richard Garabedian. I am president of the California Raisin Bargaining Association, which represents grapes growers who produce raisins. In many instances, these growers also market the same grapes to wineries for crushing. Because grapes like the Thompson variety are multipurpose and used in both raisin and wine production, a reduction in market demand for any single use will immediately and adversely affect the price received by growers from all markets.

The Association and it members, therefore, have a direct interest in the health of the U.S wine industry and in the recent proposals for an increase in the excise tax on wine. Factors that affect the well-being of U.S wine producers and the competitiveness of their products have an immediate impact both on the price that the Association's members receive for their grapes and raisins and on their ability to sell those raisins.

If domestic wine shipments decline because of higher net prices to consumers, wineries produce less and reduce the level of their purchases from grape growers. Vineyard owners, who traditionally send a proportion of their harvest to wineries, are then forced to either leave the grapes on the vine to rot or to find another market. This other outlet is the raisin market. The grape surplus that arises when grapes that are normally crushed are forced into raisin production creates a desperate price situation for our industry. This situation is evidenced by declines in sales revenues, increased inventories, losses in land values and a record number of farm foreclosures. Thus, raisin inventories more than tripled in the last four years as wine shipments contracted. Current inventories are more than twice the volume of total annual sales. Moreover, the value of vineyards in California alone declined by approximately one-third or $3 billion since 1981, reflecting the inability of many grape growers and raisin producers to recoup their production costs in a market in which prices have been suppressed.

An increase in the excise tax applicable to wine and an elimination of the business deduction for excise taxes on wine could not come at a worse time for the domestic wine industry, U.S. grape growers and raisin producers. Shipments of U.S. table wines already have declined significantly in the last three years. Domestic shipments of generic table wine in 1981 equaled 241 million gallons. By 1984, the level of shipments had declined to approximately 219 million gallons, or by more than 9%. Another significant decrease occurred during 1985. By all indications, this decline in shipment volume occurred despite generally constant, but in many instances lower, prices. Statistics available from the Department of Labor, for example, show that the Consumer Price Index for wine increased by only 1/10th of one percent in 1983 and actually declined by 1.3% in 1984. In comparison, the Consumer Price Index for all products increased by 3.2% and 4.3% in 1983 and 1984, respectively.

Reduced shipment levels have made it impossible for U.S. wineries to raise prices without risking further sales volume reductions. Yet, at present, many major U.S. wineries are shipping products at prices that do not cover their production costs. Low wine prices and a no-growth market for table wines translate into lower prices, and sometimes insolvency, for grape growers and raisin producers as well.

Some wineries, confronting increased production costs and a market that has made price increases impossible, have ceased or reduced their operations. One major California winery has placed four of its five facilities on the block for sale. Others have cut back their crushing to 20 percent of levels in earlier years. All have sought, and many have obtained, lower input costs by persuading or forcing suppliers, such as grape producers, to lower their prices to the wineries. These factors are reflected in the decline in the revenue per ton received by grape growers in the State of California, which produces almost 90% of U.S. table wine. Between 1979 and 1981, the revenue per ton received by growers ranged from $156 to $205. Since 1981, revenue per ton steadily has declined until it equalled $108 in 1985. Cash costs of production, however, have increased to more than $140 per ton with total costs substantially higher. Statewide revenues also reflect this downward price spiral. In 1981, total revenue from wine grape varieties was $327 million. In 1984, that sum was reduced to $189 million, or by 42%.

The current condition of the marketplace will make it impossible for wine shipment levels to remain constant, while the price per bottle of wine would be increased by no less than $.70 because of an increased excise tax. The $.70 price increase is equal to between 15 and 30% of the current retail price for a bottle of table wine. A price increase of that magnitude will accelerate an already sharp decline in shipment volume.

An elimination of the business deduction for excise taxes on wine will also detrimentally affect the volume of sales and prices received by U.S. wineries and growers. Wine wholesalers that operate on a volume basis and with small margins have been able to deduct the excise taxes they pay on wine. With an elimination of this deduction, these wholesalers have only two choices: to force lower contract prices on wineries and growers or raise the price to consumers, thereby reducing sales volume. Either alternative will negatively affect the U.S. wine industry and raisin producers.

The adverse effects of the excise tax proposals would have had serious consequences for the wine industry and grape growers even during the early 1970's, when the industry was enjoying rapid growth. Given the conditions of the industry today, it can only spell disaster. In the present financial circumstances, either an increase in the level of the excise tax or an elimination of the tax deduction for excise taxes would come at a time when the domestic industry is already reeling from growing penetration of its markets by imports and an overall decline in U.S. consumption of alcoholic beverages. Battered by consumption declines and wine imports that have suppressed price levels and already represent nearly 30% of U.S. consumption, the U.S. wine industry and grape growers cannot and should not be expected to bear a new and unnecessary burden--additional excise taxes. For these reasons, I strongly urge that this subcommittee recommend that the proposal for an increase in the excise tax, or an elimination of its deductibility under our tax laws, be rejected.

Senator WILSON. Thank you, Mr. Garabedian.

We have been joined by my colleague, Senator Slade Gorton, from the State of Washington, the senior Senator from Washington; and Senator Specter was here briefly and we are in hopes that he can return.

Gentlemen, let me thank you for your testimony and let me ask, since you are representing growers of wine grapes, what do you do with wine grapes if you can't sell them to winemakers?

Mr. MARTINI. In my situation—and I think it applies to all growers of wine grapes—we don't have another place for them. We can't put them into juice and we can't put them into raisins. Mr. Garabedian testified that in the cases where you can put them into raisins it creates other problems.

In my situation and the same with a number of other growers in my State of New York, they don't have anyplace to go. We have tried, on a small scale operation in New York, to put them into a juice product but it takes a long time to acquaint the consumer with a new product and get it out there and it has not been, I guess, an overwhelming success the first year.

It's very frustrating. There's no place else to go except wine.

Senator WILSON. Before I solicit a response from the other members of the panel, Senator Gorton has an opening statement and, as I understand it, a conflicting engagement that requires his presence elsewhere very shortly. Senator Gorton.

OPENING STATEMENT OF SENATOR GORTON

Senator GORTON. I do, Senator, and I thank you for allowing me to appear and briefly to speak.

You're to be commended for holding this hearing on the effects on our domestic wine industry of the provision in the Senate Finance Committee recently released tax reform draft that would result in an increase in the excise tax imposed on wine.

As we have watched the tax reform debate unfold since 1984, we have seen the cause of real tax reform melt into tinkering and the shuffling of tax preferences because of politics as well as the genuine need for revenue neutrality.

Many of us find little in the House tax reform bill worth enacting and in fact will oppose that bill if it comes to a vote in the Senate.

The distinguished chairman of the Finance Committee, Senator Packwood, had done his best to improve the House bill in its initial draft and in my view has at least produced a less objectionable proposal. Unfortunately, we are still a long way from seeing a worthwhile tax reform bill.

Provisions such as that under discussion today are controversial because while they harm a given industry or specific group, they are designed to yield revenues so that preferences for other industries or groups can be preserved or enhanced.

Although I recognize the difficulty of the Finance Committee task, I oppose the provision which would increase the tax rate on wine with an alcohol content of 21 percent to a rate equivalent to the proof rate currently imposed on beer, just as I oppose other such types of what are truly not tax reform measures.

As a member of the Senate Wine Caucus under your leadership, Senator Wilson, and as a Senator who is proud of the fledgling but already very successful wine industry in Washington State, I believe that this radical tax increase proposal would virtually kill an industry that is unique and important to our State and our country.

The only justification I perceive for adopting this provision is to support an ill-conceived attempt to buy tax preferences for other interest groups which are better organized and seem so far to have demonstrated more political power. There are no real merits for the proposal and I hope that this hearing will help provide this group and you and me and others who are interested in wine with the leverage to see to it that it is removed from the bill.

Senator WILSON. Thank you very much, Senator Gorton. You put that with your usual force and clarity and I'm grateful to you for being here. I would say that Senator Gorton, as a member of the Senate Wine Caucus, has been one of the more active members. He has participated in an earlier effort to resist tax inequity. We had an attempt which those in the industry I'm sure recall not long ago.

Let me continue with the response. Mr. Martini has indicated that New York wine grape growers really don't have much alternative if they can't sell to winemakers. Does anybody wish to add to his comments?

Mr. MARTINI. Senator, I'd like to add, we do have in the State of New York the Concord variety which does have a double or triple use. It can go into the table grape industry and it also does go into the juice industry and it is used in wine at this point. But the same type of situation would happen as is happening with the raisins in California. The returns the juice growers realize right now would be severely reduced if surplus Concords were put onto the marketplace because they found no use in wine.

Senator WILSON. Let me ask this question and I want to ask this of you and of the next panel. The proposed tax increase really would translate into a tax on grapes, as I understand it, of about $148 or $150 per ton and that represents an increase of about $120.

If this tax is converted into a price increase, what does this do to your sales?

Mr. HARTZELL. Senator, I think the answer to that is, No. 1, what you say about the passback to the farmer is absolutely correct. if wine prices were increased to the extent that this tax is being proposed, it's been estimated that the market for American wine would drop by about 10 percent. That obviously would be reflected in less demand for our product because the vintners would not be selling it.

Generally, as demand drops, price drops. But more importantly in this case, we're back to that what do you do with wine grapes if you can't make wine out of them? The very exact question you asked before. And there's really no other use for them at this time.

Senator WILSON. Well, let me ask the obvious question. Mr. Garabedian, you're here representing the raisin industry. What happens if there's a glut of wine grapes? How does that translate into trouble for the raisin industry?

Mr. GARABEDIAN. That's why we're in trouble right now is because of this very same situation because of the foreign wines making inroads. The wineries quit buying the Thompsons in the magnitude they did in previous years and the Thompson grape grower has the option of making raisins as a last resort. And that's what's put us in dire straits. That's why we instituted a type of PIK Program. The Government is not giving us any money. We did it on our own. It's called the Raisin Industry Diversion Program where we take the acres that we think are surplus and we drop them on the ground.

Right now my workers are doing 110 acres in my vineyard like that. We clipped all the brush off and when the vines come out any grape bunches that are left and grow back we pick them off and put them on the ground because it's cheaper to dump it on the ground than to produce the crop.

This is all caused by what happened to the wine industry coming over to the raisin industry.

Like I said, 3 years ago you could sell any ranch for $15,000 to $20,000 an acre. Now it's down to $3,000 and even less and there are mass bankruptcies. The foreclosure bankruptcy court had to put another judge on. It's just growing. It just keeps pyramiding. And if you put this excise tax onto wine, that means the winery is going to buy less grapes and more is going to be put into raisins. That's why we're so concerned about it.

Senator WILSON. It seems to me we have sort of a reverse supply-side economics working here, that by increasing the tax we are going to see a decline in revenues ultimately because we are going to see a decline in producers. Congresswoman Fiedler.

Representative FIEDLER. It just strikes me that in listening to the portion of the testimony that I've heard and reading some of the material previously that it would be very useful to me to get some type of reflection from the panel, whoever feels that they are best qualified to respond, as to what you believe is the root cause of the encroachment on the domestic market by foreign imports.

Mr. HARTZELL. Let me try that, Congresswoman. It seems to me that there's a tremendous opportunity for wine in America. We're a low-consumption nation at this time with tremendous growth potential. We produce about 4.5 to 5 percent of the world's wine production here in America. Europe produces some 72 percent. They have a lake of wine over there. They're looking for opportunity markets. The American wine market is an opportunity market and they have exploited this market to the fullest.

Unfortunately, they are doing some of it with Government money. That's where the subsidies are playing such havoc with us. And as Richard said so very well, those efforts have resulted in a rather stagnant marketplace which has then affected the raisin growers because of the lack of demand for wine.

Another thing that concerns me here is, if the excise tax were to be applied to American wine it would also be applied to foreign wines, too. But they have a greater ability to absorb those increases because they have the treasuries of the European community, the Italians, the French, the West Germans. They have those treasuries to help them absorb that shock. They are a subsidized product there. We are totally unsubsidized. We have no governmental programs in this country and it will have an impact on us and they, I believe—it will impact them, but their governments will be behind them in absorbing that impact.

Senator WILSON. When you say "we," you are speaking not only for the wine grape growers but for the wine industry?

Mr. HARTZELL. Both, very definitely.

Senator WILSON. There's no guarantee that whatever surplus you produce will be bought by the Government and distilled into vinegar?

Mr. HARTZELL. No.

Senator WILSON. There's no subsidy for transportation?

Mr. HARTZELL. No.

Senator WILSON. No subsidy for storage?

Mr. HARTZELL. No.

Senator WILSON. No marketing subsidy?

Mr. HARTZELL. No.

Senator WILSON. Those are interesting points of contrast with the competition from the imports.

Representative FIEDLER. It just seems to me that every time we start talking about some type of new tax to try to offset the deficit or come up with some more equitable distribution of the tax burden that it really comes back to the consumer who is going to have to pay. Jobs are going to be lost. And I don't care whether you're looking at the wine industry or whether you're looking at any other aspect of our major domestic industry, you can't take money out of the marketplace without having it have a negative impact on the industries involved.

It seems to me that we would all be a lot better off if we would simply set aside this concept of trying to make massive shifts in tax policy which would create great disruption in the marketplace to no benefit to the taxpayer because eventually they're going to pay it one way or the other. It's just simply a matter of in what form they're going to pay it, whether it's on wine or whether it's on other types of goods.

The more I look at this bill—I happen to be one of those that voted against the tax bill on the other side—the more I am convinced that while there are some laudable goals to be achieved like increasing the individual deductions and decreasing tax rates, the offset cost of that seems invariably to be so negative in various industries as you look at it that you have to ask yourself what are we really going to gain in the long run?

Senator WILSON. Let me pursue Congresswoman Fiedler's point. I think it's very well taken. We really have been talking about price and the imports that are the competition which now have 30 percent of the American market and are heavily subsidized, while the American wines trying to compete with them are unsubsidized. The American wine purchaser I think is growing in sophistication, but initially, I suspect price is a decisive factor for a large part of that market.

And we have already talked about what would happen if the tax increase proposed here is converted into a price increase.

Let me ask what would happen if, instead of translating into a price increase, the vintners come to you and say, "Look, we're simply not going to be competitive if we increase our prices, so we are prepared to eat a little of this increased cost but we need to share it with you, the grower."

Mr. STAMP. Senator, in New York we have experienced steadily declining prices for our grapes. For instance, a Delaware variety in 1982 we on my farm sold for $450 a ton. Last year they were worth $105 a ton. There isn't much further we can go. That was an unprofitable price last year and there's simply no further we can go. We're going to fold up.

Senator WILSON. You're saying that the profit margin has been cut to the point where it's going to drive a number of small growers out?

Mr. STAMP. That's correct. In upstate New York we have seen a lot of growers go out of business at this point in time and if we have a decrease further those people are gone and we're down to the efficient farmer now. We have talked about efficiency, but many times the efficient farmer is also the one that uses a lot of capital to remain efficient and they're hurting extremely.

Senator WILSON. Mr. Stamp, what's happened in New York to the value of wine grape growing land?

Mr. STAMP. It's decreased steadily almost to the point now where nobody is in the market to buy any vineyard land. I'm sure a good percentage of our growers, if they had the opportunity to sell right now, would sell but there are no buyers.

Senator WILSON. What are the banks, the lenders, doing about that?

Mr. STAMP. They are trying to hang in there and hope that the next year will be better and at this particular juncture in time it doesn't seem as though things are going to be better. But the banks don't want to become land owners. FmHA doesn't want to become land owners. But they are going to be very, very soon if it goes any worse.

Mr. HARTZELL. Senator, could I just add one thing there? My experience with agriculture has been that most farmers are able to make it through a bad year, maybe 2 bad years. But we've had a depressed situation since 1982 and there's no freeboard left in the boat and the water is going to come in and it's going to sink. That's just about the way it is right now. It's been too long.

Mr. GARABEDIAN. Senator, I'd like to comment on that, too. In my area, 1982, we got $200 a ton for Thompson grapes from the winery. This last year $72.50 was the high. Some people got as low as $40 and $50. It costs you $35 a ton just to pick the grapes and deliver it to the winery, not counting all your production costs. That's why up and down all the roads all you see are "For Sale" signs, but there are no buyers. And the bankruptcy courts, like I said, are just full of bankruptcies and foreclosures.

It's a shame when the San Joaquin Valley used to contribute hundreds of millions of dollars for income tax purposes to the Federal Treasury. Now, if you check the records, it would be next to nil.

Senator WILSON. I intend to do just that. I think that's a very interesting suggestion, Mr. Garabedian, and I would ask the staff to pursue what the take to the Internal Revenue Service has been from the valley's taxpayers. It shouldn't be impossible to define the

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geographic area and find out from IRS whether or not they're doing better or worse. I think that might be instructive.

Congresswoman Fiedler.

Representative FIEDLER. I just find this entire discussion so frustrating because as you take a look at the history of our negligent trade relationships over the last 20 years you see a whole series of things that begin to emerge in terms of Government policies which have been passed here and which have simply not been attended to.

And the idea of our permitting—whether it's the steel industry or the wine industry or other major industries like the textile industry—to decline and virtually dissipate and become a part of our past instead of our present is a major, major mistake on the part of this country because it's our diversity that provides for the rich heritage of opportunities here in this country. We are a tremendously diverse country and it's a very sad commentary on the lack of attention that frankly I think the Federal Government—and I'm not pointing my finger at any one person or any one group—have given to these various domestic industries. We've also let foreign policy dominate our trade policy without consideration of the implications in the future for various domestic economic interests, and that's a situation which must be turned around.

Unfortunately, it seems as though there's such a crisis mentality back here that until such point as you're looking at a $150 billion trade deficit and the real tip of the iceberg in terms of the losses to various businesses throughout the country, there really is no interest and, of course, the minute that crisis leaves then again they move away from even giving it the kind of attention it deserves. It really is very troublesome because we are narrowing the scope of what we're producing. We are narrowing the scope of opportunity for young Americans and I think that's something that we cannot permit, given the resources of a trillion dollar budget and all of the brainpower and technology that we have. I just feel that we have to work much harder at trying to analyze and understand the complications of the process that has brought us to this point and try to reverse some of those trends so that we can hold onto very important industries like yours.

Senator WILSON. Mr. Hartzell and Mr. Martini, have you been able to translate for your States, California and New York, what this bill will mean in terms of sales lost and what that translates into in terms of jobs lost?

Mr. MARTINI. I think if we assume, as Bob did, that we would lose just 10 percent of sales of wine in New York State, that would mean a reduction in grape requirements of 7,000 tons roughly, which translates into—our average yield per acre is 5 tons to the acre—1,500 acres of grapes.

If you look, as I said, at the Cornell University position that it takes 1 man-year for every 20 acres of vineyards, you have 75 to 80 people. If you translate that into farms, the average size of a grape farm in New York State is somewhere around 35 acres, you're talking 40 or 50 farms—30 to 40 farms.

It's not just the one man-year equivalent, but the people that we hire in New York State are generally retired, or housewives, anyone that's willing to work in a vineyard. We don't have a vast labor pool and a lot of them become friends. The crew that works in my vineyard have worked with me for the last 10 years. We enjoy their company. They enjoy working for us. We give them very flexible hours—most of the women come after their kids get on the school bus and they leave before the kids get off.

What they do with the money is they buy refrigerators, washing machines, food in some cases, but it's very important—it's a community economy. We hire students, the county school system lets out school for a week during tying season. Those kids earn money tying grapes.

Mr. HARTZELL. Senator, assuming the 10 percent, it would seem to me that taking the 50,000 acres that would be affected, that's between 200,000 and 300,000 people, considering 4 persons per acre, given the harvest crews and so forth that are involved. As John says so well, it moves throughout our entire community.

I'd be interested, in Madera which is in the middle of where Mr. Garabedian is from, they have formed a local—businesses have formed a support group for the wine grape growers because they see the tie-in. If we can get the grape industry profitable, then their businesses will be profitable and there's a whole new group supporting the wine grape growers in Madera County. It's amazing seeing the community pulling together because they know their future depends on it.

Senator WILSON. What's the wage level for grape growers?

Mr. HARTZELL. For the grower? I don't know.

Mr. STAMP. Our is negative at this point.

Senator WILSON. Not the growers. For the pickers that you employ?

Mr. STAMP. Well, in New York, we do have to pay attention to the minimum wage of $3.35. Probably the average wage—it goes from $3.50 to $4.50 an hour, not anywhere near what we would like to pay. Our vineyard help is worth more than that. It is long, hard work.

Senator WILSON. Any idea what they earn in a year?

Mr. STAMP. Well, as John pointed out, it's seasonal. A housewife will tie at this time of year and perhaps in May or June do some additional work and then wait until harvest season. It may be $1,000 or it may be $3,000, depending on how efficient she is as a worker and also how much work is available on that particular farm. But it's basically seasonal type work.

Mr. MARTINI. In my situation, children who get a break from high school, they'll earn $150 or $200 through the tying season, the month or so, working that 1 week. The people that work more or less doing tying and picking will earn somewhere around $1,000 or $1,500. It depends. We have very flexible schedules. They can come 3 days a week, they can come 2 days a week. We work at their convenience essentially. It's important money to them, but it also allows them the freedom to do other things in life and raise their families and they come when that's possible. If the children are sick, they don't come.

We have interesting problems trying to explain this to Workmen's Compensation Boards and other State and Federal agencies. They don't work an 8-hour day.

Senator WILSON. I was just going to ask Mr. Hartzell——

Mr. HARTZELL. I think Mr. Garabedian knows that better.

Mr. GARABEDIAN. Well, in the raisin industry, most people work by piece rate, so I would say that probably the lowest that a person will make is $3.50 an hour, but we have people at different times like when you're trimming the trays or when you're rolling that will make anywhere from $20 to $25 an hour, but they really put out the work, too. When you take the average of what a worker would make, I would say between $4 and $5 an hour over the whole year. But like when you trim the vine you get so much a vine and naturally the man who's fast will make more. But even the slowest one will make the minimum wage set by Federal standards.

And getting back to displaced farm workers, we in the raisin industry this year are dropping over 50,000 acres of Thompson grapes on the ground, just in the raisin industry itself. So you just imagine how many workers we're displacing right there alone and the havoc it's going to raise in the whole San Joaquin Valley.

Senator WILSON. I don't want to imagine that. How many?

Mr. GARABEDIAN. How many?

Senator WILSON. Yes.

Mr. GARABEDIAN. Tens of thousands. I couldn't tell you.

Senator WILSON. Where do these workers go for other employment if they can't work for you?

Mr. GARABEDIAN. I have no idea what they're going to do. I know that our unemployment rate is up there around 14 or 15 percent in the valley right now and it's rising as far as people drawing unemployment. It's going to get worse. And all the businesses in town are suffering. A lot of them are shutting their doors and filing bankruptcy themselves. All the insecticide companies, half of them are out of business already. So any related industry is in trouble also because the farmers can't afford to pay their bills. In fact, most of them won't deliver anything to you until you give the money up front. Like the gas suppliers that bring the fuel to your ranch, most of them won't deliver the fuel until you pay your money. They're afraid.

Senator WILSON. All right. We'll take a question from Congresswoman Fiedler.

Representative FIEDLER. I was just going to make the comment that in taking a look at the implications of unemployment versus the cost to the Federal Government, for every 1 percent of unemployment increase nationally you lose $25 billion in terms of revenue and a lot of people wonder why we have the big deficit we have. Well, a lot of it had to do with those 3 percentage point increases back in early 1980 in unemployment. So whatever benefit might be gained by nominal increase in a tax on wine, it's certainly going to be substantially lost to the Federal Government by the offset in the unemployment.

I have just one very specific question. What share of the domestic market do you need in order to have slow and steady incremental growth in the wine industry? Could you give me just a percentage?

Mr. HARTZELL. What percentage of the market do we need to have? I would rather look at it as growth. If we could move back to where we're moving at a rate of 6 to 7 percent annually like we were in the late 1970's and early 1980's, I think that would be a good sound growth rate.

The thing that has hurt us so bad is that the imports have been growing at a compound growth rate in the 8 to 12 to 13 percent range.

Representative FIEDLER. So they can grow twice as fast as you could and you would still be behind?

Mr. HARTZELL. Between two and three times as fast, Congresswoman.

Representative FIEDLER. Thank you.

Senator WILSON. Gentlemen, thank you very much. We're grateful to you for being here and we'd best move along. So we will invite panel two consisting of Ms. Lynn Hunter, the chairman of the Pennsylvania Grape Industry Association; Ms. Rebecca Murphy, executive director of the Texas Grape Growers Association; and Mr. Jerry Bookwalter vice president of the Washington Association of Wine Grape Growers. Ms. Hunter, please proceed.

STATEMENT OF LYNN HUNTER, COUNCIL CHAIRMAN, PENNSYLVANIA GRAPE INDUSTRY ASSOCIATION

Ms. HUNTER. My name is Lynn Hunter, I am the council chairman of the Pennsylvania Grape Industry Association and also a wine grape grower.

When I first heard about the wine excise tax I was pruning my vines and I became so irate I went out and hacked them to death. I hope that they survived my anger and frustration.

The modern Pennsylvania wine industry is only 18 years old. We had two wineries in 1970 and now we have 42. The total quantity of wine produced in 1985 was 450,000 gallons and the Pennsylvania grapes used to produce this wine were produced from 600 acres of vineyards.

Pennsylvania wines are a "mom and pop" affair. The grapevines are at the back door and the sales through the front door. The typical winery is 8,000 to 10,000 gallons. Many of our wineries are located in old barns converted for this special use.

Our customers are also "moms and pops." Local families stop by to purchase wine for supper, as well as tourists enjoying a weekend in the country visiting our historical sites, such as Gettysburg or traveling through the Amish countryside, touring our local wineries and leaving with some Pennsylvania wines.

At various times throughout the year local residents are hired to help with the work. Vineyards need help pruning, tying vines to the trellis in the spring and even more help harvesting in the fall. Most wine grapes are hand harvested in our part of the State because mechanical harvesting is not practical. Our vineyards are too small.

Wineries hire labor to help crush and press the grapes and help in the sales room. An informal estimate of the number of families involved in this industry in Pennsylvania would be 1,500 families. This is a cottage industry combining the American values of hard work and dedication. The families involved in this endeavor are committed to wine as a food, wine consumed in a family setting, and wine as a tradition.

The proposed Federal excise tax is excessive and punitive. We vehemently oppose it. It will impede the progress of our industry and further burden growers, the wineries and the consumer.

The Pennsylvania grape and wine industry appreciates your support and encouragement. Thank you.

[The prepared statement of Ms. Hunter, together with attachments, follows:]

Prepared Statement of Lynn Hunter

The Pennsylvania Grape Industry Association represents the Erie County Grape Industry Association, the Pennsylvania Wine Association, and the Southeast and Southwest Grape Industry Associations of Pennsylvania. There are approximately 500 grape growers in Pennsylvania, and their products are valued at about $100 million annually.

William Penn established an experimental vineyard in 1684 in what was to become the State of Pennsylvania. In 1840 the Pennsylvania Wine Company was formed by investors who included Aaron Burr and Alexander Hamilton. Today, Pennsylvania has 14,000 acres of grapes and ranks fifth in the nation in grape production. The major portion of this acreage is in Concord grapes in the northwest corner of the State along the shores of Lake Erie. The grapes from about 6200 of the 14,000 acres are made into wine annually. These grapes include 40% of the Concord grapes (5600 acres) and true wine grapes grown on about 600 acres.

Legislation permitting farm wineries in Pennsylvania was first passed in 1968. This legislation provides that a winery can produce up to 100,000 gallons of wine per year from fruit produced in Pennsylvania and can sell that wine retail at the winery rather than at the State liquor stores. By 1970, there were two wineries; today there are 42 wineries. The largest winery produces 100,000 gallons,but the average Pennsylvania winery produces 8-10,000 gallons per year.

The typical winery is a "mom" and "pop" affair, with the vineyard at the back door and sales through the front door. It is usually in a rural area, and it relies heavily on repeat business from local people, local restaurants, and tourists. Tourists may spend weekends in the country, stay at a "bed and breakfast" inn, visit the Amish countryside, Gettysburg, and other numerous historical attractions, and stop at the small wineries to taste wine and chat with the winemaker. Since Pennsylvania wine can be made from Pennsylvania grapes only, the product is locally grown and processed. This makes possible assurance of the quality of the wine and precludes adulteration of the type now occurring in Europe.

To establish one acre of vines in Pennsylvania requires an initial outlay of $4500 (excluding land) for the vines, the trellis materials (posts, wire and anchors) and the labor to care for the vines for the first three years. The annual labor involved to maintain an established vineyard is 120 hours per acre, which breaks down as follows:

Man Hours Per Acre	Task
25	Pruning
15	Tieing
48	Harvesting 4.5 tons per acre
10	Spraying for control of weeds and diseases
10	Miscellaneous; suckering, cluster thinning, shoot thinning, etc.

Once the vines are planted a grower is committed to a long period before the capital investment can be recovered. A grower who practices good vineyard management will have a partial crop in the third year. The proposed wine tax would make planning for the future difficult and uncertain.

There is seasonal work for every age in a vineyard; a six-year-old can supply water and cups to hot workers, and senior citizens can augment their retirement income by helping in most tasks. The annual labor cost to maintain a mature vineyard is about $600 per acre, and the annual payroll of the grape industry in Pennsylvania (excluding owners and taxes) is:

In the vineyards	$8,400,000
In the wineries	1,000,000
In juice plants	7,000,000

The increase in the cost of wine that would follow the imposition of the excise tax would discourage consumption. This would reduce the demand for grapes and the price to grape growers. The result would be fewer growers and wineries. The approximately 5600 acres of Concord grapes now used for wine would flood the juice market, which is already hurt by imports, and would cause a further oversupply and even lower prices for Concord grapes.

Relating the tax to the alcohol content would require additional testing, increased paperwork as a result of price-factoring of taxes, and more frequent reporting to IRS. Not allowing wineries who pay the excise tax to treat it as a cost of doing business and a deduction relative to income taxes could result in the requirement that a winery pay tax on income that did not cover the cost of production; that is, the winery could be paying tax on a loss. The owner of a Pennsylvania vineyard and winery would not only have to manage the vineyard and make wine, but he would also have the burden of excessive accounting procedures.

The Pennsylvania wine industry is now 18 years old. The 42 wineries produce from 1200 gallons at one winery to the maximum allowed of 100,000 gallons at one winery. The total wine production in 1985 was 450,000 gallons.

The average price of a bottle of Pennsylvania wine is $4.75. If all the wine produced were sold, the gross revenue would total $2,137,500.

A small winery owner producing 5000 gallons of wine per year described what the proposed excise tax would mean to him in actual dollars:

> The Federal tax he now pays on 5000 gallons is $850 per year. If the proposed excise tax is approved, he will pay a total tax of $3400 per year, an increase of $2550. If he is not permitted to deduct this tax as an expense and must report it as income, he must pay income tax on the $3400. At a 22% tax rate, he would pay an additional $748. His total cost would be the excise tax of $3400 plus the additional income tax of $748 for a total of $4148, an overall increase of $3298.
>
> He would need to sell 875 bottles of wine to gross enough to pay this tax. This amount is roughly 175 gallons of wine or 3.5% of his total production. Assuming a 20% profit margin, the net he receives on a bottle of wine is 95 cents. To pay the excise tax plus the additional income tax, he would increase from having to sell 179 gallons to 873 gallons or 17% of his total production to pay the tax.

It is readily apparent that the winery owner would have to sell more wine at its present price or increase the price to absorb the tax. Raising the price to $5.00 per bottle would put the wine into the premium category and make it less competitive in the marketplace.

This is a no-win situation. The winery owner who cannot make a living wage would be forced to seek another profession. Pennsylvania would lose a winery and a winegrape grower would lose one of his customers; the Federal government would lose the tax revenue. The local residents would lose employment opportunities, and the tourists would have one less stop on their weekend visits. Open land previously used for grape vines would eventually be lost to the developer's bulldozer. If no one wins - why consider it?

The Pennsylvania grape and wine industry is still in its infancy. What is needed is an environment that will foster growth and encourage the American entreprenurial spirit.

That way everyone would win.

PENNSYLVANIA
Wine
ASSOCIATION

R D 3 Box 424, Stewartstown PA 17363 717-993-2431

April 08, 1986

TO: Senator John Heinz

FROM: Richard H. Naylor, President
Pennsylvania Wine Association

SUBJECT: WINE EXCISE TAX

Dear Senator Heinz:

Since my letter to you of March 14, 1986, I have become more deeply concerned with the implications of the Wine Excise Tax.

Senator, I would like to outline my personal involvement in the grape and wine industry which I think would be echoed throughout our great country. My family and I have enjoyed wine with our meals most of the adult years of our lives. In 1975 we decided, with our agricultural background, to grow grapes for table use and winemaking. The initial planting of slightly more than one acre has grown to 27 acres, and our small winery which began in a converted potato cellar, using second-hand equipment that we were able to salvage and rebuild, has grown from 1,600 gallons the first year to 21,000 gallons in 1985, 10 years later. During this time we have also created employment for three vineyard workers, plus part timers during pruning and harvest, plus three full time and several part time winery personnel.

Also, during this period we purchased more equipment, built a larger building and are only $300,000 in debt, but we kept dreaming of the time when we would be able to make a living from our business. Finally, after all these years, we made a profit in 1985 slightly over $8,000. Since we have not taken any money out of the business in this time, I guess you could call this $8,000 our first paycheck. The point I am trying to make -- based on the amount of wine we sold during 1985, if the increased Excise Tax proposal would have been in effect during 1985, we would have incurred a $2,000 loss and we would still be looking for that first paycheck.

Senator John Heinz
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It has been said that this tax could be passed along to the consumer. We are already faced with restrictions at the consumer level because our wines, which sell for approximately $4 per bottle, are still priced (in many cases double the price) higher than imports are being offered. I've just explained why we can't absorb this increase and I know my customers would not accept a 12% increase in wine -- this would have a very serious effect on our volume.

Senator, many Pennsylvania residents, as you know, are descendants of immigrants that arrived from Central Europe one hundred plus years ago. To most of them, (Croatians and Polish in the Pittsburgh steel mills, Italians and Polish from the coal regions, German and Swiss farmers from the heartland of Pennsylvania) a glass of wine with their meals is a tradition that has existed for a thousand years. "This drink of moderation", "This food beverage", is the only one that is taxed. Most other food beverages, i.e., milk, fruit juices, etc., are spared this suppressive burden.

I am also reminded, as I read yesterday's paper, about federal law to buy out dairy farmers which have been subsidized for years, as well as many other agricultural commodities, but grape growing is not subsidized in any way. It has in fact been the indifference of the government with the allowing of foreign government-subsidized wine to be dumped in our market, unnecessary government regulations through the BATF, and now a further possibly final action, to increase the wine excise tax.

As president of the Pennsylvania Wine Association, a grape farmer and winery owner, I seek your support in rejecting any attempt to increase wine excise tax on American wine and your support in having the present .17 per gallon removed.

Sincerely yours,

PENNSYLVANIA WINE ASSOCIATION

Richard H. Naylor
President

P.S. As I am writing this letter, the rays of the evening sun filters through the window, I'm then reminded of a force much mightier than the Congress of the United States that I must consider. Mother Nature, two weeks early, has already pushed my vines to the point of budding and with the possibility of frost until the middle of May, maybe this year no grapes, no wine, no paycheck, but excise taxes, ...that's up to you.

RHN

PENNSYLVANIA'S GRAPE INDUSTRY CONTRIBUTES OVER $100,000,000 EACH YEAR TO PENNSYLVANIA'S ECONOMY

Needed Now:

ANNUAL FUNDING TO DEVELOP AND MAINTAIN RESEARCH AND EXTENSION PROGRAMS ON GRAPES AND GRAPE PRODUCTS AT THE COMMONWEALTH'S PRESENT LAND GRANT UNIVERSITY AND PROMOTION EXPERTISE TO ENABLE AN IMPORTANT AGRICULTURAL INDUSTRY TO GROW MUCH STRONGER.

Support Pennsylvania Agriculture

WHAT GRAPES AND GRAPE PRODUCTS MEAN TO PENNSYLVANIA'S ECONOMY EACH YEAR:

Value of the Grape Crop in 1983:	$ 15,000,000
Value of Grape Products:	95,000,000
Value of Wine Produced:	7,000,000
Annual Payroll *(excluding owners and excluding taxes paid)*:	
In the Vineyards:	7,000,000
In the Wineries:	1,000,000
In the Juice Plants:	7,000,000

Of all of Pennsylvania's fruits, only apples and grapes contribute more than $100,000,000 annually to the state's economy.

Fixed growing and equipment costs/year	$ 10,000,000

Here's what private capital has invested in the Pennsylvania grape industry:

There are 14,000 acres of vineyards in the state today. To start these vineyards today, ***excluding the value of the land***, would cost:	$ 80,000,000
The largest grape juice processing plant in the United States is located in Pennsylvania. To duplicate all the grape juice processing facilities in Pennsylvania would cost in excess of:	$ 75,000,000
In the past 15 years, the investment in wine grapes and wineries exceeds:	15,000,000

This investment, totalling well over $170,000,000, has been made without state subsidy or development funds.

PENNSYLVANIA'S GRAPE AND GRAPE PRODUCTS INDUSTRY CAN EXPAND DRAMATICALLY THROUGH RESEARCH. SOME OF THE BASIC RESEARCH NEEDS INCLUDE:

BASIC VITICULTURE: Much additional research is needed to determine the optimal methods of grape production in different parts of the state: cultural management and practices, disease and insect management, vine training, nutrition, bird and other vertebrate pest control, clonal selection and numerous other areas of concern.

TABLE GRAPES: Penn State research has established through soil and climate studies that more than 2,000,000 acres exist in southeastern Pennsylvania that are ideal for grape growing. Expanding a growing table grape industry requires research on the identification of the best seedless varieties to be grown in different areas of Pennsylvania and how to increase their production.

WINE GRAPES: Variety evaluations and field trials continue to be necessary in different areas of the state. This must be coupled with cultural practices and enology research to determine the direction of future plantings.

PRODUCT RESEARCH: Research is needed on the utilization of grapes, new methods of processing for juice, jellies and jams, the development of storage and packaging systems for table grapes, the evaluation of wine quality and techniques for different climates including pH levels and styles of wine.

EXTENSION: With the principal Penn State research station located in Erie County, and travel funds limited to several trips a year, viticulture extension services have been far short of what has been needed in southeastern Pennsylvania. Additionally, there is no enology extension funding. Extension help in enology has been virtually non-existent.

No funding and little expertise has been made available for marketing assistance or promotion for Pennsylvania grapes or grape products. Help in this area is essential to develop markets inside and outside Pennsylvania.

WHAT SOME STATES ARE DOING WITH A SMALLER INDUSTRY THAN PENNSYLVANIA:

In OHIO, funding for the Ohio Grape Industries Program alone is in the vicinity of $300,000 annually divided between product and marketing development and product and marketing research.

In MISSOURI, legislation last year provides for approximately $250,000 a year on research and promotion.

In VIRGINIA, the legislature recently funded a full-time grape marketing specialist.

Pennsylvania ranks fifth among all states in grape production. Here is what is being spent on research:

In 1983, the total funds expended for grape and grape products research by the Agriculture Experiment Station at The Pennsylvania State University was $272,000.

A basic industry needs your support to fulfill its needs:

1. develop and maintain research and extension programs at the Commonwealth's present Land Grant University, concerned with grapes and grape products.

2. to provide expertise in the promotion of Pennsylvania grapes and grape products.

THE FOLLOWING ORGANIZATIONS SUPPORT THIS REQUEST:

The Pennsylvania State University, College of Agriculture
Keystone Foods, Inc.
National Grape Cooperative
Pennsylvania Wine Association
Southeast Grape Industry Association of Pennsylvania
Erie County Horticultural Society, Inc.
Erie County Grape Industry Association of Pennsylvania
Southwest Grape Industry Association of Pennsylvania
Erie County Pennsylvania Farmer's Association

Senator WILSON. Thank you very much, Ms. Hunter. Ms. Murphy, please proceed.

STATEMENT OF REBECCA MURPHY, EXECUTIVE DIRECTOR, TEXAS GRAPE GROWERS ASSOCIATION

Ms. MURPHY. Thank you for allowing me to be here to speak on behalf of the Texas Grape Growers Association. My name is Becky Murphy. We represent 400 growers, vintners, and wine professionals and also some interested consumers in the Texas wine industry.

When we tell people there is a Texas wine industry there is a certain amount of surprise but we do have a long history. Actually our history predates California by about 100 years. Those same Franciscan monks that were planting grapes along the California coast were in the El Paso Valley in 1622 and founded their first mission there.

However, prohibition killed all our wineries and our current history really dates from the early 1970's when there was a reawakening in the United States by consumers in wine. Since that time, our first post-prohibition winery was bonded in 1975. Since that time our growth has been absolutely phenomenal. We now have 19 modern wineries. We have about 3,500 acres planted in grapes. Only about 1,500 of those acres are actually in production.

The investment in vineyards in our State is about $17.5 million and the investment in wineries is about $35 million.

We employ more than $2 million in salaried laborers and people in the wineries. Our production in 1985 was $460,000 which represents $14.7 million in sales. So even though we are very, very small we feel like that we are really making a contribution to our economy, especially in the State of Texas where we need some bright new spots. The wine industry seems to be that.

The cotton farmers are finding—well, cotton is below the cutdown level in Texas now. Our water table levels are dropping seriously with West Texas crude selling for less than $11 a barrel, real estate being rebuilt in Dallas and Houston, we have serious economic problems and we see our farms, particularly a high valued grape crop, as being a good alternative to row crops and to cotton.

The problem of Texas at this point is that if—as Senator Gorton says, Washington is a fledgling industry, we are a fledgling, fledgling industry. We are so small we, as everyone who is here who is involved in grape growing wine knows, it is an extraordinarily capital-intensive business and we are in the very early stages of that. We are in it for the long term. We expect to see some rewards but it's going to be 10 years, 20 years down the road.

An increase in the excise tax right now would put a lot of people out of business in the wine grape growing business. We can't affort it. We can hardly compete pricewise in Texas with our wines. Our biggest support comes because Texas has a strong pride in anything produced in Texas. So we know for the long haul to be able to compete in the wine market we have to be able to compete nationally. Right now we can't compete pricewise nationally because we can hardly cover the cost of production and charge the prices that we charge for our wines.

So if we increase the price of the wine it will stop selling. So obviously vintners are not going to increase the price of their wines; they're going to ask the growers to take the burden of the increase in the price of wine.

We just don't feel like that's something we can handle. It will kill the industry. It will kill a bright spot in the Texas economy. We are not asking for subsidies. We are not asking for any sort of special treatment. All we want is to be able to exist and grow and contribute to the health of the American economy.

Thank you very much for having me here today.

[The prepared statement of Ms. Murphy follows:]

PREPARED STATEMENT OF REBECCA MURPHY

Mr. Chairman and Members of the Committee, thank you for the opportunity to speak on behalf of the Taxes Grape Growers Association, an organization representing 400 growers, vintners, wine professionals and consumers. I would like to address the proposed increase in the Federal Excise Tax on wine, the indexing of the tax to product price, the non-deductibility of the tax for income tax purposes, and the devastating effects these proposed changes will have on the Texas wine industry.

The history of the Texas wine industry dates back to the founding of the Ysleta Mission in El Paso Valley in 1622. The Franciscan monks who planted Texas' first vineyard went on to establish missions and plant vineyards along the California coast 100 years later.

The inability of Texas wineries to successfully nuture vinifera or European vines, put them at a disadvantage in competing with California wines. Prohibition sounded the final death knell for the Texas industry, closing all of the nearly 30 wineries operating at the time. Only one winery, the Val Verde Winery in Del Rio, resumed operation after the repeal of the Volstead Act.

The current history of the Texas wine industry began with the reawakening of consumer interest in table wines in the early 1970's. With a few small vineyards scattered throughout the state, planted by doctors, businessmen and university professor, the first Texas post-Prohibition winery was bonded in 1975.

Since then, growth has been phenomenal. Today there are 19 bonded wineries and approximately 3,500 acres planted in grapes, with 1,500 of those acres in production. There are more than 300 growers, 80 percent of whom are bonafide farmers. Only about 35 percent of the vineyard acres are owned by grower/vintners. The average investment per acre is $5,000, making the current investment in Texas vineyards approximately $17.5 million. Total dollars invested in wineries is nearly $35 million.

The 1985 production of Texas wine is 460,000 gallons with a retail value of $14.7 million. The Federal Excise Tax payable on the 1985 production is $78,200 and the State Excise Tax is $93,840. Approximately two-thirds of the wine is sold in stores generating $501,875 in state sales tax. The remaining third is sold in restaurants where wines are marked-up at least twice. This represents an additional $2,448,175 in restaurant sales. Since Texas restaurants pay a 12 percent gross receipts tax on wine, Texas wines generate another $587,562 for state coffers.

Texas vineyards require 2,000 man hours per four acres annually. At $5.00 per hour this represents $8,750,000 per year paid to vineyard laborers. In the winery, direct labor, contract labor, employee benefits and payroll taxes cost an average of $3.07 per case. Salaried and general and accounting employees cost an average of $4.37 per case, making total production labor $1,437,980 for 1985. As small as it is, the Texas wine industry represents more than $10 million in salaries for the Texas workforce.

If the industry continues to grow at even a fraction of its current pace, in 20 years Texas will have a wine industry second only to California's. And rather than add to the surplus of wine which currently exists worldwide, local industries throughout the United States will help build a larger wine consumer base. Texas wineries are accomplishing what Louis R. Gomberg, respected wine industry consultant predicted in October 24, 1977, issues of <u>The Wine Investor</u>:

> In state after state, new wineries are popping up all over the place, each a kind of wine-promotional public-relations entity in itself of respectible dimensions. In the aggregate, these dozens of little wineries are creating striking awareness of wine in their immediate vicinities. They're helping to establish a sense of pride on the part of both grower-producer and the general public, that the locality is capable of turning out wines of such good quality. And they're contributing significantly to the cultural scene at just about every level--entertaining, charity activities, special events, the arts and many more.

In the current state of the Texas farm economy, the wine industry is one of the few bright spots. With water table levels continuing to drop and cotton considered to be below the shut-down level, farmers are increasingly turning to grapes as an alternative high-value crop.

Considering the state of the oil industry, with West Texas crude selling for less than $11 per barrel, Texas needs new industries. The University of Texas recognized this need 11 years ago when they planted their experimental vineyards in Pecos County. After investing $3 million in research and $7 million in development costs, the University of Texas convinced Texas and French investors to lease the vineyards and build a $12 million winery.

It must be recognized, however, that although great potential exists, the Texas wine industry is still at a very early stage of development. There is not one profitable winery operation today in Texas, because of the large initial start-up costs. Growers have had to pioneer new viticultural areas, in many cases having to graft over unsuccessful varieties, to produce grapes more suited to both the climate and the market, with an accompanying set-back in time. It takes three years for a vineyard to produce a commercial crop, and at that time the crop is only 15 percent of its ultimate potential. The vineyard does not reach full production until its eighth year. Of course, the labor costs of tending the vineyards continue whether or not there is a crop. A further financial burden such as the proposed increase in the Federal Excise Tax will seriously arrest the industry's development.

An increase in the Federal Excise Taxes will not be passed along to consumers. With one exception, Texas wineries are so small that they are not able to utilize the economies of scale employed by larger and better-established California wineries. Therefore, it is already very difficult for Texas wines to be priced competitively and still cover production costs. It is impossible for Texas wines to compete price-wise with subsidized foreign wines.

Texas growers will bear the brunt of the increased tax, a burden they cannot afford. Also, a burden that is patently discriminatory considering that, unlike other agricultural commodities such as wheat, corn, cotton, etc., winegrape growers do not receive subsidies.

In summary, an increase in the wine excise tax will hurt the American wine industry by increasing the prices of an non-subsidized product that must compete unfairly with subsidized foreign wines. For Texas, increased excise taxes will cripple a new industry that needs encouragement and support. We are not asking for subsidies or special treatment. We are asking to be allowed to grow and prosper so that we can contribute to the health and welfare of the American economy.

Senator WILSON. Thank you very much, Ms. Murphy.
Mr. Bookwalter, please proceed.

STATEMENT OF JERROD R. BOOKWALTER, MEMBER, BOARD OF DIRECTORS, WASHINGTON ASSOCIATION OF WINE GRAPE GROWERS

Mr. BOOKWALTER. Thank you, Senator. My name is Jerry Bookwalter. I'd like to correct a couple typos if I might, Senator. First of all, I'm not the vice president. I have no aspirations of that office in this organization. I am a member of the board of directors, however. Also my last name is spelled with a "t" and not a "d" as my ancestors did.

Thank you for the opportunity of appearing before your subcommittee today. I represent the Washington Association of Wine Grape Growers in Washington State. I will be brief but I want to make a few points.

The Washington wine industry is really still in its infancy, we are only about 20 years old. Today the industry is comprised of primarily 60 wineries. Small wineries such as mine with production of less than 10,000 gallons a year are the real backbone of our industry. We represent approximately 40 percent of the total number of the wineries in the State and the other 60 percent produce less than 100,000 gallons each.

We are a young, struggling industry in a startup mode, most of us with heavy upfront capitalization and the accompanying debt load. We cannot afford additional taxes on our product. To do so would result in a most unfavorable competitive situation with imported wines. You've already heard an abundance of testimony with regard to the impact of imported wines in America today. Presently we are a revenue-generating industry and we do not ask for nor do we receive any Government subsidies.

As growers, we have made substantial investments in our vineyards, in many cases in excess of $10,000 an acre, to plant and grow our vineyards for the first 3 years. With 11,000 acres in the State of Washington, an average value of $10,000 an acre, growers have a total investment in excess of $110 million.

Growers have to rely on wineries to purchase and market their annual supply of wine grapes. There are no alternative markets for wine grapes in Washington. If grapes are not purchased by wineries, they are literally hung out to dry. When all the wine tanks are full each year, there is not an alternate market for wine grapes—at any market price—and the results to growers without a processing facility can be catastrophic and financially devastating.

The final message then is this. We are small, family-run wineries in a startup mode in many cases just an extension of the family farm. Growers are totally interdependent on the continuing successful marketing efforts of our State's 60 wineries. There are no alternative markets for the growers' crops. Wine grapes can only be made into wine.

This wine has to be sold for a profit in a free enterprise society that labors under heavy competition from imported wines. To increase wine excise taxes is to begin the ruination of the small family-run winery and to virtually eliminate expanding existing markets for grape growers in an industry which is new, totally self-supporting, and an industry which is presently a revenue-generating base.

Now, Senator, with your permission, I'd like to demonstrate if I might graphically what happens in the wine industry. It's fairly simple. We have a tank that will only hold so much and we have a supply of grapes and as we put the grapes in the tank it will only go to the point of being totally full at which point it runs over. And like so many things we do in agriculture, we brought tools to clean up the mess.

Thank you for allowing me to testify today.

Senator WILSON. Our Government is less tidy than agriculture, Mr. Bookwalter. We don't always clean up the mess and it takes a good deal longer than you have just taken with that.

Your statements have been very clear and frankly have answered the questions that I was going to ask. I gather in all three industries—in Pennsylvania, Texas, and Washington—what Ms. Hunter described as "mom and pop" operations are primarily family operations, family-owned and run?

Ms. HUNTER. Right.

Mr. BOOKWALTER. That's correct.

Senator WILSON. And you have just said in your statement that the competition from the subsidized imports is such that you find little prospect of being able to continue because your customers, the winemakers, have indicated that they are not going to be in an expanding mode.

Is the experience that you have had with these fledgling grape growing industries for which the market apparently is solely the winemakers—you don't even have the raisin option I gather in your States—have been declining orders?

Ms. MURPHY. In Texas we are in the fortunate position as far as growers are concerned that most of our wine—we don't have enough grapes to actually fill the tanks of the wineries. So in that respect we are in a fortunate sort of situation.

And I'd like to also point out that what we're helping to do for California and other States is to help build a bigger consumer base. In talking to retailers and restaurant people who sell Texas wines, we find that they feel they are selling the Texas wines often to people who have never had wine before.

So we feel like that we are—some people would say, well, aren't you being a bit foolish to be gettng into a business where there are already surpluses, but we feel like there needs to be more wineries throughout the United States to build a better consumer base. So we feel like we are helping to do that.

Ms. HUNTER. In Pennsylvania, all Pennsylvania wines have to be made from 100 percent Pennsylvania fruit. That gives us a slight advantage in that a winemaker can't go elsewhere to purchase fruit.

But a lot of the grapes that are raised in Erie that used to be sent to New York to make wine are now—the new York market is flooded so they remain in Pennsylvania and that's all glutting the Pennsylvania market. So little by little it's all filtering down.

Senator WILSON. You're here today representing growers, but I wonder whether or not you're able to speak not only to the impact upon growers and those who they employ but about the impact on collateral industries? What about bottlers? What about those who are in a support mode to you and to the winemakers? From your States do you have information of what this can mean to these allied industries?

Mr. BOOKWALTER. Well, Senator, in the State of Washington, I speak specifically to the lending industry which has had very, very difficult times in renewing loans for growers and for wineries to continue their operations in recent years. Much of this is due, of course, to the depressed land prices which we see in Washington as well as other parts of the United States. The values just aren't there. Lenders are looking down their nose at the security that's being offered up to secure these operating lines of credit.

Senator WILSON. Ms. Murphy, you said that you are looking to growth in the consumption of wines and introducing Texas wines to people who are largely unfamiliar with wine. I gather, then, that you're involved somewhat on the marketing side and have dealt with restaurants, hotels, people who are the potential market for your product?

Ms. MURPHY. Yes.

Senator WILSON. What do they tell you about how competitively your product is priced?

Ms. MURPHY. The prices are high. There's no doubt about it. Fortunately, as I said before, in Texas we are pretty chauvinistic about Texas products. We are very proud of what we're able to do in Texas. So what we have done is talk to the progressive retailer, the progressive restaurateur, who sees what the future of the Texas wine industry can do for their business also.

As I say, they see that they're selling the wine to new consumers. They see that that's only going to help their business in the long term.

But, yes, they will all tell you that really it's too high for the quality that's in the bottle at this point, however, they see the potential quality in the bottle and they also see that if we can grow that we can become more price competitive and we all recognize that we do have to become price and quality competitive nationwide and worldwide.

Senator WILSON. All right. Thank you very much. We're very grateful to you for being here today and bringing us this valuable testimony and for all the time and effort that you've put into preparing it.

Let's have our panel three representing the wineries. Mr. Arthur Ciocca, Wine Institute; Mr. J. William Moffett, executive director, Association of American Vintners; Mr. Michael Hogue of the Hogue Cellars; Mr. Stafford Krause, secretary, New York State Wine Producers Association; and Mr. Tony Debevc, of the Ohio Wine Producers Association. Gentlemen, if I've done violence to the pronunciation of any of your names, please correct me and don't be offended.

Mr. Ciocca, please begin.

STATEMENT OF ARTHUR A. CIOCCA, TREASURER, WINE INSTITUTE

Mr. CIOCCA. Thank you, Senator. I have a prepared statement basically done by the Wine Institute which takes about 20 minutes. In the interest of time I can summarize that in about 3 or 4 minutes but I would like to enter that statement in the record.

Senator WILSON. It will be entered in its entirety. Thank you.

Mr. CIOCCA. Senator, members of the subcommittee, I thank you for this opportunity to address you on the Senator Packwood proposal. I come here on both a personal and official capacity. As president and major stockholder of the Wine Group, I head a medium-size private wine company with wineries in California and New York. My five partners and I farm approximately 3,000 acres of vineyards. In addition, we purchase grapes from 265 growers in New York, California, and Pennsylvania.

I am currently treasurer of the Wine Institute and on the board of the Winegrape Growers Advisory Board.

In the last few weeks I have traveled in California, New York, and Pennsylvania. I have met with vintners and growers alike who are outraged at the Packwood proposal on the grounds that it is punitive, unfair, and regressive, and that it would bring economic ruin to many and cause a devastating restructuring of our industry.

The tax increase on wine alone would amount to 410 percent and when the deductibility issue is calculated that would equate to 840 percent.

I'd like to tell you what that would mean to one single one and a half liter bottle of our wine in the marketplace. It would raise the price to the consumer in excess of 25 percent and there are some packages which we sell which would go up by more than 50 percent.

Others have talked about the decline in demand of 10 to 15 percent. There are many of us who believe that those numbers are very conservative. In terms of decline in demand on table wine alone, it would result in a loss market of about 200,000 tons of California grapes or the equivalent of 35,000 acres.

I have no other way of saying this than to say this industry is in a severe depression that is analogous to the depresson this country faced in the 1930's. We already know that foreign wines have taken about 30 percent of our market as a result of illegal subsidies and a strong dollar. Our export market is blocked as a result of artificial trade barriers and nontrade barriers. We have nearly a $1 billion trade deficit on wine alone.

Senator, I know we are not $1 billion less competitive than foreign firms.

It was mentioned earlier that we have let the steel companies and the textile businesses of this country go because they can't compete on the world market. That's not true of wine. The products we make are superior to those of our counterparts in other countries. Our efficiency is better. Maybe this is the timely place to tell you that we are scrupulous in our wine making practices and contrast to the scandals that are going on in Europe at this very moment that's an interesting point.

Wineries are in serious trouble. The ITC report that was referred to earlier by Mr. Hartzell also contains data on 10 wineries who represent 83 percent of the nonpremium business in California. In 1982, according to this report, six of them were unprofitable. In 1983, seven of them were unprofitable; and in 1984, eight of them were unprofitable. I believe this to be representative of the wineries of California.

Growers are facing bankruptcy at this very moment. The prices of grapes in the California Central Valley where about 70 percent of the wine grapes in California come from have declined to an average of $95 a ton. You heard testimony earlier today that we collaborate that says it costs $140 a ton simply to break even. The Packwood proposal equates to $243 per ton.

More than 75,000 acres of grapes have been abandoned or are not being farmed. The values of these vineyards have dropped from 50 to 80 percent in the last 3 years.

Picking up again on the ITC study that was done in 1985 that has now been referred to twice, wine grape growers who derive their primary income from selling grapes to wineries were unprofitable in aggregate in 1982. Their level of unprofitability doubled in 1984 and at that point represented 79 percent of their gross revenues—a staggering number.

We believe this report to be representative of the entire grape industry not only in California but also in New York where we have some insights.

The banks are in serious trouble with their agricultural portfolios. Many of them have nonperforming loans that equate to about 40 percent of their total grape portfolios. They have already taken over a lot of grape land and are holding it off the market because if they were to sell it at market prices they would have to take massive writedowns to their whole portfolio.

The Packwood proposal is seriously flawed and lacks credibility. It fails to understand the economic state of this industry and the impact it would have. In fact, as it has been mentioned earlier, I believe it would have a reverse effect on taxation and revenue.

It fails to understand how wine is taxed now and it is totally inconsistent with the reality of running a winery and therefore would cause an administrative nightmare not only at the winery level but at the BATF level. And, Senator, I might suggest—and in my prepared statement I suggest that your subcommittee seek an economic impact study at the BATF level to determine exactly how costly and burdensome this type of proposal would be.

Interestingly enough, this proposal calls for a lower tax on champagne which is now the highest taxed alcoholic beverage in this country. It would go from $3.40 per gallon or on a proof gallon basis $14.17 compared to spirits of $12.50 down to 87 cents. As a major producer of sparkling wine, I, of course, would welcome this, but I doubt whether that's what Senator Packwood had in mind.

Finally, it is seriously regressive in a multiplicity of ways. Those of us who fly use the telephone and particularly in the case of our wineries trucking would be seriously impacted and we calculated that the wine industry spends about $530 million on trucking services.

Finally in closing, this dimension of regressivity increasing taxes not based upon the ability to pay in order to reduce income taxes that are based on the ability to pay invalidates the proposed tax program.

Senator, I thank you for inviting me and allowing this testimony to be placed in the record.

[The prepared statement of Mr. Ciocca, together with attachments, follows:]

PREPARED STATEMENT OF ARTHUR A. CIOCCA

Mr. Chairman and Members of the Committee,

I thank you for the opportunity to address you and to express the California wine industry's total opposition to the punitive wine tax rate increase, non-deductibility and indexing proposals now being advocated by Senator Robert Packwood, Chairman of the U.S. Senate Finance Committee.

I come here in both a personal and official capacity. As President, and major stock holder, of the Wine Group I head a medium sized and private wine company, with wineries in California and New York. My five partners and I farm over 3,000 acres of grapes and walnuts. In addition, we purchase grapes from 265 independent growers in California, New York and Pennsylvania. In 1985 we employed close to 900 people.

I am also currently Treasurer of Wine Institute, which represents over 90% of the wineries and thousands of winegrowers in California, and am a member of the Winegrowers of California Advisory Board, which represents most of the state's vintners and winegrape growers.

Over two-thirds of all wines sold in the United States, whether foreign or American come from California; but we do not stand alone on this issue. There is 100% unity, within our thirty-five winegrowing states, in registering outrage over the three provisions contained in Senator Packwood's tax program which directly impact us.

That program singles out wine <u>alone</u>, within all excise categories, for an outright tax rate increase, despite repeated Administration opposition to new taxes. By itself that would be discriminatory enough, but Senator Packwood is pushing for a radical new formula for wine, unprecedented in our history, tied to a "proof gallon" concept, which would increase our taxes by 410% and be <u>three times that of beer</u>.

The initial characterization by Senator Packwood that wine and beer would be made equal is mistaken and misleading. Beer is taxed at $9 a barrel, or $.29 a gallon. As the attached chart graphically shows, Senator Packwood's wine provision, if enacted, would lead to an adminstrator's nightmare of multiple increments above $.29 a gallon. The most representative of our wines, 12% table wine, now taxed at $.17 a gallon, would be increased to $.87 a gallon. The "proof gallon" approach, based on alcohol content, is so odious that beer representatives, though not faced with a rate increase, have joined us in opposition. Their correct contention, and ours, is that the introduction of the "proof gallon" formula for wine deviates sharply from historical tax policy, societal custom and culture, and human physiology and must be defeated now before such an unwarranted and onerous new burden can be imposed.

At the same time, wine is heavily and negatively affected by two other proposals in the Packwood package, which extend broadly to the larger excise categories: the elimination of excise taxes as business deductions; and the indexing of future excise taxes through a, not as yet clear, price increase formula. Our economists have not received enough precise information to calculate the future impact of indexing, but they have been able to provide the equivalent of what a rate increase and non-deductibility, in tandem would provide. Their calculations are that the two would add the equivalent of an 841% prohibitive increase on our industry and consumers, that is, $.17 to $.87 a gallon for the rate increase, and the equivalent of another $~~.78~~ ~~a~~ $.73 a gallon up to $1.60 a gallon, were exise taxes to lose their deductibility. Specifically, in terms of consumer price per bottle I estimate that my Company's 1.5 liters of popularly priced table wine would increase more than 25% and some packages would increase more than 50%. Using a demand elasticity for table wines of -.569, our economist project a sales decline in table wine alone of approximately 12% or 31 million gallons. Many of us consider this to be quite conservative. This amount would represent a lost market for 208,000 tons of wine grapes. Using an acre equivalent basis, we estimate this is equal to 35,000 acres of American wine grapes without a market.

The term "excise" tax is clearly deceptive. It masks and mutes the reality of an additional consumption sales tax on certain products and consumers. In wine's specific case the Senate Finance Committee staff projections call for a staggering $4 billion of new tax revenues in the next five years, based solely on the proof gallon rate increase. The draconian nature of such projections is underscored when we recall that all federal excise taxes in 1984 amounted to $275 million. In the name of revenue neutrality and tax reform Senator Packwood seeks to enact a new tax code that will spell economic ruin for many of us and the devastating restructuring of the wine business as we've come to know it in America.

A brief profile of the severe stress American vintners and growers are currently enduring, under the tax codes as it now stands, will highlight our sense of the dramatic fiscal and marketing vulnerability precipitated by the Finance Committee's markup sessions and deliberations.

At this moment wine and wine coolers are both participants in and beneficiaries of the national trend toward moderation in all things. Health conscious Americans are consuming beverages with less alcohol, as they have become increasingly alert to nutritional values and sense of personal self improvement. But foreign governmental fiscal and trade policies, and currency fluctuations, revolving around the over-valued dollar, have put our firms and families at an artificial competitive disadvantage. The comparative attraction of our high quality standards--made all the more evident by recent wine scandals in Europe--and our competitive price and marketing skills have been thwarted by governmental intrusions and pressures.

This last decade's increased consumption of wine and wine coolers has also witnessed in America major penetrations by foreign wines, as we have had to fight strenuously to overcome tariff and non-tariff barriers overseas. In the important table wine category, the foreign share of this market reached 30%, for reasons unrelated to quality and efficiency. As the United States International Trade Commission (ITC) reported in October 1985, "Domestic shipments of nonpremium table wine declined nearly 7 percent during 1982-1984, from 263 in 1982 to 245 million gallons in 1984. In 1985 the balance of trade deficit for wine reached almost $1 billion. Mr. Chairman and members of the Committee, we know we are not a billion dollars less competitive than foreign firms.

Ten wineries, accounting for approximately 83% of domestic shipments of nonpremium table wine in 1984, furnished financial data to the ITC, which showed:

1) Net sales declined by 8% between 1982 and 1984, from $947 million to $869 million, and then declined another 8% during the first six months of 1985 compared to the first six months of 1984.

2) Six of the ten reporting wineries sustained operating losses in 1982, seven of the ten sustained operating losses in 1983, and eight of the ten sustained losses in 1984.

All segments of the American wine economy, including our major banks, are experiencing severe financial pressures. The price of grapes in the major growing districts of the San Joaquin Valley has declined dramatically in the last three years to a level that is well below the cost of production for most farmers. Since 1982, grape prices in Districts 13 and 14 have declined from $137.02 a ton to $94.60 a ton. We estimate that an efficient farmer needs about $140 a ton to service debt and break even. Senator Packwood's proposals for wine, not counting "indexing" would levy the equivalent of $243 a ton of new fiscal burdens. (Going from $.17 to $.87/gallon equals $119/ton and non-deductibility equates to $124/ton.)

As things stand now many grape growers face bankruptcy. In 1985, almost 60,000 acres of California vineyards were either abandoned or not harvested. The value of vineyards in the Central Valley of California has declined from 50% to 80% in the last four years. In the ITC report, cited above, there was contained the disheartening testimony of California growers who derived the majority of their revenues during 1982-1984 from grapes used to produce wine. Their gross revenues declined by 32% between 1982 and 1984. In aggregate they were unprofitable in 1982 and their loss doubled by 1984 to a figure that represented 79% of their gross revenues. There was a further deterioration in 1985, since average prices received by growers declined further from 1984 levels. I believe this experience to be representative of many of the nation's 25,000 grape growers.

With this as a backdrop you can imagine our dismay over the Packwood wine proposals. To begin with, his staff's analysis of the present law is fundamentally flawed and underscores its lack of understanding of our industry. The Finance Committee's report of March 18, 1986 says that under present law "wine is taxed at different rates depending on the alcohol content of each type of wine." This is simply incorrect. The truth is that the still wine category taxed at $.17 per gallon includes such products as: wine coolers that have an alcohol content of 4-7%; popular table wines such as chablis and burgundy, with an alcohol content of 10-14%; and premium varietals such as chardonnay and cabernet sauvignon, with an alcohol content of 10-14%.

The still wine category taxed at $.67 per gallon includes such types of products as port and sherry, with an approximate alcohol content of 18%, and vermouth with an alcohol content of 17-21%. The category that is grossly misunderstood, and puts in relief the flaws in the entire "proof gallon" approach, is champagne and sparkling wine. While possessing the same alcohol content of table wine at 10-13%, such products are taxed at $3.40 a gallon.

Further elaboration on this point will convince even the strongest skeptics that the wine tax rate increase proposal inherently lacks credibility. Accompanying the Finance Committee analysis of the present law is another incorrect reference that "wine containing 12% or less alcohol is subject to tax at a lower rate than beer on a proof basis." This is patently erroneous, in that the current tax on champagnes and sparkling wine, on a proof gallon basis, is the highest of all alcoholic beverages, <u>even exceeding distilled spirits</u>.

People unfamiliar with our industry and nomenclature and products are unaware that the champagne tax of $3.40 per gallon, for a typical sparkling wine at 12% alcohol content by volume, converts to $14.17 a proof gallon equivalent. The proof gallon equivalent of beer, from 4% to 6% alcohol by volume, is $2.42 to $3.63. This distilled spirits tax is $12.50 per proof gallon. Thus, following Senator Packwood's proposal that "the tax rate on wine having alcoholic content of 21% or less would be increased to a rate equivalent to the proof rate presently imposed on beer," the fiscal logic would lead to a <u>major reduction</u> of the $3.40 champagne tax to $.87 per gallon for 12% champagne and sparkling wines.

As a major producer and marketer of champagne and sparkling wine, I would certainly welcome the reduced tax structure, but I doubt that was Senator Packwood's intention. When he and his staff cite "a rate equivalent to the proof rate presently imposed on beer," they are not aware there is no such thing as an "equivalent proof rate." It is just one more glaring error and indication of the proposal's analytical weakness.

That weakness is further compounded when we get to the question of the winery's tax liability, if the wine tax rate increase were enacted on the new basis of proof gallonage. The change in regulations alone by the Bureau of Alcohol, Tobacco and Firearms would daunt the most avid regulator.

Let me explain by using the dominant table wine category of wines under 14% alcohol by volume: Under the present law the determination of tax liability is simple. We know that the full range of our chablis, burgundy, rose, cabernet sauvignon, zinfandel, white zinfandel, etc., are always under 14% alcohol by volume from one day to the next. We determine our tax liability by simply multiplying the number of cases we ship each day by the standard number of gallons in each case to determine the aggregate number of gallons shipped. We pay taxes on a semi-monthly basis by tabulating each day's gallonage shipments for the taxable period and applying the tax rate of $.17 per gallon to the cumulative shipments. The same procedure applies to determining the tax liability for shipments of wines over 14% and less than 21% and to the champagne/sparkling wines category.

This straightforward and simple method would be rendered inoperative by the passage of Senator Packwood's wine tax proposal. In the blending, processing and preparation of wines for bottling, it is common for the alcohol levels to increase or decrease due to technical variables far too numerous to explain in this setting. These variables are recognized by government labeling regulations which provide for bottling tolerances of 1½% alcohol by volume for wines under 14% and sparkling wines and champagnes; and 1% alcohol by volume for wines over 14% and under 21%.

In practice, therefore, a 12% chablis label can actually have 10½% one day, 11% another day, and 11½% another day, ad infinitum for every type of wine we market. The situation can become even more complex when we consider that in the course of one day's bottling we may bottle several different blends of a particular wine type into different container sizes: These blends can all differ in alcohol content. The present system can easily accommodate these differences. The proposed new one simply cannot.

The wine industry would actually be forced to change its wine making procedures, to a batch by batch basis, altering its entire tank, bottling line, and trucking requirements at great economic costs. ATF would have to add so much manpower to administer the new taxing code, percentage by percentage by percentage, that perhaps it would be in order for your Committee to seek an economic impact projection by the Bureau as to its administrative capabilities to oversee the new tax code changes.

Finally, we have up to now essentially stressed the likely devastating effect of the proposed tax increase on wine only. We must also consider the costly and inflationary consequences of the non-deductibility and indexing features on other products and industries, such as gasoline, heavy trucks, airline tickets and telephone services. The burden of these excise/consumption tax increases will be passed on to the consumers of these goods and services.

We are among those consumers. For example, the trucking industry will be severely impacted. Its services are critical to our growers and vintners: in moving grapes from the vineyards to our wineries to be converted into wine; in hauling our bulk wines and other winery products from one winery to another for storage and/or processing and/or bottling; in delivering empty bottles from the manufacturers to the winery plants; in delivering finished case goods and promotional materials to the wholesale and retail trade throughout the United States.

Our analysts estimate that in 1985 all this transportation activity represented some 850,000 truck loads at a cost of approximately $530 million. Senator Packwood's proposals would, if enacted, obviously increase our trucking costs and have a further regressive effect on us and our consumers.

This dimension of regressivity--increasing taxes not based on the ability to pay, in order to reduce income taxes that are based on the ability to pay--invalidates the entire excise tax program now before the Senate Finance Committee.

We thank the Joint Economic Committee, especially our Senator Pete Wilson, for providing us the opportunity to communicate our observations and to air our views publicly. A majority of the U.S. Senate has called for hearings on this matter, and you are the only body to demonstrate its responsiveness, for which we in the California wine world are most grateful.

CURRENT WINE EXCISE TAXES VERSUS PROPOSED NEW RATES 1/

Alcohol by Volume	Federal Excise Tax Per Wine Gallon	
	Current Basis	Excise Tax on Proof-gallon Basis 2/
21%	$0.67	$1.52
20%	$0.67	$1.45
19%	$0.67	$1.38
18%	$0.67	$1.31
17%	$0.67	$1.23
16%	$0.67	$1.16
15%	$0.67	$1.09
14%	$0.17	$1.02
13%	$0.17	$0.94
12%	$0.17	$0.87
11%	$0.17	$0.80
10%	$0.17	$0.73
9%	$0.17	$0.65
8%	$0.17	$0.58
7%	$0.17	$0.51
6%	$0.17	$0.44
5%	$0.17	$0.36
4%	$0.17	$0.29
3%	$0.17	$0.22

1/ It is still unclear how the proposed legislation would impact champagne and sparkling wines.

2/ Wine gallon rate for wine, if taxed on the same alcohol content basis as is now in effect for beer. Beer is currently taxed at a rate of $9.00 per barrel, $0.29 per gallon or $3.625 per proof gallon, assuming 4 percent alcohol content by volume.

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CHAIRMAN PACKWOOD'S PROPOSED EXCISE TAX AND TARIFF CHANGES

SUMMARY

Senate Finance Committee Chairman Packwood's proposed excise tax and tariff changes would intensify the seriously adverse economic effects of these taxes. These changes would impair productivity, cost jobs and income, and waste our economic resources.

Selective excises not only burden purchasers of the taxed products and services, even more seriously they distort the use of production resources, resulting in less productive use of labor and capital. Those supplying these production resources sustain losses in income and wind up in production activities in which they are less well rewarded in real terms. The entire economy suffers from the dislocations resulting from selective excises.

If implemented, Senator Packwood's proposal to tax alcohol, tobacco, and motor fuels on the basis of their prices rather than, as at present, on the basis of physical quantities would result in increases in these taxes as their prices rise. Under present law, the adverse effects of these taxes declines as the prices of the taxed items increase. This erosion of the economic disadvantages of selective taxes would be lost as a result of the proposed change.

By denying the deductibility of Federal excise taxes in computing a business's taxable income, the true rate of these excise taxes would be increased, thereby intensifying their adverse effects on the economy. At the same time, nondeductibility of these taxes would increase the income tax rate on the true net income of the affected businesses. Instead of contributing to attainment of a level playing field, ostensibly a major objective of the current tax reform effort, this change would riddle the playing field with tax differential potholes.

Even worse, the Packwood proposal would attribute taxable income at least equal to their excise tax liabilities to businesses even if they had no taxable income, indeed, even if they sustained substantial losses. Taxing phantom income would be the ultimate in an Orwellian 1984 tax policy.

The proposed excise changes would raise an estimated $77 billion in tax revenues over the first five years, offsetting a significant part of the revenue losses from tax rate reductions, increases in the personal exemptions, and other revenue-losing income tax changes. The proposed excise tax changes would be a major element in a tax redistribution program, with those supplying the labor and capital services used in producing excise-taxed items bearing additional taxes to provide lower taxes for others.

The proposed excise tax changes would be a large step backwards in tax policy. They should be deleted from the tax reform package.

Introduction

In the summary of his tax reform proposals presented on March 13, 1986, Senate Finance Committee Chairman Robert Packwood recommended a number of major and drastic changes in the present income tax treatment of excises. Chairman Packwood proposed to disallow the deductibility of all excises and tariffs by business income taxpayers; he also proposed to impose the excise taxes on alcohol, tobacco, and motor fuels on the value of these products, i.e., on an ad valorem basis, rather than, as at present, on the basis of some physical volume measure of them, i.e., on an ad rem basis, and to raise the rate of the excise on wine to make it equivalent to that now imposed on beer.

These measures would increase the revenues from excise taxes and tariffs by an estimated $77 billion over the first five years in which these changes would be effective. Roughly $62 billion would come from the excise taxes and about $15 billion from the nondeductibility of tariffs. These revenue additions would be among the largest of those proposed in the Chairman's tax reform package. Because that package is alleged to be revenue neutral over the five-year revenue projection period, these additional revenues presumably are to be used to help offset the revenue losses estimated to result from the proposed reductions in individual and corporate income tax rates, the increases in the personal exemptions and standard deductions for individual taxpayers, and from a number of other proposed income tax revisions. As a result, these additional excise tax and tariff revenues would be one of the major elements in effecting a substantial redistribution of tax liabilities throughout the U.S. economy.

Just as significant, this huge increase in excise and tariff revenues over the amounts that would be realized under present law during the revenue projection period would be a sharp reversal of the trend of recent years. For many years, Federal budget receipts from excise taxes and tariffs have accounted for a decreasing fraction of total Federal budget receipts. In fiscal year 1940, excise tax and tariff receipts were 32 percent of all Federal budget receipts. Excise tax revenues increased in absolute amount during World War II, both because many additional excise taxes were levied and because the aggregate volume of economic activity expanded rapidly under the wartime forced draft economic conditions. Excise taxes and tariffs contributed a sharply declining share of total Federal tax revenues, however, because the sharp increase in income tax liabilities very greatly exceeded the growth in excise tax revenues. Between fiscal years 1950 and 1985, Federal excise tax and tariff revenues have fallen from 19.4 percent of total Federal budget receipts to 6.6 percent. In the absence of the changes proposed by Chairman Packwood, the relative contribution of these revenue services, it is estimated, would fall to 4.4 percent in fiscal 1990. Chairman Packwood's proposed excise tax and tariff changes would bring this wholesome trend to an abrupt halt. Over the five-year projection period, his proposed changes would boost the share of total tax revenues accounted for by excise taxes and tariffs from about 5.0 percent to about 6.6 percent.

Against all significant criteria of good tax policy, the proposed excise tax and tariff changes would be a major step backward. The excise taxes and tariffs in the Federal revenue system are selective taxes; they are imposed at differing rates on selected products and services, rather than being levied at the same rate on all of the products and services produced and sold in the economy. As selective taxes, they have seriously adverse effects on the economy. The changes proposed by Chairman Packwood would intensify these adverse economic effects, impair the economy's growth, interfere further with the most productive use of our production capability, and result in less real wages and less of all other income throughout the economy, compared with the levels that would prevail if these excise tax changes were not enacted. The redistribution of tax burdens that would result from these tax changes would be substantial; there is no reason to believe that these shifts in tax burdens would conform with any acceptable standards of either economic efficiency or tax fairness. If the current tax reform effort is to extend its reach beyond the income tax, it should seek to reduce, if not completely eliminate, selective taxes, not to increase their weight in the Federal tax system.

The Basic Economics of Excise Taxation

Selective excise taxes are guilty of a number of serious fiscal and economic crimes. The outstanding attribute of a selective excise tax is that it raises the cost of the product, service, or activity on which it is levied relative to the costs of products, services, and activities not subject to such taxes. The consequence is that relative costs and prices differ from those that would be determined in the market place by the conditions of supply and demand. Selective excise taxes, in other words, distort the relationships among the market's valuations of goods and services.

These changes in relative market prices, in turn, lead to changes in the composition of output and of purchases. If one may appropriately assume that free markets provide price and cost information that leads to the most effective use of production capability and a composition of output that best and most economically satisfies our demands, then the price-and-cost-distorting effects of selective excises must result in a less effective use of our production capability and a less satisfying market basket of goods and services.

These relative cost and price distortions result because selective excises drive a wedge between the price a buyer must pay for a product or service subject to the tax and the price that the seller of the taxed product or service receives. An excise tax imposed on a product or service raises the cost of producing and selling any given amount of it. If the producer tries to raise the price of the product or service to cover this additional cost, purchasers will buy less of it. With a smaller volume of sales, clearly, total production of the taxed product or service must sooner or later decline. A smaller volume of output, of course, means that less production inputs are used by producers of the taxed products or services. As a consequence, total payments for production inputs decrease. Ultimately, the selective excise shows up in the form of higher market prices for the taxed product or service, a smaller volume of purchases of these products or services, hence a smaller volume of their output, less production inputs dedicated to their output, and reduced incomes to those supplying these production inputs.

A simple example may be helpful in understanding the incidence of selective excises. Suppose a widget manufacturer can produce 100 widgets at a cost of $10 per widget and requires a markup of $1 per widget to earn a profit sufficient to attract and maintain the capital resources needed for the most efficient, least costly production of 100 widgets. Suppose, also, that he can sell 100 widgets at a price of $11 per widget. If an excise of $1 per widget is levied on the manufacturer, raising his total production costs to $11, he would have to raise his price to $12.00 or reduce his markup. To the extent he raises his selling price, inclusive of the excise tax, above $11, he must be prepared to suffer a reduction in sales volume. Very likely, as he reduces his sales volume, his unit production costs will decline. At some lower volume, presumably, he will be able to sell that volume of widgets at a price sufficient to cover his production costs, his required markup, and the selective excise. Suppose that price is, say, $11.50, leaving him $10.50 after the selective excise is remitted to the government with which to pay for the labor and capital services, energy supplies, raw materials, etc., needed to produce, say, 90 widgets that people are willing to buy at a price of $11.50. The end result is that widget buyers now spend $1,035 on widgets instead of $1,100. Widget producers, however receive only $945 of the $1,035, the remaining $90 going to the government. There is now $55 less income --- wages, salaries, dividends, etc. --- available to those who participate in widget production.

Notice what the imposition of the selective excise has done. It has led widget buyers to cut their purchases and to reduce their total outlays for widgets, presumably allocating more of their incomes to the purchase of other products and services. It has also led widget producers to cut back on their output, hence on their purchases of the production inputs that go into manufacturing widgets; total payments by widget producers for these production inputs are also reduced. To be sure, the price of widgets has gone up by some fraction of the selective excise tax imposed on them, and widget buyers have been induced thereby to shift to some other market basket of products and services than the one they found most satisfying before the excise tax was imposed; for widget buyers, one must presume, the new market basket is somewhat less satisfying than the original one. But the major initial burden of the selective excise tax on widgets clearly has been borne by those supplying the production inputs to widget manufacturers.

In fact, the story about the incidence of the selective excise doesn't end here. Many of the production inputs used in manufacturing widgets may be more or less specialized in widget production, at least for some period of time. To the extent that the amount of these production inputs used in widget manufacturing is reduced as a result of the levying of the excise tax, they are likely to remain idle until they can be adapted to other production uses. The widget employees who are let go when widget output is reduced in response to the imposition of the excise may be out of work for some time until they acquire new skills or locate other jobs in which they can use their existing skills, albeit less productively than in widget manufacturing. In time, presumably, the production inputs released from widget manufacturing will be used in other lines of production. In some cases, this will occur only if the rates of payment for these inputs and for all of the inputs in these other production lines are less they otherwise would be.

As widget purchasers change the composition of their purchases, buying fewer widgets and a larger volume of other products and services, prices and volumes of output of these other products and services are likely to increase, requiring larger amounts of the production inputs used in their production. Of course, reallocating production inputs from one use to another is not costless. The costs of changing the use of production inputs should be included among the burdens of selective excises. Sooner or later, then, the selective excise on widgets also shows up in distortions of outputs and inputs and in incomes elsewhere in the economy.

Customs duties create similar distortions. These taxes make imported raw materials, imported manufactured inputs, imported consumer goods, etc., appear artificially expensive. Assuming that foreign suppliers are unwilling to absorb all of the tax themselves, the tariffs handicap American buyers -- producers and consumers -- by arbitrarily raising the costs of imports, denying Americans some of the advantages of foreign trade. American consumers are hurt when they buy imported products bearing tariffs because the tariffs tend to increase the prices of those products. Consumers will also be hurt when they buy American products that contain some imported inputs because the tariffs raise production costs; some part of this cost increase ultimately shows up in product prices.

The distortions of output and of input uses and the losses in consumer satisfactions that are imposed by the imposition of selective excises are serious and substantial economic burdens. Because of the use of selective excises in the nation's tax system, the economy's production capability is less productively used than it otherwise would be. Selective excises, in other words, are fiscal engines of waste. Wasteful uses of production inputs reduce the capacity of the economy to grow over time. In terms of the economic efficiency and growth goals of tax policy, therefore, selective excises should not be included in the nation's tax system except for the few cases in which they might conceivably offset structural deficiencies in the market system. Because those deficiencies are extremely difficult to identify and to measure, it is highly unlikely that selective excises appropriate for their correction could be designed with reasonable accuracy. There are, therefore, virtually no appropriate uses for selective excise taxes.

Selective excises taxes also rank very low in terms of the fiscal criteria of "good" taxes. For the most part, these levies escape the painful awareness by those who must ultimately bear their burden. But hidden taxes are, for the very fact of their obscurity, bad taxes. If taxes and tax burdens are to enter into democratically determined decisions about how much of the economy's production capability is to be made available to government, people must be aware of these taxes and painfully conscious of their burden.

Assessment of the Proposed Changes in Excise Taxes and Tariffs

Chairman Packwood's proposed revisions of excise taxes and tariffs should be evaluated in the light of the basic attributes of these levies and their assessment in terms of fundamental tax criteria. On these grounds, the proposals score very poorly, indeed.

Although little reliance need be or should be placed on the estimates of the revenue consequences of particular tax revisions, the magnitude of the estimated revenue gains from Chairman Packwood's excise and tariff revisions are surely strongly indicative of the severity of these proposed changes. Virtually on the grounds of these revenue estimates alone, one might well conclude that the proposed changes would significantly aggravate the economic disabilities of the present selective excise tax and tariff system. If the revenue gain of $77 billion over the five-year projection period is deemed to be a reasonable estimate, these proposed revisions would increase revenues from these sources by about 32 percent over the amounts projected for the period under present law. Increasing the average weight of these taxes by close to one-third is moving in the wrong direction in the light of any appropriate objective of tax reform.

Apart from this consideration, the particulars of the proposed revisions are themselves highly objectionable. Arguments may be advanced in the abstract for preferring either an ad valorem or ad rem assessment of selective excises. As a practical matter in today's fiscal and economic environment, the proposal to shift from an ad rem to an ad valorem basis for the excises imposed an alcoholic beverages, tobacco, and motor fuels should be seen as a means for obtaining higher tax yields from these products over time, insofar as their prices rise, without having to rely on explicit legislative enactment of higher tax rates.

When imposed on an ad rem basis, selective excises' effective rates decline, in real terms, as the market prices of the taxed products and services increase. This erosion of the real effective rates of selective excises serves to moderate their adverse economic consequences. By converting these taxes to ad valorem imposts, this reduction in their real effective tax rates is averted, and their adverse economic consequences are maintained. Considerations of tax requirements for economic growth and efficiency militate strongly against switching these taxes to an ad valorem basis.

As objectionable, indeed if not much more so, is the proposed repeal of the deductibility of selective excises and tariffs from gross income in determining the taxable income of business income taxpayers. Denying deductibility of these levies would increase their weight and their adverse economic effects.

Excise taxes and tariffs, no less than wages, energy supply costs, capital costs, raw material costs, etc., must be taken into account as costs associated with the production and sale of the taxed products or services. No less than any other production and sales cost, excise taxes enter into a business' decisions about how much of what to produce and to sell at what prices.

The income tax imposed on business net income has always provided for the deduction of all costs incurred in the processes of production and sale, although, to be sure, the manner in which these deductions have been allowed has at times been changed and often has not accorded with the requirements of neutral tax treatment. But to deny the deductibility of excise taxes and tariffs would be to distort the measurement of the net income produced by a business just as much as would denying the deductibility of payrolls, raw materials, etc.

Present law quite correctly includes Federal employment taxes as part of employees' compensation and as payroll costs, fully deductible by the employer business in determining taxable income under the income tax. These employment taxes are, in economic terms, selective excises, virtually identical in their basic economic attributes to any other excise tax imposed by the Federal government. If there were any economic or fiscal justification for repealing the deductibility by a business of, say, the gasoline excise tax, there would be no less justification for repealing the deductibility by business of employment taxes. Repeal of employment tax deductibility would, obviously, have an enormously adverse effect on employment costs, on employment, and on labor income, as well as imposing wrenching distortions of the composition of economic activity. Repealing the deductibility of the Federal selective excise taxes would have very much the same sort of devastating economic effects, even if somewhat less severe in magnitude.

Because the excise taxes in the Federal revenue system are not applied uniformly to all production and sales of all products and services, but are, on the contrary, highly selective, denying the deductibility of these taxes would result in grossly differing effects among businesses. Businesses involved heavily in producing and selling products and services subject to selective excises, obviously, would find the net-of-tax costs of their operations increased relative to those of other businesses. The prices of their outputs would have to go up and the volume of their output would have to contract relative to that of other businesses, as would their employment of labor and capital services and other production inputs. Repealing the deductibility of excise taxes and tariffs in measuring taxable income for income tax purposes would intensify the distorting effects of these levies.

Nondeductibility of Excise Taxes: Effects on True Rates of Income Tax and Excise Taxes

	Present Law	Packwood Proposal	
		Income Tax Effect	Excise Tax Effect
Gross Receipts	$100	$100	$100
Less: Cost of goods sold	55	55	55
	----	----	----
Gross profit	45	45	45
Less: Other expenses	30	30	30
Excise tax:			
Actual	5	5	5
Equivalent	5	5	7.69
Deductible	5	-	7.69
	------	----	-------
Taxable income	10	15	7.31
Income tax @ 35 percent	3.50	5.25	2.56
Total taxes, actual	8.50	10.25	10.25
Income tax as percent of actual net income of 10	35	52.5	25.6
Excise tax as percent of:			
gross receipts	5	5	7.69
actual net income	50	50	76.9

Disallowing deductions for excise taxes and tariffs, moreover, would also increase the rate of income tax actually falling on business incomes correctly measured as net of all costs incurred in the production of that income. Equivalently, the repeal of excise tax deductibility would increase the effective rate of these excise taxes. These effects are highlighted in the hypothetical case summarized in the following table.

Repealing excise tax deductibility would raise the income tax liability in this case by 50 percent, from $3.50, under present law, to $5.25, or from 35 percent to 52.5 percent of the actual net income of $10. Total excise tax plus income tax liabilities would increase from $8.50 to $10.25. If deductibility of excise taxes were retained, the same increase in total tax liabilities would result if the excise tax were $7.69 instead of $5.00, or nearly 54 percent more.

The extent of these hidden income tax rate increases would depend, obviously, on the amount of Federal excise taxes and tariffs paid by a business in relation to its other costs of production and sales. In view of the very substantial differences in the extent to which differing businesses incur these imposts and in the weight of these taxes in their total costs, repeal of the deductibility of excises and tariffs would differentially increase from one business to another the actual income tax rates on correctly measured taxable income.

If the income tax is not to fall with differing weights on equally profitable business operations merely because of differences in the extent to which these businesses are exposed to selective excise taxes, taxable income must exclude these excise taxes (indeed, all taxes paid by businesses). Failure to exclude these selective excises from taxable income means that the income tax itself will intensify the distortions imposed by the selective excises.

Chairman Packwood's proposal to deny the income tax deductibility of excise taxes is confined to Federal excises. Excise taxes imposed by other governments in the United States presumably would continue to be deductible in computing business net income for Federal income tax purposes. Distinguishing between a selective excise imposed by a state government and an identical or similar excise imposed by the Federal government in terms of economic effects or the most rudimentary principles of tax fairness must boggle the mind. It is impossible to find any basis in reason for disallowing the deduction of excise taxes imposed by one level of government while continuing to allow the deduction of the same or similar taxes imposed by other governments. This is certainly not to suggest that the excise taxes imposed by other governments should be disallowed as well; even if reason, logic, and basic principles of taxation did not preclude this result, the new fiscal burdens that would be imposed on state and local governments by H.R. 3838 or Chairman Packwood's proposed modifications of that legislation should do so.

Much has been made during the current tax reform effort of the desirability of providing a level playing field in the tax treatment of businesses with differing kinds of operations, differing production inputs, differing time patterns in incurring costs and realizing incomes, etc. Many of the proposals that have been advanced with this purpose in mind would, to be sure, miss the mark; many, indeed, would tilt the playing field against saving and investment and riddle that playing field with the potholes of differing business tax burdens on the basis of the kinds of production facilities they use. But these misses, for the most part, are mischances, the results of failure to understand the effects of various tax provisions in present law and in the various reform proposals. The proposed disallowance of deductions for Federal excise taxes and tariffs can't be excused on these grounds.

By far the most radical, indeed, astonishing of the Chairman's excise tax proposals is the one requiring businesses to pay income tax at the top corporate rate on taxable income deemed to be at least equal to their excise tax liabilities, irrespective of the actual amounts of their net incomes. This presumably means that, merely by virtue of the fact that it is liable for payment of excise taxes, a company with a net operating loss, even one many times larger than its excise tax liability, would have to pretend that it had positive taxable income at least equal to the excise taxes it must pay and to pay income tax on this phantom taxable income. This imputation of taxable income and assessment of income tax liability where no taxable income exists is the Orwellian 1984 of tax policy. It could well serve as a disastrous precedent for more generally assessing tax liabilities without any reference to economic realities.

It seems clear that these proposed excise tax changes were advanced not in the interests of improving these levies nor in the interests of true reform of the income tax. They appear to have been advanced merely as devices for raising some substantial part of the revenues needed to offset the very large revenue losses that other features of the tax reform program would entail.

These revenue raisers, moreover, are presumed to be relatively painless; because they would not fall directly on individual income taxpayers as such but on business income taxpayers, popular resistance to these tax increases is probably deemed to be slight. The notion appears to be that only directly affected businesses would be injured by denying deductibility of Federal excises for income tax purposes. Although this is clearly not the case, although the economy as a whole will sustain the losses imposed by aggravating the distortions imposed by selective excises, these losses are not readily apparent and measurable by the average individual. The fact that they escape our awareness in no way abates the harmful effects of Chairman Packwood's proposals.

Some may attempt to justify raising the excise tax cost of the production and consumption of tobacco products and alcoholic beverages on sumptuary or health grounds. If a good case could be made for transferring responsibility from the individual to the government for determining how much of what kind, if any, of these products to consume, that fundamental decision surely should not be made in the shadow of income tax reform. If the Congress wants to raise the real rates of all of the present customs duties, it should face the issue of intensified protectionism openly and squarely, not slip it under the tax reform rug. If a case could be made for gearing motor fuels excise taxes to the market value of motor fuels, that decision deserves to be made on its own merits and in the open, not hidden from view by the overshadowing arguments concerning income tax reform and the most effective and desirable ways of financing the revenue losers in the income tax reform package.

In this connection, the issue surely should be forcefully addressed whether producers and users of the products and services now subject to Federal excise taxation and tariffs should bear so large and disproportionate a share of the burden for financing the rate reductions and other revenue losers in the income tax reform effort. Enhancing the real burden of selective excises and tariffs certainly cannot be justified on its own merits. Asking some part of the population to pick up the chips for others in order to provide tax reductions and to do so through the proposed excise and tariff tax changes amounts to a kind of mindless redistributive tax policy. Why should people who work in truck manufacturing, telephone communications, airlines, tire manufacturing, tobacco, alcoholic beverage, and other excise-taxed industries pay for the tax reductions of those otherwise employed? If tax policy is to be applied to the questionable assignment of redistributing income and wealth among the population, at least it should be done with some clear notion of who are to be the income transferees and who are to be the transferors.

Apart from these issues, the likely economic effects of the proposed excise tax and tariff changes should be given substantial weight in the evaluation of these proposals. As already urged, the proposed revisions, by increasing the true rates of the excise taxes and tariffs, and differentially increasing income tax rates, would significantly enhance excise tax distortions of relative prices and costs, of the allocation of production inputs among their alternative uses, and of the composition of total output and consumption. These distortions, although difficult to perceive, to identify, and to measure are nonetheless real; the higher the true rate of the excise taxes and tariffs, the more severe these distortions become.

For this reason, Chairman Packwood's proposed excise tax and tariff revisions would, if enacted, seriously impair the efficiency with which the economy would operate. Production activity would be less productively undertaken. The loss in productivity would show up not merely in displacement of employees from their more productive to less productive jobs, but in loss in employment, at least during the transition period, and loss in real wages. Because some of the selective excises rest on products and services used throughout the business sector, moreover, the increase in their true rates resulting from the proposed changes would tend to raise production costs very widely throughout the economy. The adverse effects of these increases in costs, though not readily apparent, would nevertheless be real and would be in the form of less output, employment, and real income than would prevail if these changes were not made.

However useful the purposes to which the additional revenues to be derived from these excise tax changes might be deemed to be, they surely should not be undertaken without a thorough assessment of the costs they would inevitably impose. These costs are not readily measured, but they would be incurred as a result of the enactment of the proposed changes. Against any relevant economic and fiscal criteria of tax policy, these costs are excessive. The proposed changes in excise taxes and in their income tax treatment should be rejected.

Norman B. Ture

The House of Seagram

375 PARK AVENUE · NEW YORK, NEW YORK 10152

PRESIDENT

April 2, 1986

Dear Associate:

Recent activity surrounding the proposals by Senator Packwood has been intense. Charges have been made and the position of The House of Seagram with regard to Senator Packwood's proposal has, in many instances, been misinterpreted. The enclosure is intended to clarify Seagram's position on this important issue. It is the only position that this corporation has taken and should be disseminated freely.

The Packwood proposal has far-reaching ramifications, but there is no industry that will be affected more detrimentally than the liquor industry.

Seagram has led a major effort to encourage action to oppose this effort in Congress, and we will continue to work until every member of the Senate and key staff members know that Seagram is opposed to Senator Packwood's proposal.

Sincerely,

Edgar Bronfman, Jr.

IMPORTANT

A full page ad on this issue will run in the Tuesday, April 8 edition of the Wall Street Journal, asking consumers to express their opposition to Packwood's proposal.

Seagram Position on the Packwood Proposals

Seagram is strongly opposed to the proposed changes in federal excise tax treatment.

1) Seagram is opposed to Senator Packwood's proposed "tax reform" measures.

- By not allowing corporations to deduct the federal excise taxes they collect, Senator Packwood is suggesting the equivalent of a 54 percent increase in the excise tax rate for everyone.

- Seagram has taken a leading role in a coalition to vigorously oppose this proposal. The coalition includes truckers, telephone companies, airlines, oil companies, coal companies, tobacco companies, as well as beer and wine.

- As the largest distiller and second largest wine marketer in the United States, Seagram along with the rest of the industry would suffer an increased tax burden of about 73¢ on a typical gallon of wine and $5.40 on a typical gallon of 80 proof distilled spirits. This is an unacceptable burden on our consumers and our industry.

- Seagram is dedicating its full Washington D.C. lobbying resources to the issue and has briefed 16,000 employees, retirees, shareholders, distributors and retailers, asking them to voice their opposition to Congress.

2) Seagram's position is clear.

- There has been a misrepresentation in a March 14 letter from the Wine Institute which suggested that Seagram is behind the Packwood proposals. Nothing could be further from the truth. The argument that proponents of equivalence would promote non-deductibility is simply illogical. The fact is that across-the-board non-deductibility makes existing inequities far worse.

- This Packwood proposal effectively raises the price to the consumers of a 5-ounce glass of wine by 0.6¢, of a 12-ounce can of beer by 3.0¢ and a 1½ ounce serving of spirits by 10.6¢.

- The misstatement of Seagram's position was corrected in a subsequent letter from the President of the Wine Institute, dated March 24, which said, "The non-deductibility and indexing provisions do not derive from 'alcohol equivalency.'"

- Seagram will stop at nothing to assure that every member of the Senate and the key staff members on this issue know that Seagram is opposed to Senator Packwood's proposal.

<u>The Equivalency Issue and Taxes</u>

1) This most recent episode of activity by the Wine Institute is part of a familiar pattern of trying to blow smoke around the issue of equivalence.

- The majority of Americans, 59 percent according to a recent poll, know the fact of equivalence -- that a 12-ounce can of beer, a 5-ounce glass of wine and a cocktail with 1¼ ounces of liquor contain the same amount of pure alcohol.

- From a massive teaching effort by scores of public interest organizations, joined by Seagram, public awareness has leapt from 27 percent in 1982 to most Americans today.

- Understanding how much alcohol is in each beverage -- whether the drink is beer, wine or spirits -- is a vital piece of knowledge to pregnant women who may threaten the health of their unborn children by drinking "just wine", to teenagers who believe beer is akin to soda pop, to their parents, their teachers, doctors who advise the public and drivers. No one can handle alcohol responsibly if they underestimate the strength of their beverage.

2) Seagram has not led a fight for tax equity; the public has.

- Seventy-five percent of the public believes that equivalence is a very important fact to know. An additional 15 percent believe it is somewhat important to know this fact.

- Moreover, fully 74 percent believe the Federal government should take an active role in teaching equivalence.

- The results of a March poll done by Market Opinion Research confirms the significance of this trend.

- Fifty-eight percent of Americans believe the tax on beer and wine should be increased to the same level as the tax on liquor in order for federal taxes to be fair to the consumers of the three beverages.

- Sixty-four percent would support equal tax rates for beer, wine and liquor if the revenues raised reduced the deficit, helped to lower personal income tax rates or simply made things fairer for consumers.

- "Instead of increasing all three excise tax rate proportionately, Congress might be well advised to standardize tax rates per ounce of ethanol across all beverage types...Raising beer and wine taxes to the level of the liquor tax would bring in more revenue than doubling all tax rates and would have the important advantage of giving official recognition to the principle that ethanol is the problem agent, regardless of the type of beverage in which it is contained." (Philip J. Cook, Institute of Policy Sciences and Public Affairs, Duke University).

- Not surprising then, in our distributors' recent conversations with Senators, Congressmen and their staffs, it was clear that many in Congress has gained a new awareness of the fact of alcohol equivalence from their constituents. Scores of public-spirited organizations have taught the people and their elected representatives the crucial fact.

3) Seagram is proud of its role in furthering awareness of alcohol equivalence.

- Seagram believes its efforts are vital to the long-term health of both the wine and distilled spirits industries.

- Seagram has a 52-year commitment to ensuring that the product we sell is consumed <u>responsibly</u>. We will never betray that commitment.

- The health of our industry depends on the health and safety of consumers. Short-sighted efforts to misinform them will backfire, for someone who is not well informed is far more likely to abuse alcohol.

- Those who deny the facts about the products they sell -- those who deliberately portray products as less intoxicating than they are -- are asking for trouble. The American consumer and voter is demanding more responsibility.

4) As a leader in both the wine and spirits industries, Seagram knows well the realities of tax treatment.

- Among the three common servings, the current federal excise tax on a can of beer is 2 3/4¢; on a 1½ ounce serving of liquor, 10¢, and on a 5-ounce glass of wine, <u>less than 1¢</u>. The differences are exacerbated by state taxes.

- Distilled spirits products, which contribute the lion's share of retailers' profits, cannot absorb another tax increase. Spirits were singled out for a 19 percent increase in excise taxes last October, and sales are hurting already.

- Don't let the percentage game fool you. Any increase in wine or beer taxes will sound large in percentage terms because the current base is extremely low.

- Tax increases which discriminate against spirits are unacceptable to us -- and should be to the entire beverage alcohol trade.

April 2, 1986

Senator WILSON. Thank you very much, Mr. Ciocca. Mr. Moffett, please proceed.

STATEMENT OF J. WILLIAM MOFFETT, EXECUTIVE DIRECTOR, THE ASSOCIATION OF AMERICAN VINTNERS

Mr. MOFFETT. Good morning. The Association of American Vintners whom I represent as the executive director also has a prepared statement which it is entering for the record. I have a summary which I will attempt to get through in short order.

I might just also add that I hold one other job in addition to serving as the executive director and that is publisher of Vineyard and Winery Management magazine, a trade magazine located in the Finger Lakes of New York.

The Association of American Vintners is a nonprofit, voluntary membership organization of wine producers. Our members are located in 26 States and represent mostly small, family-owned wineries and vineyards.

In responding to the three Senate Finance Committee proposals that affect wine, we can state our case very succinctly. As others have said, we're scared. We're scared because, No. 1, we see nothing but ruination resulting from the proposed increase in excise taxes, and, No. 2, from the nondeductibility of taxes we have paid. We are frightened by the concept of indexing future tax increases to the price of our product because we must and sometimes more than once a year compensate for higher prices that we are charged for items like glass, closures, labels, grapes, and certainly labor.

Mr. Ciocca has stated the cost effects of wine and we concur. We anticipate that the consumer impact for table wines will become something like at a minimum a $2 increase per gallon, perhaps as high as $2.72, depending upon the alcoholic level of the wine and the profitability of the company.

Well over one-half of the approximately 900,000 acres of grapes grown in this country are grown to supply low-cost table wines regular consumers wish to afford with their daily meals, wines costing $3 to $5 per gallon. We are afraid that these wines which would be priced up 40 to 50 percent under the Senate proposals will be effectively taxed out of the price range of our regular customers.

Anticipating a cost increase in our products will be met by corresponding decline in sales, we must reiterate as others have said that grapes, unlike grains for beer and whiskey, have no Government subsidies and no alternative markets to absorb excess production. The grapes, if not harvested, must wither and rot, and with them, so too the investments of vineyard and winery owners.

We also foresee substantial displacement of farm families and laborers as a result of the Senate Finance Committee proposals.

We are also frightened by the policy statement that we see our Government apparently making to domestic business and the American worker. It appears to be a thumb of the nose, a slap in the face of those who supply jobs for American workers and personal, corporate, and State and Federal excise taxes for America's government. I am speaking, of course, about a policy that gives foreign competitors, who can enter our markets already subsidized without penalty, greater opportunity to profit under the nondeductibility proposal than Americans have on their own soil. We see a government that will penalize American wine producers for the taxes they pay while foreign governments subsidize exports to compete more effectively with us.

We're frightened by what the prospect of a fourfold increase in taxes means to the hundreds of wineries large and small that must purchase a new bond possibly four times larger than the one they now hold. In fact our winery members have told us that the posting of a four times larger bond would be impossible. They would be forced to close. It's true that you've heard that American wineries are not doing well right now. We project a scenario of small American business being driven under by American domestic policy while foreign competitors prosper because of reduced competition.

Under the Senate proposal taxes would be graduated by the actual degree of alcohol contained in each fermentation which means that as alcohol levels varied, so would the tax and the price of the product to the consumer. Our members tell us that the recordkeeping and manpower needed both to compute these taxes for IRS and to post prices with State control commissions would be onerously expensive. The small wineries particularly would be most severely impacted by the cost and, we feel, anticompetitive nature of such recordkeeping.

Morever, today we are freightened by the attitude of any government that would propose taxing table wine by its proof alcohol content. While our customers are not ignorant of the alcohol in wine, for the most part they do not purchase wine because of its alcohol content. But here under the Senate proposal even table wines would vary in price depending on the alcohol level.

We are afraid that if wines are taxed on their alcohol levels it would lead consumers to believe that the alcohol in wine is more important than the taste or its affinity to food. Nothing could be further from the truth. Wine is fermented for its good taste and because it tastes good. Consumers know it makes food taste better. I'm afraid if we regard wine in such a way as to tax it out of the average household budget, if we put uncommon attention on its alcohol value, then we have truly lost the fight for moderation that wine is leading today.

Finally, there is the matter of the legitimacy of excise taxes. Excise taxes are basically supportable only as long as the consumer or other penalized group doesn't object. Intrinsically, excise taxes, applied at the level of production, produce artificial price increases that are not related to real economic conditions. They are not a good form of taxation.

I wish to refer this subcommittee to the previously submitted Institute for Research on the Economics of Taxation document dated March 24, 1986. It's an excellent treatise on the value, if I can use that word, of excise taxes.

Thank you very much for allowing us to be here today.

[The prepared statement of Mr. Moffett follows:]

PREPARED STATEMENT OF J. WILLIAM MOFFETT

The Association of American Vintners is a voluntary membership organization of wine producers. Our members are located in 26 states and represent mostly small, family owned wineries and vineyards. Our membership also includes a number of larger wineries, including the two largest outside of California.

In responding to the Senate Finance proposals, we can state our case very succinctly: we're scared. We're scared because we see nothing but ruination resulting from the proposed increase in excise taxes, and from the non-deductabilty of taxes we have paid. We're frightened by the concept of linking tax increases to the price of our product when we must from time to time compensate for higher prices we are charged for such annually renewable essentials as glass, grapes, closures and labels, and perennially escalating labor costs.

A winery is an agricultural manufacturing operation, wherein grapes are grown in a vineyard costing about $4,000 per acre to establish and employing approximately one person per ten acres, and where the grapes therefrom are produced into wine by a winery employing three to six persons for the first 10,000 gallons of production. A vineyard and winery purchases supplies broadly, from the tractor and implement dealer, from the agricultural supplies retailer in the home community, and from the winery supplier of machinery and bottling goods who may be local or at a distance. Each bottle of wine represents some $0.60 worth of goods purchased immediately before bottling, grapes ranging in price from $90 to $1,500 per ton and averaging $200, a substantial amortized investment in plant and equipment, labor, borrowed capital and sweat equity. In considering all factors which will be affected by the Senate proposals, wholesaling and retailing, and tourism and preservation of the greenbelt outside of industrial centers are other significant parts of the vineyard/winery equation.

As we are aware that other respondents will be testifying on the impact of these proposals to the farm side of our business, we will confine our remarks to the impact at the winery level.

The Senate Finance Committee has proposed that our tax be increased to the same proof rate as beer. Table wines vary in alcohol level depending on the quality of the vineyard and season from, 9% to 14%. Twelve percent is a common average for table wines. The Senate proposal would create a new tax per gallon on standard table wine of $.87 a gallon, three times the beer rate. Compared to our present tax of $.17 per gallon for table wine, this is an incredible 511% increase we must pass on to our consumers all at once. When this tax is applied at the withdrawl from bond stage of production and becomes part of the cost of our product, it is subsequently marked up as the wine passes through the tiers of marketing. The typical markup is 100% by the time the wine has reached the consumer. Thus, the tax of .87 has a market impact of just under $2 per gallon. Under the Senate's proposal to cancel deductability of excise taxes paid as a business expense,we must add to our product cost at least 15% of the tax, representing the basic corporate income tax rate for minimally profitable enterprises, to compensate for new income liability resulting from the tax exclusion. The consumer impact for table wines thus becomes at minimum $2.00 and depends on the alcohol level. For dessert wines the new tax would be about $3.50. This increase, representing tax and phantom value-added markup on the tax would be applied no matter whether the cost of the wine was $3 per gallon or substantially more. However, it is the low-end impact we fear most, because well over one-half of the approximate 900,000 acres of grapes planted in this country are grown to supply the low cost table wines regular consumers of wine wish to afford for consumption with their daily meals. We are afraid that these wines with their new higher price will be taxed out of the range of affordability for our most faithful, regular customers.

Anticipating that a cost increase in our products will be met by corresponding decline in sales, we must point out that grapes, unlike grains for beer and whiskey, have no government supported alternative markets. The grapes, if not harvested, must wither and rot, and with them, so too the investments of vineyard owners who today are estimated to number approximately 25,000 based on the average farm model of 35 acres. We foresee substantial displacement of farm families and laborers as a result of the Senate proposals.

We are also frightened by the policy statement that we see our government apparently making to domestic business and the American worker. It appears to be a thumb of the nose, a slap in the face of those who supply jobs for American workers and personal, corporate and state and federal excise taxes for America's governments. I am speaking, of course, about a policy that gives foreign competitors, who can enter our markets already subsidized without penalty, greater opportunity to profit under the non-deductability proposal than Americans have on their own soil. We see a government that will penalize wine producers for the taxes they pay while foreign governments not only allow the deductability at home but subsidize exports to compete more effectively with us.

On another point; as you know, it is required that U.S wineries purchase a penal bond to guarantee to the US Treasury Department that a year's tax liability will be paid in the event of business failure. Today, the bond market has gone the way of the liability insurance market, where coverage is virtually on a dollar for dollar basis. We are frightened by the prospect a 5-fold increase in taxes means to the hundreds of wineries, large and small, that must purchase a new bond possibly five times larger than the one now held. Let us tell you a little about the wine community. It's not at all like the distilled spirits and beer industries, where a relatively small number of companies have been merging and becoming larger and cash stronger. On the contrary, the wine community is quite the opposite. Since 1970 it has grown rapidly in number of small producers, such that today there are more than 1,200 American wineries, most of them producing less than 15,000 gallons a year. Scarcely 15% of them are more than 15 years old. About one third of them are less than 6 years old. When you start a vineyard and a winery, whatever capital you had ends up in the form of trellises, buildings, tanks and wine, not cash. In a vineyard, a positive cash flow is not achieved until the fifth year. In a winery, profits may not be seen before the 10th year. Frankly, winery members have told the Association that posting a bond five times larger would be impossible. They would be forced to close. And whereas this fact is somewhat positioned toward the smaller family wineries whose vineyard employs half a dozen family and friends and the winery a few more, one cannot ignore the impact at wineries whose current tax liability is in the tens of thousands of dollars. It is true what you've heard. American wineries are not doing well right now. The still recessive American economy and the strong American dollar overseas have taken their toll in the last three years. We are aware of a number of substantial employers whose financial condition is such that posting a larger bond could also be a death knell. And here again, our foreign competitors remain exempt, as it is not they but their American wholesalers who must meet the bond requirement.

Returning to the tax increase proposal, we fear that the Senate has not taken into consideration that the federal government is not alone in levying excise taxes on wine producers. All states do also. When the combination of wine and beer excise taxes for each state are computed, it is revealed that the rate of taxation for wine is already higher than for beer. Further, as President Reagan and the US Conference of State Governors warned in 1981, an increase in federal excise taxes resulting in lowered demand could result in a revenue loss to states which consider excise taxation a distinct privilege under Constitutional Amendment as well as a needed revenue base. As at the federal level, the state taxes on beer and wine are levied according to classes of alcohol content. But under the Senate proposal, taxes would be graduated by the actual degree of alcohol contained in each fermentation, which means that as alcohol levels varied, so would the tax and the price of the product to the consumer. Our members tell us that the record keeping and paperwork needed, both to compute taxes and also to post prices with control commissions, would be onerously expensive and highly subject to error, exposing our producers to new liabilities and penalties for reporting mistakes above and beyond those they already are subject to. Smaller wineries especially would be severely impacted by the cost of such record keeping.

Moreover, we are frightened today by the attitude of any government that would propose taxing wine by its proof alcohol content. It appears to represent a sin tax attitude many thought had been left behind at Prohibition's decisive conclusion, when wine was purposefully taxed low because of its historic place in the home, the cuisine and religious sacrements. Our customers, for the most part, do not purchase wine because of its alcohol content, and nothing could more demonstrate this point than the trend toward lighter alcohol wines which sell for the same price and at no difference in tax than wines of the highest permissible levels for table wines. It has not taken a new tax act to make this happen. We are afraid that if wines are taxed by their alcohol level, it will lead consumers to believe that the alcohol in wine is more important than its taste or its affinity to food. Nothing could be further from the truth.

Finally, there is a more subtle point. Those of the alcohol equivalence persuasion may lead one to believe that there is no difference between beverages that contain alcohol. However, many wine consumers and medical and statistical researchers will tell you different. As the accompanying tables reveal, wine use is more strongly correlated with food use than any other beverage, which means that is it consumed at a time when the body is best able to safely metabolize alcohol. Wine is also strongly correlated with consumer preference changes to less alcohol and for medical reasons. We strongly believe that wine use in America is on the threshhold of producing a more sober, more thoughtful, and for the first time in our national history an educated consuming public. Why? Because wine is the only beverage that today has a number of formally organized societies, clubs and organizations (operating completely independent of the public relation intentions of wineries) which are dedicated to informing the public about wine use, about wine and food, wine and health and, about the taste perception of our wines. Beer does not have this. Liquor does not. I am afraid that if we tax wine in such as way as to price it out of the average household budget, if we tax wine so that a four ounce glass of daily wine in a restaurant is more expensive than a martini or a bottle of beer, then we have truly lost the fight for moderation through education.

In sumary, the Senate proposals lead to these conclusions:

(1) They will raise the cost of producing wine.

(2) They will raise the cost of wine to consumers.

(3) They will decrease the competitiveness of American business.

(4) They will cause a decrease in sales and and loss of tax revenue to states.

(4) They will put some wineries out of business and cause unemployment in the farm sector.

(5) They will cause abandonment of vineyards

(6) They will result in lost economic activity.

(7) They will work against the cause of moderation.

The Senate proposals are not in the best interests of the American consumer or American business. They are not in the best interests of states. In sum, the Senate proposals are not in the best interests of the Federal governmemnt and should be opposed.

- - -

Sincerely,

The Association of American Vintners

THE U.S. WINE MARKET*

(Excludes Brandy)

($Millions)

Year	Value of Domestic Manufacturers' Sales(1)	Value of Duty-Paid Imports	Value of Exports	U.S. Wine* Market	Imports As A % of U.S. Market
1965	$ 352.5	$ 65.0	$0.73	$ 416.8	15.6%
1966	364.3	74.1	0.87	437.5	16.9
1967	374.9	85.5	0.93	459.5	18.6
1968	413.1	102.1	0.99	514.2	19.9
1969	466.6	112.3	1.15	577.8	19.4
1970	540.4	139.5	1.33	678.6	20.6
1971	684.1	156.5	1.23	839.4	18.6
1972	783.2	213.4	1.61	995.0	21.4
1973	906.3	291.2	2.62	1,194.9	24.4
1974	1,166.0	301.6	4.15	1,463.5	20.6
1975	1,109.2	291.2	5.11	1,394.9	20.9
1976	1,117.3	351.1	5.67	1,462.7	24.0
1977	1,256.5	424.3	8.27	1,672.5	25.4
1978	1,428.1	653.1	9.67	2,071.5	31.5
1979	1,810.2	712.9	18.52	2,504.6	28.5
1980	2,028.5	785.2	28.80	2,784.9	28.2
1981	2,221.8	852.7	40.50	3,034.0	28.1
1982	2,606.6	879.6	37.43	3,448.8	25.5
1983	2,764.2	954.6	30.91	3,687.9	25.9
1984E	2,857.3	1,050.8	27.34	3,880.8	27.1
1993P	$5,911.4	$3,501.1	$60.40	$9,352.1	37.4%

*Market - Domestic Sales plus imports minus exports
(1) Noncensus years estimated by BTA
E - Estimate by Business Trend Analysts
P - Projection by Business Trend Analysts

SOURCE: U.S. Department of Commerce

PER CAPITA CONSUMPTION TRENDS FOR SELECTED BEVERAGES

(Gallons)

Year	Wine	Liquor	Beer	Bottled Water	Soft Drinks
1965	1.0	1.5	16.1	NA	16.2
1970	1.3	1.8	18.6	NA	22.7
1971	1.5	1.9	19.2	1.1	24.3
1972	1.6	1.9	19.7	NA	25.4
1973	1.7	1.9	20.6	NA	26.9
1974	1.7	2.0	21.5	NA	26.8
1975	1.7	2.0	21.8	1.2	27.4
1976	1.7	2.0	22.0	1.2	30.8
1977	1.8	2.0	22.8	1.8	33.7
1978	2.0	2.0	23.5	2.0	35.4
1979	2.0	2.0	24.3	2.3	36.7
1980	2.1	2.0	24.9	2.4	37.9
1981	2.2	2.0	25.2	2.7	38.9
1982	2.2	1.9	25.0	3.0	39.4
1983E	2.3	1.8	25.2	3.5	41.2

E - Estimate

SOURCE: BATF, U.S. Department of Commerce, International Bottle Water Association, National Soft Drink Association, Distilled Spirits Council of the U.S., Inc., Business Trend Analysts Calculations

CONSUMPTION OF WINES IN SELECTED COUNTRIES

PER CAPITA, 1970 - 1982

	1970		1975		1979		1980		1981		1982	
	Gallons/	Litres	Gallons/	Litres	Gallons/	Litres	Gallons/	Litres	Gallons/	Litres	Gallons/	Litres
France	28.8	109	27.5	104	24.3	93	24.0	91	23.8	90	22.7	86
Italy	29.9	113	27.2	103	23.8	90	23.5	89	22.5	85	21.9	82.8
Portugal	22.5	85	23.8	90	19.8	75	19.3	73	19.8	75	20.7	78.3
Argentina	24.3	92	21.9	83	20.3	77	19.8	75	19.3	73	19.4	73.6
Spain	16.4	62	20.1	76	17.2	65	16.9	64	16.4	62	15.1	57.0
U.S.A.	1.2	4.5	1.7	6.5	2.0	7.5	2.1	8	2.2	8.5	2.2	8.4

SOURCE: Compiled by the ITALIAN WINE CENTER

State Wine Excise Tax Rates[a] per Gallon/Liter, December 1984

State	Table Under 14%	Dessert 14-21%	Champagne & Sparkling Wine	Carbonated Wine	Vermouth
Alabama	.45/L	mark-up + 48%	.45/L	.45/L	mark-up + 48%
Alaska	.85	.85	.85	.85	.85
Arizona	.84	.84	.84	.84	.84
Arkansas	.75	.75	.75	.75	.75
California	.01	.02	.30	.30	.02
Colorado	.0733/L	.0733/L	.0733/L	.0733/L	.0733/L
Connecticut	.30	.30	.75	.75	.30
Delaware	.40	.40	.40	.40	.40
D.C.	.15	.33	.45	.45	.33
Florida[b]	2.25	3.00	3.50	2.25	3.00
Georgia	.40/L	.67/L	.40/L	.40/L	.67/L
Hawaii	20% wh. val.	20% wh. val.	20% wh. val.	20% wh. val.	20% wh. val.
Idaho	.45	mark-up + 18%	.45	.45	mark-up + 18%
Illinois[c]	.23	.60	.23	.23	.60
Indiana	.47	.47	.47	.47	.47
Iowa	mark-up	mark-up	mark-up	mark-up	mark-up
Kansas	.30	.75	.30	.30	.75
Kentucky	.50	.50	.50	.50	.50
Louisiana	.03/L	.06/L	.42/L	.42/L	.06/L
Maine[d]	.45	mark-up + .75	1.12	1.12	mark-up + .75
Maryland	.40(.1057/L)	.40(.1057/L)	.40(.1057/L)	.40(.1057/L)	.40(.1057/L)
Massachusetts	.55	.55	.70	.70	.55
Michigan[e]	.135/L	.20/L	.135/L	.135/L	.20/L
Minnesota	.27	.79	1.50(.40/L)	1.50(.40/L)	.79
Mississippi	mark-up + .35	mark-up + .35	mark-up + 1.00	mark-up + 1.00	mark-up + .35
Missouri	.34	.34	.34	.34	.34
Montana	.20/L	mark-up + 26%	.20/L	.20/L	mark-up + 26%
Nebraska	.65	1.25	.65	.65	1.25
Nevada	.40	.75	.40	.40	.75
New Hampshire	.30	.30	.30	.30	.30
New Jersey	.30	.30	.30	.30	.30
New Mexico	.25/L	.25/L	.25/L	.25/L	.25/L
New York	.032/L	.032/L	.175/L	.088/L	.032/L
North Carolina[f]	.21/L	.24/L	.21/L	.21/L	.24/L
North Dakota[g]	.50	.60	1.00	1.00	.60
Ohio	.26	.62	1.27	1.27	.77
Oklahoma	.63	1.25	1.88	1.88	1.25
Oregon[h]	.67	.77	.67	.67	.77
Pennsylvania	mark-up + 18%	mark-up + 18%	mark-up + 18%	mark-up + 18%	mark-up + 18%
Rhode Island	.40	.40	.50	.50	.40
South Carolina	.3042/L	.3042/L	.3042/L	.3042/L	.3042/L
South Dakota[i]	.90	1.40	2.00	2.00	1.40
Tennessee	1.10	1.10	1.10	1.10	1.10
Texas	.204	.408	.516	.516	.408
Utah	mark-up + 13%	mark-up + 13%	mark-up + 13%	mark-up + 13%	mark-up + 13%
Vermont[j]	.55	mark-up + 25%	.55	.55	mark-up + 25%
Virginia	.40/L	.40/L	.40/L	.40/L	.40/L
Washington	.2025/L	.2025/L	.2025/L	.2025/L	.2025/L
West Virginia	.26406/L	.26406/L	.26406/L	.26406/L	.26406/L
Wisconsin	.25	.45	.25	.25	.45
Wyoming	.75/L	.75/L	.75/L	.75/L	.75/L
Federal	.17	.67	3.40	2.40	.67

[e]Table wine rates apply to wines of 16% alcohol or less. Wines over 16% are sold in both private and state stores. Excise in states stores is markup + 18%.
[f]A minority of county stores handle wine, applying a mark-up. Taxes at $.21/L for wines of 17% alcohol or less.
[g]Wine less than 17% alcohol by volume, $.50; 17% – 24%, $.60.
[h]If winery produces less than 100,000 gallons per year, no tax on first 40,000 gallons shipped into states.
[i]Tax is $2.00/gal. for wines over 20% alcohol by weight.
[j]Table wine rates apply to wines of 16% alcohol or less, if by natural fermentation.
Source: DISCUS and NABCA.

[a]Includes excise tax type ad valorem taxes.
[b]Taxes based on alcohol by weight.
[c]In Cook County, additional tax of $.12 on table wine and $.30 on dessert wine.
[d]Includes "premium" at rate of $.15 for table wine, $.12 for sparkling and carbonated wines.

6 · 1 Production

Bonded Wine Cellars and Taxpaid Bottling Houses Operated by State (September 30, 1984)

State	Bonded Cellars	Bottling Houses
Alabama	2	—
Arizona	5	—
Arkansas	10	1
California	676	32
Colorado	2	—
Connecticut	10	1
Delaware	1	—
Florida	9	5
Georgia	6	2
Hawaii	2	2
Idaho	7	—
Illinois	5	9
Indiana	13	3
Iowa	16	—
Kentucky	3	16
Louisiana	2	2
Maine	2	1
Maryland	12	8
Massachusetts	10	4
Michigan	25	2
Minnesota	6	4
Mississippi	6	—
Missouri	25	3
New Hampshire	—	2
New Jersey	15	12
New Mexico	12	1
New York	91	2
North Carolina	5	1
Ohio	46	2
Oklahoma	2	—
Oregon	49	2
Pennsylvania	44	6
Rhode Island	3	—
South Carolina	3	—
Tennessee	6	2
Texas	25	3
Utah	1	—
Vermont	2	—
Virginia	28	1
Washington	47	1
West Virginia	4	1
Wisconsin	8	1
Total	1,246	132

Source: BATF.

Still Wines: Production, Withdrawals & Stocks by State Fiscal Year 1982ᵃ (thousands of gallons)

State	Production	Withdrawals Taxable	Withdrawals Tax-Free	Withdrawals Total
Arkansas	445,134	603,739	16,913	620,652
California	360,026,774	317,855,368	268,124,282	585,979,650
Florida	313,208	192,210	47,096	239,306
Illinois	6,423	1,149,305	404	1,149,709
Indiana	41,724	95,739	119	95,858
Iowa	72,103	74,262	—	74,262
Maryland	28,764	83,459	—	83,459
Michigan	983,298	771,807	213,198	985,005
Missouri	259,077	602,527	214	602,741
New Jersey	326,244	154,860	398,414	553,274
New Mexico	10,547	4,523	—	4,523
New York	36,031,020	32,920,868	4,886,853	37,807,721
Ohio	1,165,571	1,006,148	122,724	1,128,872
Oregon	300,521	265,215	1,934	267,149
Pennsylvania	346,536	2,743,090	10,202	2,753,292
Virginia	2,899,867	2,893,540	371,739	3,265,279
Washington	1,234,101	798,073	951	799,024
Wisconsin	63,327	210,417	—	—
Others	3,926,821	2,681,851	715,688	3,397,539
Total	408,481,060	365,107,001	274,910,731	640,017,732

State	Stocks Sept. 30 Not Over 14% Alcohol	Over 14% & Not Over 21%	Over 21% & Not Over 24%	Total
Arkansas	500,525	143,686	—	644,211
California	436,073,140	39,296,035	4,097,731	479,466,906
Florida	24,731	38,336	—	63,067
Illinois	18,548	94,939	—	113,487
Indiana	72,622	96,125	—	168,747
Iowa	10,043	2,581	—	12,624
Maryland	40,542	6,748	343	47,633
Michigan	1,054,375	186,710	4,552	1,245,637
Missouri	266,549	57,288	7,189	331,026
New Jersey	238,908	9,063	—	247,971
New Mexico	11,653	177	—	11,830
New York	22,321,509	8,084,789	18,480	30,424,778
Ohio	678,474	391,118	10,738	1,080,330
Oregon	466,595	579	—	467,174
Pennsylvania	392,272	117,449	—	509,721
Virginia	381,232	101,237	66,950	549,419
Washington	1,633,137	114,038	—	1,747,175
Wisconsin	129,056	ᵇ	—	129,056
Others	992,649	256,599	267,146	1,516,394
Total	465,306,560	48,997,497	4,473,129	518,777,186

ᵃLatest available.
ᵇLess than .05 (50 gallons).
Source: BATF Fiscal Reports.

Sparkling Wines: Production, Taxable Withdrawals and Stocks by States, Fiscal Year 1982ᵃ (thousands of gallons)

State	Production	Tax-Paid Withdrawals	Stocks Sept. 30
Arkansas	17.4	17.3	3.5
California	26,558.0	22,117.6	13,626.6
Illinois	—	—	5.9
Michigan	113.5	87.3	47.4
Missouri	0.2	382.6	11.2
New Jersey	19.2	33.5	23.6
New York	3,834.1	3,723.3	3,813.1
Ohio	111.0	101.6	56.7
Oregon	1.3	1.9	1.2
Pennsylvania	0.3	46.4	7.4
Virginia	0.4	34.9	5.2
Washington	0.4	0.6	21.4
Others	7.9	17.5	16.8
Total	30,663.7	26,564.5	17,639.9

ᵃLatest available. Source: ATF Fiscal Reports.

AVERAGE NUMBER OF OCCASIONS WITH WHICH LIQUOR, BEER, AND WINE ARE CONSUMED IN A NORMAL WEEK BY TIME OF DAY

	At Home			Bars or Restaurants		
	Wine	Beer	Liquor	Wine	Beer	Liquor
Base: Drinking Type	555	467	533	454	325	660
Weekly Average	4.24	5.78	5.00	2.90	4.79	3.83
Just before lunch	.08	.46	.24	.13	.50	.32
With lunch	.25	.66	.20	.33	.75	.23
Before dinner	.96	1.23	1.50	.43	.91	1.07
With dinner	1.74	.78	.35	1.24	.70	.38
After dinner	.56	.95	1.08	.37	.67	.70
Late evening	.65	1.70	1.63	.40	1.26	1.13

SOURCE: Newsweek Inc. - Prepared by FACTLINE, INC., 1979

Assocation of American Vintners Footnote: Table shows that wine has lowest incidence of before and after meal use; lowest late evening use. Highest with meal use.

REASONS FOR CHANGING ALCOHOLIC BEVERAGE PREFERENCES

(1981)

Reasons for Change	Percent Citing Each Reason FOR Changing To: Wine (271) (1)	Beer (264)	Whiskey (127)	Gin (61)	Vodka (62)
Changed preference	39%	49%	56%	64%	61%
Lower calorie content	13	17	5	7	16
Lower alcoholic content	10 (2)	5	5	5	3
Peer influence	8	5	13	5	10
Price consideration	3	6	2	16	5
Health/Medical reasons	8 (3)	3	6	-	5

(Table does not add to 100% because only the top reasons are shown)

(Base = total situations in which consumers changed preference)

Footnotes:
(1) Shows that highest number of consumers who changed, changed to wine.
(2) Highest number switched to wine for lower alcohol content.
(3) Highest who switched for medical reasons switched to wine.

SOURCE: Newsweek Inc. - Prepared by Total Research Corp.

Footnotes added by Association of American Vintners, Watkins Glen, NY

Senator WILSON. Thank you very much, Mr. Moffett. Mr. Hogue, please proceed.

STATEMENT OF MICHAEL HOGUE, OWNER, HOGUE CELLARS WINERY

Mr. HOGUE. Good morning, Senator, I'd like to submit a study, for your perusal, from our Washington State University by a fellow by the name of Raymond J. Falwell, an economist there, who's done a study on the impact of this legislation of this increase of Federal taxes and what effect it would have on our State.

My name is Michael Hogue and my home is in Prosser, WA. That is in the Yakima Valley in the south-central part of the State.

Thank you for allowing me to testify and to have an opportunity to express my thoughts on the economic impact of the proposed wine excise tax revisions.

I am a third generation farmer in the Yakima Valley with a diversified crop, including concord and wine grapes, hops, mint, asparagus, and potatoes. Eight years ago, I planted seven acres of Johannisberg Riesling grapes and at the present time I am farming over 200 acres of wine grapes. We started the Hogue Cellars Winery in 1982 producing 2,000 cases of premium wines and last year our winery bottled 40,000 cases.

Our agricultural fields and production facilities, including hops, employ 45 full-time, year-round persons. This has all been made possible by producing prized wines which are sold at fair prices, and I stress the words "fair prices."

I appear before you as a farmer-businessman. That is, a vineyard owner, and also as a winery owner, both of which are family-owned businesses and I'm certainly not appearing as a Fortune 500 corporation executive.

I really fear the proposed raise of the excise tax on domestic wines will result in retail price increases of $1 to $2 a bottle and as a consequence there will be a corresponding decrease in sales.

Our margins of operations are such that it is impossible for us to internally absorb a tax increase. A decrease in retail sales will cause a direct economic impact as wine producers and farmers will need less employees to say nothing of the indirect impact on distributors and sales personnel, warehousemen, and the transportation industry.

Gentlemen, as a farmer in the last 3 years I have experienced first hand a direct adverse economic impact because of a shrinking market for American-grown hops based on the value of the dollar and foreign production, a glutted potato market, and a severely depressed concord grape market.

The wine grape growers and winery owners in Washington, Oregon, and Idaho, the Northwest area from which I hail, will if the excise tax on wine is raised, suffer a direct adverse economic impact and one which would stifle a fledgling industry in that part of the country. Washington wines are some of the finest in the world and hopefully their increased export in the near future will even help lower the unfavorable balance of trade.

This is really not a sectional question as wine grapes and wineries are found throughout the United States. All 50 of the States derive a significant amount of revenue based on individual taxes of wine produced or sold in each State. An additional Federal excise tax on wine will, in my opinion, cause a direct adverse economic impact on each State's treasury due to loss of revenue from the decreased production and sales.

If I correctly understand the wine excise tax revisions, it includes a proposal to tax at a higher rate the more expensive wines. So instead of rewarding excellence, someone proposes to penalize it. That just doesn't make sense.

The small wineries and grape growing farmers throughout the country need your help to allow them, without an additional tax burden, to continue to make a social beverage of moderation partaken with food and which since Biblical times has been accepted by all mankind.

Again, thank you, Senator, and subcommittee members, for extending to me this privilege of addressing you today.

[The prepared statement of Mr. Hogue follows:]

Prepared Statement of Michael Hogue

GOOD MORNING MR. CHAIRMAN AND MEMBERS OF THE COMMITTEE.

My name is Michael Hogue and my home is in Prosser, Washington. That is in the Yakima Valley, in the South Central part of the State.

Thank you for allowing me to testify and to have an opportunity to express my thoughts on the economic impact of the proposed wine excise tax revisions.

I am a 3rd generation farmer in the Yakima Valley with a diversified crop, including concord and wine grapes, hops, mint, asparagus, and potatoes. Eight years ago, I planted 7 acres of Johannisberg Riesling grapes, and at the present time, I am farming over 200 acres of wine grapes. We started The Hogue Cellars Winery in 1982 producing 2,000 cases of premium wines and last year our winery bottled 40,000 cases.

Our agricultural fields and production facilities, including hops, employ 45 full-time year-round persons. This has all been made possible by producing prized wines which are sold at fair prices, and I stress the words "fair prices".

I appear before you as a farmer-businessman. That is, a vineyard owner, and also as a winery owner, both of which are family owned business' and certainly not as a Fortune 500 corporation executive.

During all my family's time as farmers, we have not sought nor received special treatment for any of our agricultural crops, and I am not here today for such a proposition. I really fear the proposed raise of the excise tax on domestic wines will result in retail price increases of $1.00 to $2.00 @ bottle, and as a consequence, there will be a corresponding decrease in sales. Our margins of operations are such that it is impossible for us to internally absorb a tax increase. A decrease in retail sales will cause a direct economic impact as wine producers and farmers will need less employees, to say nothing of the indirect impact on distributor and sales personnel, warehousemen, and the transportation industry.

Gentlemen, as a farmer in the last 3 years, I have experienced first hand a direct adverse economic impact because of a shrinking market for American grown hops based on the value of the dollar and foreign production; a glutted potato market; and a severely depressed concord grape market.

The wine grape growers and winery owners in Washington, Oregon and Idaho, the Northwest area from which I hail, will if the excise tax on wine is raised, suffer a direct adverse economic impact and one which would stifle a fledgeling industry in that part of the country. American wines are the finest in the world, and hopefully, their increased export in the near future will even help lower the unfavorable balance of trade.

It is really not a sectional question as wine grapes and wineries are found throughout the United States. All 50 of the states derive a significant amount of revenue based on individual taxes of wine produced or sold in each state. An additional Federal excise tax on wine, will in my opinion cause a direct adverse economic impact on each state's treasury due to a loss of revenue from the decreased production and sales.

I, do not have an expertise to offer thoughts on the economic impact of the removal of excise taxes as a deductible business expense, but just the same, I've always thought a legitimate business outlay of money, unless a capital investment, should be regarded as a cost of goods or services sold, and thus a deductible business expense.

When my winery's Cabernet Sauvignon, which had been produced in limited quantity, was awarded "Best Of Show" at the 1985 Atlanta International Wine Festival, it was received in the market place with a premium price. However, if I correctly understand the wine excise tax revisions, it includes a proposal to tax at a higher rate the more expensive wines. So instead of rewarding excellence, someone proposes to penalize it. That just doesn't make sense.

The small wineries and grape growing farmers throughout the country need your help to allow them, without an additional tax burden, to continue to make a social beverage of moderation, partaken with food and which since biblical times has been accepted by all mankind.

I again, thank you Mr. Chairman and Committee Members for extending to me this privilege of addressing you today.

Senator WILSON. Thank you very much, Mr. Hogue. Mr. Debevc, please proceed.

STATEMENT OF TONY DEBEVC, SECRETARY-TREASURER, OHIO WINE PRODUCERS ASSOCIATION

Mr. DEBEVC. On behalf of the Ohio grape and wine industry I would like to thank you for allowing me to express my views here today.

My father and myself, along with our wives, own and operate Chalet Debonne Vineyards in Madison, OH. My grandfather bought the original farm in 1914 and the family grew grapes for sale to various processors until 1971 when we established the winery.

As a representative of my State's grape and wine industry, as a businessman, but mostly as a winegrower, I am extremely concerned about the possibility of unreasonable excise tax increases.

The Ohio industry is small by California standards, but is becoming a very significant factor in our State's economy. In 1965, Ohio had fewer than 20 wineries, most established just after the repeal of prohibition. In just 20 years, the number is over 50 wineries with a number of new ones ready to open.

In 1965 in northeast Ohio where we are located, we had one winery back in 1965 grossing about $60,000. In 1985, we had 10 wineries in our region that gross over $3 million in sales, causing a significant impact on the local tourist industry. We are making a major impact in our economy.

Nearly every winery in our State, very similar to Pennsylvania or New York, is a small family operation with the majority of the grapes being grown on the fields adjacent to the wineries. Our winemakers are concerned. If prices are raised to cover the cost of increased excise taxes, sales will continue to fall. Domestic wine sales outside California were down 11.1 percent from 1984 to 1985.

So often what happens in the history of agriculture, the farmer will have to take less for his grapes to be able to put the finished product on the shelves at a reasonable price. The area grape farmers who sell directly to their neighboring wineries will have no alternatives but to take the going price or go out of business.

The U.S. wine grape production or grape production in general does not receive Government subsidies as do our friends in the grain industry which supply raw products for the distilling business or, for a matter of fact, the widely known export subsidies provided by foreign competition.

There's one other possibility which the wineries would be forced to consider besides giving farmers lower prices for their grapes, and this is the one that concerns me the most. In 1982, the United States imported 1.1 million gallons of grape juice concentrate, concentrate alone, which translates to 5.5 million gallons of single strength juice. In 1985, 3 years later, we imported 7.5 million gallons of juice concentrate relating to 37.5 million gallons of single strength juice. At 185 gallons per ton, the American farmers have lost the sale of 200,000 tons of grapes to just the concentrate alone which is the total purchases of Welch Juice Co., the largest single grape juice processor in the country. These juices are coming into the marketplace at 50 cents per gallon.

If cost cutting becomes necessary to compete in an already very tight marketplace, imported juices for domestic wine may become the wave of the future.

Finally, in addition to the grapegrower, the other loser in all of this will be the American consumer. All segments of the domestic industry are carefully regulated by a wide range of Federal, State, and local agencies, each charged with protecting the consumer and his health. When juices or wine hit our shores from foreign countries, it's extremely difficult to know exactly what sprays, additives, adulterations have been used in the vineyards and processing plants in those countries. There is no FDA, BATF, USDA, or State or local health inspectors traveling to Argentina or Yugoslavia inspecting their farmers and wineries.

This winter and again this week Austrian and German and Italian wines tainted by diethylene glycol, methyl alcohol, as known toxins, are a fine example of what's happening.

We cannot compete under these conditions of double standards of enforcement, bonding, et cetera. American farmers will be losing their vineyards and American consumers will be much less sure that their grapes and wine products are pure and safe.

In closing, I would like to say that our family farm and later winery began with a Yugoslavian immigrant with the clothes on his back. It is now one of the most modern and progressive farming enterprises in our State. Our farm has and will continue to pay for itself as its own business. It is our only source of income.

I am here defending my right to continue in this lifelong heritage. Many of the people who are here today, eight of the total that are speaking and many more in the background that do not have the opportunity to speak, came here of their own free will, paying for their own travel and their own dinners and their own motel, and in the last ditch effort to save their industry.

I would like to thank you for your consideration.

[The prepared statement of Mr. Debevc follows:]

Prepared Statement of Tony Debevc

On behalf of the Ohio grape and wine industry I would like to thank Senator Wilson and the members of this committee for the opportunity to express our concerns regarding the excise tax proposals currently under consideration by the Senate Finance Committee.

My father and I, with our wives, own and operate Chalet Debonne' Vineyards in Madison, Ohio. My grandfather bought the original land in 1914 and the family grew grapes for sale to various processors until 1971 when we established the winery. We have 60 acres of grapes under cultivation and a facility which is the largest of the wineries established in Ohio since the days of Prohibition. I serve as secretary-treasurer of the Ohio Wine Producers Association, president of the Association of American Vintners and am on the Board of Directors of the Ohio Grape Industries Program.

As a representative of my state's grape and wine industry, as a businessman, but mostly as a winegrower, I am extremely concerned about the possibility of unreasonable excise tax increases which are now under consideration.

The Ohio industry is small by California standards, but is becoming a very significant factor in our state's economy. In 1965, Ohio had fewer than 20 wineries--most established just after the repeal of Prohibition. Just 20 years later, the number is over fifty with several more waiting to open shortly.

The northeast Ohio area --from the east side of Cleveland to the Pennsylvania border, is typical of growth across the state. In 1965, our region had one family winery, the Cahodas Farm, producing about 10,000 gallons of wine with gross sales figures of less than $60,000 annually. Today, there are 10 wineries in the region, producing over 100,000 gallons with gross sales of wine and grape related products of over $3,000,000. And these numbers do not include the additional dollars generated by the independent grape farmers or by the tourist industry which is seeing dramatic benefits from the wineries' impact in the area. We are creating jobs and making significant contributions to our area's economy--and I know of three additional wineries planned for our area within 2 years which will help to continue this growth pattern.

Nearly every winery in the state is a 'family farm' type operation, with the majority of grapes used by each grown on the fields adjacent to the wineries. As regional vintners have grown, to meet consumer demand, they have begun to purchase grapes from neighbors and from contract growers in their area. Even Meier's Wine Cellars, the largest winery in the state, one normally regarded as a 'commercial winery,' has the most substantial plantings of grapes in Ohio. We are <u>all</u> farmers first and vintners second.

Our grape growers, like many other farmers across the country, are already in a severely depressed state. Hundreds of acres in the east are being abandoned or pulled out each year. Prices for many varieties are at Great Depression levels. Costs are soaring. Last year the largest independent grape grower in the state watched his farm sold at auction. We cannot afford additional unreasonable burdens.

Most of the wines sold in this state are not in the 'super premium' category and sell an average of $4/bottle retail. If these proposed excise taxes are imposed, with the standard markup system in Ohio, we will be dealing with more than a $2/ gallon increase in wine prices.

Our winemakers will be faced with several very difficult choices if these proposed increases stand.

1. If prices are raised to cover the costs of increased excise taxes, sales will continue to fall (domestic wine sales outside California are down 11.1% from 1984 to 1985)--and in an already drepressed wine market, the first alternative is not a viable one. The result will be as it so often has been in agriculture, the farmer will have to take less for his grapes to put the finished product at an accceptable retail price. The wineries' farm operations will loose money, putting further pressure on the family businesses. The area grape farmers who sell directly to their neighboring wineries will have no alternative but to take the going price or go out of business.

2. There is one other possibility which some wineries may be forced to consider--and this is the one which concerns me the most. In 1982, the United States imported c. 1.1 million gallons of grape juice concentrate (This translates to about 5.5 million gallons of single strength juice.). In 1985, we imported c. 7.5 million gallons which translates to over 37.5 million gallons of juice (at c. 185 gallons of juice per ton of grapes--American farmers have lost the sale of over 200,000 tons of grapes--a number equal to the total purchases of Welch Juice company, the largest single grape juice processor in the country!) <u>And</u> these juices are coming into the market at about 50 cents per gallon!!

If cost cutting becomes necessary to compete in an already very tight marketplace, imported juice for domestic wines may become the wave of the future--and the irreplacable grape growing sites--on hillsides overlooking lakes and valleys will be paved over for more condo development. Grape farming will not be a viable choice in our sons' futures.

Finally, in addition to the grape grower, the other loser in all of this will be the American consumer. All segments of the domestic industry are carefully regulated by a wide range of federal, state and local agencies, each charged with protecting the consumer and his health. When juices (or wines for that matter) hit our shores from a foreign country, it is extremely difficult to know exactly what sprays, additives, what adulterations have occured in the vineyards and processing plants in the counrty of origin. There is FDA, BATF, USDA, or state and local health inspectors traveling to Argentina or Yugoslavia inspecting their farmers and wineries, as evidenced by this past winter's scandals regarding Austrian, German and Italian wines tainted by dyetholene blycol, a known toxin.

We cannot compete under these conditions of double standards of enforcement, bond filing, etc. American farmers will be loosing their vineyards and American consumers will be much less sure that their grape and wine products are pure and safe.

Finally, we believe wine is a beverage primarily purchased as a compliment to food. It is used to enhance a meal or to celebrate holidays with family and friends. It has been a part of our religious heritage since the beginnings of western civilization. Around the world it is regarded as a food rather than a beverage containing alcohol. It historically has been taxed everywhere at rates different from spirits and beer, because it is different--it is not purchased for its alcohol content and this entire concept of equivilancy is an issue not founded on reality or common sense.

All of the other areas of concern-- the huge size of the proposed increases, the need for such substantial bond increases, the 'sin tax' philosophy, wine as a beverage of moderation, etc., are all important parts of the picture--and are being discussed by others speaking here. But as I indicated earlier, I am a farmer first and foremost--I like the way of life farming provides--and I have been able to provide a reasonably comfortable living for my family. I truly believe that increases of the size being considered by the Finance committee are adopted, they will put my farm and my winery at risk.

Thank you very much for your time and attention.

Senator WILSON. Thank you, Mr. Debevc.
Mr. Krause, please proceed.

STATEMENT OF STAFFORD H. KRAUSE, SECRETARY, NEW YORK STATE WINE PRODUCERS ASSOCIATION

Mr. KRAUSE. Senator, good morning; my name is Stafford Krause and I'm here representing the New York State Wine Producers Association. Our association appreciates the opportunity to state our views before this Joint Economic Committee.

The New York State Wine Producers Association is composed of 50 of the approximately 70 wineries in New York State. Our members are from all the major wine producing regions of the State, of which there are several. We are a statewide industry. Although our membership does include some larger wineries, some of the major wineries in the United States, our members are mostly small family-owned wineries, what we call farm wineries.

We are proud of our industry. We are proud that New York is the No. 2 State for wine grape and wine production, with about 2,000 vineyards, wine grape industry employment of approximately 20,000 people, annual gross wine sales of about $160 million, and annual wine excise tax payments right now of over $30 million. We also are proud to contribute over 500,000 visitors to the regional tourism in our area.

We are also proud of our wine heritage. We are proud of the long history of wine, a drink of moderation, of deep religious significance, and long associated with the family, with family gatherings, with family meals. Over 80 percent of wine consumers are over the age of 30 and over two-thirds of wine is consumed with meals with over one-half of the remainder consumed with evening snacks.

We are also proud of our wine family. We are proud of the long association with the grape growing agricultural industry. As I've indicated, many of us are vineyardists, grapegrowers. We are also proud of our relationship with our New York legislators and representatives who have recognized the economic difficulties faced by our industry. As goes the wine industry, so goes the juice industry, so goes the grape industry or vice versa.

In recent years, news article after news article has addressed the plight of the New York State grape industry, the pulling out of vineyards, the bankruptcies and closings of our small businesses. Our market share has fallen dramatically while farm producers subsidized in numerous ways have increased their share from 10 to 30 percent of national wine sales.

When our industry is struggling to stay alive, why would bills be introduced that would be so detrimental to our State and to our industry? Would it be in the interest of fairness? The argument of comparable Federal excise taxes completely ignores the fact that the wine industry pays significant State taxes and that these taxes are not equitable.

For example, taxes on a case of wine in Massachusetts are five times those of a comparable case of beer. The same applies in Montana, Missouri, Kentucky, et cetera. The overall disparity is approximately three times and in only two States are wine taxes lower than beer. And we all know the unfairness of our foreign competition who would merely increase their subsidies to carve a bigger piece out of our weakened industry.

Are these moves proposed to increase tax revenues? Nonpremium wines represent approximately 80 percent of the total domestic production. As has been pointed out, on a typical bottle of wine costing $3.50 the price would rise by $1.25. People would stop buying. The regressive nature of the proposed tax on popular priced wines will drive the sales down in the highest volume category. The anticipated tax increase will actually turn into net tax losses of revenue and these lost revenues will be both at the Federal and the State levels.

Are these increases proposed to benefit the public? Are they proposed to benefit the family, the family gatherings, the family mealtimes who must pay much more for their home consumption? And what happens to the efficient producer, our competitive society, who has struggled to keep prices down and to be efficient? He's penalized by this regressive tax per bottle.

We believe that the facts presented here today show that any tax proposal is ill timed at this time, let alone the proposals of the devastating magnitude of those proposed by the Packwood committee.

Again, we thank you for your fair and studied consideration of what we deem to be a very, very serious matter.

[The prepared statement of Mr. Krause follows:]

PREPARED STATEMENT OF STAFFORD H. KRAUSE

My name is Stafford Krause and I am Secretary of the New York State Wine Producers Association. Our association appreciates the opportunity to state our views before this Joint Economic Committee on the recent recommendations of the Senate Finance Committee to increase wine excise taxes and eliminate the deductibility of excise taxes from federal income taxes.

The New York State Wine Producers Association is composed of fifty of the approximate seventy wineries in New York State. Our members are from all the major wine producing regions of the state...the Erie Region, Chautauqua Region, Finger Lakes Region, the Hudson Valley, Long Island, and of course, we include the fine wineries of New York City. As you can see, we are a total-state industy. And, although we include in our membership some of the largest wineries in the country, our members are mostly small, family-owned wineries.

We are proud of our industry. We are proud that New York is the number 2 state for wine grape and wine production; with about 2,000 vineyards, wine grape industry employment of some 20,000 people, annual gross wine sales of about $160,000,000 and annual wine excise tax payments of over $30,000,000. We are also proud to be a prime contributor to another major industry of our state and region...We contribute over 500,000 visitors to our wineries each year to area tourism.

Like the other approximately 1,200 North American wineries, in forty-four wine producing states, we are the businessman next door...a good neighbor and a good citizen.

We are also proud of our wine heritage. We are proud of the long history of wine...a drink of moderation, of deep religious significance and long associated with the family...family gatherings and family meals. As is pointed out in a recent study by the the IMPACT Service...over 80% of wine consumers are over the age of 30, and over 2/3 of wine is consumed with meals...with almost half of the remainder consumed with evenings snacks.

We are also proud of our wine family. We are proud of our long associations with the grape growing agricultural industry, whether it be as vineyardist ourselves or thru tens of years of association. And we are proud of our New York legislators who have recognized the economic difficulties faced by our industry. The grape is New York's number 2 fruit product...and as goes the wine industry, so goes the juice industry, so goes the grape industry...or vice-versa.

In recent years, news article after news article has addressed the plight of the New York grape industry...the pulling out of vineyards...the bankruptcies and closings of our small businesses. Our market share has fallen dramatically, while foreign producers, subsidized in numerous ways, have increased their share from 10 to 30% of national wine sales. We are proud of the banding together of the winery, the grape processor, the grape grower and the legislator...proud of our new Farm Winery Legislation, our new promotion and research programs ...to keep our industry alive.

When our farm wineries are struggling to get through those first few difficult years of business, and our wines are just beginning to receive some well deserved recognition in competition with millions of dollars of foreign advertising and promotion, why would bills be introduced that would be so detrimental to our industry and state?

Would it be in the interest of fairness? The argument of comparable federal excise taxes, completely ignores the fact that the wine industry pays significant state taxes and that these taxes are not equitable. Taxes on a case of wine in Massachusetts for example are 5 times those on a comparable case of beer. The same applies in Montana, Missouri, Kentucky etc., etc. The overall disparity is approximately 3 times, and in only 2 states are wine taxes lower then beer. And we all know the unfairness of our foreign competitors who, faced by a sea of wine and economic ~~and~~ problems at home, would merely increase their subisidies to carve a bigger piece out of our weakened industry.

Are these moves proposed to increase tax revenues? Non-premium wines represent approximately 80% of the total domestic wine production. On a typical $3.50, 7.50ml (the old fifth) bottle of wine the price would rise by approximately $1.25. The regressive nature of the proposed tax on popular priced wines, would drive down sales in the highest volume category. The Finance Committee's anticipated income increases will actually be net excise tax losses...and these lost revenues will be at both the Federal and State levels.

Are these increases proposed to benefit the public? What about the family gatherings, the family meals. A high-priced import would not feel the pinch nearly as much as popular priced wines for home consumption. And the efficient producer who helps keep prices down, would be penalized by this regressive tax per bottle. ~~tax.~~

We believe that the facts show that any excise tax proposal on wines is ill conceived at this time...let alone proposals of the devastating magnitude of those before the Committee.

Again, we thank you for your fair and studied consideration of this serious matter.

Senator WILSON. Thank you, Mr. Krause. You had anticipated one of my questions with your testimony and that is really what the impact is of State excise taxes. I gather that it is erratic from State to State, but in those States that you mentioned like Massachusetts, Kentucky, Missouri, it's a very substantial burden. That does not seem to have been a factor in the consideration of the committee.

Let me come back to the basic point. There are really two things I think that we need to be concerned with in connection with the specifics of this Packwood proposal. The proposed tax increase would translate into a tax on grapes of about $148 per ton, an increase of about $120 per ton. Is that correct? Is that your understanding? That has been conveyed to us.

Mr. KRAUSE. Yes.

Senator WILSON. If that be true, then tell me as succinctly as you can, because we are running out of time, what does this do to your costs, to your prices, to your sales, and translate that in terms of the impact it will have on employment?

Mr. HOGUE. The impact in our State would be that a lot of people are depending on our industry, not only the 45 people that work on our farm but also our schools and our hospitals that are supported by the farms in our Yakima Valley in our State.

Farming is having a terrible time in our State right now and the wine business is the one bright star in the State. We have generated a tremendous amount of sales in our State. We are proud of this hard work we have done and almost overnight with this tax our prices of our wine could be increased $1 to $2 a bottle. We work hard to keep our prices down and that's why we're successful, I think, as an industry.

Mr. KRAUSE. Senator, I think there's a conception that the wineries are in many instances large businesses. I think this has to be cleared up. The fact is that most of the wineries, the vast, vast majority of the wineries are small family businesses, run by families with vineyardists acting both as the vineyardist and the winemaker. And they aren't making money. They just simply are not.

Talking in terms of wages, we're talking in terms of these people going out of business.

I also am financial officer of a wine company and I'm amazed when we write the checks for grapes each year how many more people we have to put on to endorse those checks—banks, Farmers Home Association—I mean, it's just absolutely ridiculous. There are very few checks coming out to be paid, at least from our business, to growers that do not have three or four endorsements on them. They are in hock in New York State.

Mr. HOGUE. I would just say that as far as our banking goes in our farming industry—and we think of our wineries as extensions of our farm—banking is very difficult to get now and they are very reluctant to loan money to agriculture and I think it's indicative of what they might see on TV and what they see in their portfolios when they're reviewing loans. So it's tough times. I can't see any good things coming from taxing our wines, only bad things. It just doesn't make sense ever.

Senator WILSON. How will this proposed increase in tax be allocated between the consumer, the winemaker, and the grape grower?

Mr. CIOCCA. Let me try that from the perspective of a medium sized winery. There's no doubt that every single winery in the business will try to pass it through to the consumer. There's no doubt that that will seriously impact on volume and there's no doubt that if there's a 10- to 15-percent decline in volume, going back to your earlier question just for a minute, there would be at least a 15- to 20-percent reduction in people. But the people that would be most severely impacted by this after it was passed on to the consumer would be the grape grower, not from the standpoint of lowering prices any more because I simply don't think that prices could be lowered more, but the market for a substantial portion of grapes would not be there, thereby tipping the supply-demand balance even more than it's already tipped in the wrong direction now, and placing countless thousands of people out of work.

So the burden would fall—it would pass to the consumer but the burden would fall on wineries, growers, retailers, wholesalers, and suppliers to the wine industry, and they would all suffer.

Mr. DEBEVC. Senator, I'd like to say one thing if I could. I have been in the business for a long time, ever since I can remember sitting around tables in the kitchen listening to the local grape growers talking about the problems from when I was 5 years old. And as I sit here listening to what's going on I feel as though we're in a foreign country pleading with someone else that has a control to help us stay in business and it's kind of disheartening.

You're confused. We're talking here in Washington to people that are supposedly representing us hopefully to help us and we're here pleading for them not to put us out of business. I find it very disheartening that I can't go to our Federal Government and say we're in trouble, we need help. I feel as though we're going to some other foreign agency and saying, "Gee, don't knock us out of the water; help us." We're pleading here.

When I was a kid listening to the local grape growers gripe to the processors that they weren't paying enough money that year, it was usually in a big bumper year, a surplus year. They had had two or three. The tanks were full and the market was just not there. There was too much supply and not enough demand and it was a normal situation. But 2 years later there was a huge frost, probably like we're likely to get this year, and all of a sudden the supply went out the bottom and the tanks became empty and everybody got into a bidding war. So the cost of grapes went way up and we made a little bit of money that year, but for the next few years there was usually money there because there was an attempt to fill those tanks up again. And in those years we bought our new tractors or our new trucks or our new equipment.

But that's not what happens today. What happens today is, when the supply is high the prices are low but when the supply is low what happens is there's plenty of foreign juice and foreign wine to buy. So we don't get those recovery years. All that happens is that this very cheap imported juice that comes in untapped and highly subsidized—the prudent businessman, the prudent processor or winery has to look at that alternative of being competitive and buying that foreign juice.

We used to sell to our local processor. That's not true any more. That's not how it works. The only case that is true is the small winery that's trying to develop and we're knocking them out of the water. I just sit here and just feel very disheartened about the whole thing.

Senator WILSON. Gentlemen, you represent wineries that vary in size, but one thing that they have in common is the length of time that is required for those who supply the grapes to actually be in a position where their product is acceptable to you.

Let's assume for the sake of argument that this proposal passes, that your predictions are realized, that a number of growers go out of business, that a number of winemakers go out of business, and that at some point in the future Congress awakens to the fact that it has created an inequity and that the subsidized imports should be dealt with in a way that doesn't allow them to seize a greater and greater market share.

In other words, let's suppose that at some point in the future there is an opportunity for American growers and American winemakers to come back into the picture.

For the record, I should have asked this of the growers but you all know the answers so I'll ask you since you're the people that take the product. How long does it take to develop a vineyard? Is this something you can do overnight?

Mr. HOGUE. No, it isn't, Senator. The 200 acres that I have planted, I started planting those about 6 year ago, and to get a full crop takes you 4 to 5 years. So it isn't an easy thing. It's a long-term commitment to our farming and it's very hard to get started in the business.

Mr. CIOCCA. Senator, if I might add, in addition to the 5-year leadtime to bring a vineyard into bearing, there are some economic considerations as well.

In California, it costs about $6,000 to $7,000 per acre to bring an acre of vineyard into bearing. If we let the farmers of this country go out of business today, not only will it take a long time—5 years if they start immediately—but I don't think they will have the economic wherewithal to do it.

Senator WILSON. Is there anybody besides Mr. Debevc whose family has been in the business for a period that dates back to the Great Depression? OK. Does anybody remember—you won't remember, but does your family history or your winery history date back to Prohibition?

Mr. HOGUE. My father does, but the winery business is so new in the State of Washington to our family, we've just been in the business 4 years now. We have worked very hard to build our brand and it's a difficult, complicated business and we sure don't need more problems to solve. We have enough of them.

Senator WILSON. Let me just ask you this. Do you have any way of even speculating what the impact of increased taxation might do in terms of tax avoidance? Are you aware, in other words, without naming anybody, of competitors whom you know or suspect to be reporting a little less than accurately?

Mr. HOGUE. No.

Senator WILSON. I raise the question because I think it's a legitimate one, although actually I was going to ask that of a witness who is not here, one of the two.

Mr. MOFFETT. Were you suggesting a return to bootlegging our products? During Prohibition and since that time it's been possible for the homeowner to make wine at home. It's quite possible that with a substantially increased cost of the jug of wine so to speak that the average consumer prefers to buy for everyday use that they may find it cheaper to sidestep the wine producer altogether and return to making it in the basement.

Senator WILSON. Or the wine producer may find it cheaper to sidestep the IRS. And I think there is a danger of tax evasion, not tax avoidance.

Mr. HEINEMAN. Senator Wilson, during Prohibition I've been opened up many times with somebody beating on the door for 1 gallon of wine, so I remember those days and during those days and after that a lot of juice was shipped around the country around our area by the barrel for people to make their own wine and that, of course, would be tax free. That was allowed. You could ship the juice and then the customer would ferment it out.

Senator WILSON. Sir, could we have your name for the record?

Mr. HEINEMAN. Lou Heineman. I am president of the Ohio Wine Producers Association.

Senator WILSON. All right. Thank you.

Gentlemen, thank you very much. We are very grateful to you for being here and for the time and effort you have put into preparing testimony.

Let me now invite our final panel to the table: Mr. Al Weed, former president, Virginia Wineries Association; Bill Blosser, Sokol Blosser Winery, Oregon; Al Wiederkehr, Arkansas Wine Producers Association; and Mr. William Oliver of the Indiana Wine Guild.

Let me apologize at the outset of this panel. My interest has prompted me to indulge myself in asking questions and probably we haven't moved this along as rapidly as we should. Mr. Boyle in about 5 minutes is going to assume the chair and ask some questions that I have asked him to put to you in order that your response can be a part of this record. We are not going to ask questions for the record in the technique that is often used in congressional hearings where we allow you at leisure to respond to a question that we put to you in writing because we don't have that leisure. This matter is of great urgency, and we are not allowed the leisurely pace of the academic cloister.

Also for the record, I will insert an opening statement by my colleague, Senator Alfonse D'Amato, a member of the Senate Wine Caucus; and also a memorandum from Mr. Paul Thomas of Bellevue, WA.

[The written opening statement of Senator D'Amato, together with the memorandum referred to, follows:]

WRITTEN OPENING STATEMENT OF SENATOR D'AMATO

MR. CHAIRMAN, I THANK YOU FOR CALLING THIS HEARING. I ALSO THANK TODAY'S WITNESSES FOR TAKING TIME FROM THEIR SCHEDULES TO TESTIFY ON THIS IMPORTANT TOPIC.

MR. CHAIRMAN, I OPPOSE AN INCREASE IN THE EXCISE TAX ON WINES, IN ANY FORM OR IN ANY MANNER.

WINE IS AN AGRICULTURAL CROP AND HAS BEEN RECOGNIZED AS SUCH SINCE BEFORE THE TIME OF CHRIST. IN NEW YORK STATE ALONE, IT ACCOUNTS FOR $30 - $40 MILLION IN FARM IMCOME ANNUALLY. THE COMMUNITIES IN THE FINGER LAKES REGION AND IN CHAUTAUQUA COUNTY DEPEND UPON GRAPE GROWING AND RELATED INDUSTRIES FOR THEIR ECONOMIC SURVIVAL.

AVERAGE GRAPE RETURNS IN NEW YORK, AS WELL AS IN CALIFORNIA, HAVE FALLEN FOR THE LAST FIVE YEARS. THE NEW YORK INDUSTRY HAS SEEN ITS MARKET SHARE FALL AS DESSERT WINES, WHICH HISTORICALLY HAVE BEEN A GOOD OUTLET FOR NEW

YORK GRAPES, HAVE GONE FROM A 28 PERCENT SHARE IN 1970 TO A 6.8 PERCENT SHARE IN 1984.

INCREASED COMPETITION FROM IMPORTS HAS PRODUCED FLAT SALES, EVEN AT REDUCED PRICES. ORDINARY TABLE WINES ARE THE BASIS FOR THE THE GRAPE GROWING INDUSTRY IN THIS COUNTRY. NON-PREMIUM WINES REPRESENT NEARLY 80 PERCENT OF THE TOTAL DOMESTIC WINE PRODUCED. THESE WINES ARE FOUND AT THE LOW END OF THE PRICE SPECTRUM AND ARE THE MOST SENSITIVE TO INCREASES IN PRICE.

COMPETITION ALSO CAN BE SEEN IN THE INCREASED AVAILABILITY OF GRAPE CONCENTRATE FROM FOREIGN SOURCES. IN 1985, 7.5 MILLION GALLONS OF GRAPE CONCENTRATE WAS IMPORTED INTO THIS COUNTRY AT THE EXPENSE OF THE DOMESTIC FARMER, COMPARED TO ONLY 1.1 MILLION GALLONS IMPORTED IN 1982.

THE U.S. GRAPE GROWERS ARE FACING INCREASED COMPETITION AT INCREDIBLE RATES.

THE FACT REMAINS, HOWEVER, THAT THE AMERICAN WINE INDUSTRY STILL PROVIDES A PRODUCT WHICH IS IN HIGH DEMAND. IT GENERATES BILLIONS OF DOLLARS OF RETAIL SALES AND INCOME. MANY FARMERS EARN THEIR LIVELIHOOD BY PRODUCING THE FRUIT USED TO MAKE WINE. WORKERS AND MANUFACTURERS OF BOTTLES, CONTAINERS, AND PRINTING MATERIALS ARE DEPENDENT UPON THIS INDUSTRY, AS WELL AS THOSE ENGAGED IN WHOLESALING, RETAILING, TRANSPORTATION, ADVERTISING, AND OTHER ENDEAVORS THAT BRING THE BEVERAGE TO THE CONSUMER.

TO INCREASE THE EXCISE TAX WOULD MAKE THE TAX RATE ON WINE UNJUSTIFIABLY HIGH. ALCOHOL TAXES ARE REGRESSIVE, AND INCREASES IN THE FEDERAL TAX RATE WOULD INTERFERE WITH THE TAX BASE TAPPED BY MANY STATES.

WHY INSIST UPON INSTITUTING AN INCREASE TAX ON AN AGRICULTURAL PRODUCT? THE WINE INDUSTRY IS A VALUABLE EMPLOYER IN MANY STATES. ANY INCREASE IN TAXES ON THE PRODUCT WILL RESULT IN THE DESTRUCTION OF AN ENTIRE INDUSTRY.

IT IS MY SINCERE DESIRE THAT THE SENATE FINANCE COMMITTEE, AS IT CONTINUES TO MARKUP A TAX REFORM BILL, RECONSIDER THE SUGGESTED INCREASE IN THE EXCISE TAX ON WINE AND STRIKE THIS PROPOSAL.

THANK YOU, MR. CHAIRMAN.

PAUL THOMAS

1717 - 136TH PLACE NORTHEAST, BELLEVUE, WA 98005 (206) 747-1001

April 4, 1986

Joint Economic Committee
Subcommittee on Trade, Productivity, and Economic Growth

Attn: Pete Wilson, Chairperson
Members of the Committee

Subject: Packwood Proposal to disallow eductability, introduce "indexing," and increase the Federal Excise Tax Rate on Wine

Thank you very much, Senator Wilson and members of the Committee, for providing an open hearing on this all important tax proposal.

The Paul Thomas Winery is one of sixty (60) wineries in Washington State, all of which are virtually new since I established my winery in 1979. Today in 1986 grape growing has become a major new agricultural industry in our state, and it is one of the few bright spots in agriculture in Washington State. It is my speculation that Washington State is one of the fastest growing viticultural regions in the world.

I have telephoned, personally, nearly fifty (50) wineries in nine states, anticipating the catastrophic impact of this proposal (all three parts) on wineries and grape growers. I can tell you in advance that not one of the wineries I contacted said that it was earning a profit in the wine business. My remarks, devoted to three areas, could easily be the response of anyone of the fifty wineries I contacted.

I anticipate the impact of the Packwood proposal to be as follows:

FISCAL IMPACT

Packwood anticipates to generate $4 billion from raising the excise rate on wine from the current 17¢ per gallon to 87¢ per gallon. He met with the Oregon wineries Friday, March 28, in Portland, and further described his notion of "indexing," that being that higher priced wines would pay a higher rate of taxes, but no lower than that mentioned here (87¢ per gallon), anticipating even more than the revenues he has announced would be obtained from "indexing." He has publicly stated $9 billion but he mentioned $15 billion in Portland. The U.S. government (IRS) collected only $274 million in 1985 from all wine products. Anyone versed on the status of the wine industry knows that Packwood's figures are fantastic and will not be realized. Someone did not do his homework. Wine is an extension of agriculture and wine prices and grape prices and sales of table wines have all been steadily declining since November, 1983. A forced increase in shelf prices, through an incease in excise taxes, of bottled wine, will do quite predictably what has been going on since 1983, reduce sales and corresponding revenues realized by the U.S. government.

BUSINESS IMPACT

This tax, all three parts, is a tax on agriculture, and specifically, upon those farmers who have chosen to grow grapes as opposed to other commodities. It might be the only tax levied on agriculture in this country. Viticulture is a severely depressed industry in California, there being more than 50,000 acres of grapes that went unpicked in 1985. Raising taxes on wine will further depress this farm industry, and at this point in time it does not make any more sense than taxing milk farmers or wheat farmers.

There are 1,000 wineries in the U.S.A. Unlike the beer industry, an industry of few and very large units, the wine industry is a cottage industry in that all but 20 of the 1,000 wineries are "small," producing less than 10% of all wine produced in the U.S.A in a given year. I do not know of a SINGLE winery in Washington, Oregon, and Idaho (120 wineries) which is showing a profit. I am enclosing a summary financial statement of my winery because it is what you could expect from virtually over 900 other "small" wineries in the U.S.A. The increased excise tax would push wine prices up on the shelf and further depress wine sales and, thus, revenues to individual wineries. Wine prices and sales of table wines have been in steady decline since November, 1983. This tax is properly labeled a "destruction" tax. Disallowing deductability would drive up operating costs and accomplish the same thing, driving small and unprofitable units out of business and leaving those large wineries in the industry that have financial staying power.

PERSONAL IMPACT

This winery could not survive a situation in which wine prices went up on the shelf, and, at the sametime my operating costs were forced up by excise taxes no longer being allowed as a business expense. Either one would, quite predictably, take me out of business. I am attaching a summary of profit and loss because it tells you all you need to know.

Personally I find the Packwood proposal scandalous in that it exhibits extreme ignorance of the status of the wine industry or political expediency (Wine is a "sin" product and politically vulnerable.) or a total insensitivity to the perils of the wine industry.

Again, thank you Senator Wilson and members of this committee, for offering this public forum. I regret that I could not personally testify before your committee.

One Attachment

Paul F. Thomas, III
Owner
Paul Thomas Winery

Packwood Proposal Before The Joint Economic Committee
Comments by Paul F. Thomas, III
April 4, 1986

Page Three
(Attachment)

Summary
of
Profit & Loss Statements
1980-1985

Year	Case Sales	Revenues	Profits	Indebtedness
1980	5,200	N.A.	N.A.	N.A.
1981	7,000	N.A.	N.A.	N.A.
1982	8,600	$300,000	($50,000)	$300,000
1983	13,500	$444,000	($40,000)	$385,000
1984	14,800	$496,000	($10,000)	$420,000
1985	17,500	$605,000	($66,000)	$425,000

Notes:

1. My winery paid $7,080 in federal excise taxes on wine in 1985. You will notice that the winery lost $66,000 in 1985. Under the Packwood proposal my tax bill would have been $36,225 and my loss for the 1985 year would have been $95,145. I would have to try, but, given the trend of pricing in the marketplace, my ability to pass along a higher excise tax bill would be negligible. What would happen is that I would try. Prices on my wine would rise, sales would fall, revenues would decline, and the winery would, quite predictably, be in greater financial jeopardy.

Senator WILSON. Gentlemen, we are delighted to have you here. Mr. Weed, why don't you begin.

STATEMENT OF ALBERT C. WEED II, FORMER PRESIDENT, VIRGINIA WINERIES ASSOCIATION

Mr. WEED. One advantage of speaking late is that what one wanted to say is actually compressed by what others have already said.

My name is Albert Weed, I'm the past president of the Virginia Wineries Association, currently its legislative committee chairman and an active winegrower.

Virginia is both new and old in this business. In the past 13 years Virginia has gone from nowhere on the farm wine scene to seventh in the Nation. Our total wine production from 33 farm wineries is yet small, but if commercial wineries are counted Virginia ranks only after California and New York in total production. I will refer to Virginia's historical contribution in a short while.

We winegrowers can claim two perhaps dubious distinctions. We are totally unsubsidized in our primary business and as wine producers are the only class of farmers which pays a tax directly from the farm level to the Federal Government, and in Virginia at least to the State government. These taxes are significant. An acre of wine grapes will generate at current tax rates about $136 a year to Washington and $1,210 to Richmond.

An increase in the Federal wine tax could bring this total close to $2,000 per year per acre, not much less than it cost me to establish an acre of my wine grapes. One negative aspect of the increased excise tax that hasn't been pointed out by others is that the extent that we as American wineries are charged a tax at the winery level it will suffer markups all the way through the wholesale-retail distribution chain.

Imported wine would have the tax put on a little higher in the chain, therefore, the markups would perhaps have a lesser impact on the final price to the consumer. I don't know how to quantify that impact.

This raises the essentially trivial question of who pays the increased wine tax—the consumer or the farmer-producer? If I pass it on and lose market share and sales as a result, I lose. If I absorb the increases, I lose. While a demand for wine in general may be somewhat price inelastic, I have little doubt that it is mightily responsive to the price I put on my own wine and I'm scared about that.

Finally, a point to make here is, to raise the price of wine at this time flies in the face of a very significant social movement. The increased concern across the Nation about alcohol abuse. In these times, as historically, table wine is seen as a beverage of moderation, a beverage that is basically a food and it is to be consumed in surroundings which encourage moderation.

I won't quote Scripture, but for a Virginian I will quote what comes very close to that, and that's Thomas Jefferson who had a lot to say about a lot of things but a lot to say about wine. You're probably familiar with what he said when he said, "No nation is drunken where wine is cheap." I have in my prepared statement, the full paragraph from which that comes and it reads just like he would have written it to this panel or to your colleagues in the Senate. I won't read that and I will just submit that, sir.

I am sure that I am not the first to be reminded when reading the Packwood proposals of that classic exercise in futility—rearranging the deck chairs on the Titanic. What concerns me, however, is that here the deck chairs seem to be about to be piled onto the few remaining agricultural lifeboats thereby ensuring that they too will sink.

I hope that you will firmly reject any notion of raising excise taxes on wine.

[The prepared statement of Mr. Weed follows:]

Prepared Statement of Albert C. Weed II

My name is Albert C. Weed and I am the past president of the Virginia Wineries Association, its current legislative committee chairman, and an active winegrower.

It is as the latter, a winegrower ... a farmer..., that I speak this morning. Yesterday at this time, and tomorrow as well, I can be found in my vineyard or winery growing a crop or preparing it for market. In this I have a great deal of help from my entire family, but that is the nature, I suspect, of the majority of the winegrowing operations in this nation. We are family farmers trying to make a living off family-sized farms.

Virginia is both new and old in this business. In the past thirteen years Virginia has gone from nowhere on the farm-wine scene to seventh in the nation. Our total wine production from 33 farm wineries is yet small, but, if commercial wineries are counted, Virginia ranks only after California and New York in total production. I will refer to Virginia's historical contribution in a short while.

Not only are most winegrowing operations on a small scale, but most also grow most of the grapes used in their wine production. Vineyards which produce winegrapes for sale to wineries have virtually no other market for their product and, consequently, are intimately linked with our concerns. We winegrowers can claim two perhaps dubious distinctions; we are totally unsubsidized in our primary business, and as wine producers, are the only class of farmer which pays a tax directly from the farm level to the federal, and in Virginia at least, the state government.

And these taxes are significant: an acre of winegrapes will generate at current tax rates $136.00 per year to Washington, and $1,210 per year to Richmond. An increase in the Federal Wine Tax could bring this total to close to $2,000 per year --- not much less than it costs to establish an acre of wine grapes.

After we have faced the same natural challenges as other farmers, then moved to the more subtle challenges of winemaking, we still have to sell our wine in a market that is as competitive as any ever dreamed about by Adam Smith. I doubt, however, his "invisible hand" analysis envisioned the panoply of subsidies available to our foreign colleagues. An increased excise tax will have a more serious impact on US wine producers who make the Hobson's choice of passing the tax on to the consumer then it will to foreign producers. This is because our wines must go through at least three layers of distribution (winery-wholesaler-retailer) with the tax applied at the lowest level. Mark-ups taken at each level will mean a higher total price to the consumer than a tax applied at the wholesaler/importer level will mean for imported wine.

This raises the essentially trivial question of who pays the increased wine tax, the consumer or the farmer producer?

If I pass it on, and lose market share and sales as a result, I lose. If I absorb the increase, I lose. While the demand for wine in general may be somewhat price inelastic, I have little doubt that it is mightily responsive to the price I put on my own wine. And I'm scared.

Besides the actual cost of paying more taxes, I dread the thought of the increased paperwork associated with a tax that is linked to actual alcohol content. Wine is a natural product, whose final alcohol content is often directly linked to the level of sugar we are able to produce in the vineyard. Either we will have to intervene much more closely in the winemaking process than absolute quality dictates, or we will have to make printers rich with our label changes. I guess some printers will also get rich printing up the government forms needed for this exercise.

Finally, to raise the price of wine at this time flies in the face of a very significant social movement -- the increased concern across the nation about alcohol abuse. In these times, as historically, table wine is seen as a beverage of moderation --- a beverage that is basically a food, and is to be consumed in surroundings which encourage moderation.

We Virginians are congenitally disposed to quote Thomas Jefferson, but on wine as on so much else that has made this nation great, his wisdom remains compelling. You are probably familiar with his observation that "No nation is drunken where wine is cheap.." but the letter from which this is drawn reads as if were addressed to this body and not to one Monsieur de Neuville. The crucial paragraph reads:

> I rejoice, as a moralist, at the prospect of a reduction of the duties on wine [would that this were the case], by our national legislature. It is an error to view a tax on that liquor as merely a tax on the rich. It is a prohibition of its use to the middling class of our citizens, and a condemnation of them to the poison of whiskey, which is desolating their houses. No nation is drunken where wine is cheap; none sober, where the dearness of wine substitutes ardent spirits as the common beverage. It is, in truth, the only antidote to the bane of whiskey. Fix but the duty at the rate of other merchandise, and we can drink wine here as cheap as we do grog; and who will not prefer it? Its extended use will carry health and comfort to a much enlarged circle. Every one in easy circumstances (as the bulk of our citizens are) will prefer it to the poison to which they are now driven by their government. As the treasury itself will find that a penny apiece from a dozen, is more than a groat from a single one. This reformation, however, will require time.

I am sure that I am not the first to be reminded when reading the Packwood proposals of that classic exercise in futility; re-arranging the deck chairs on the Titanic. What concerns me, however, is that here the deck chairs seem to be about to be piled into the few remaining lifeboats, thereby ensuring that they too will sink. I hope that you will firmly reject any notion of raising excise taxes on wine.

Senator WILSON. Thank you, Mr. Weed.

We have received numerous letters and mailgrams from a number of different industry representatives who feel that the excise tax provisions proposed in the Senate Finance Committee's tax reform proposal would have an adverse impact on their industries. These include beer distributors, wineries, and bottle and label manufacturers, to name a few.

Because of the limited time that we have today and the need to get this hearing on the record, these industries were not able to provide personal testimony before the subcommittee, but they have provided a number of letters. So I am going to ask that a representative sampling of their letters and written communications be included as part of the hearing record.[1] Mr. Blosser, please proceed.

STATEMENT OF BILL BLOSSER, SOKOL BLOSSER WINERY, OREGON

Mr. BLOSSER. Thank you, Senator. My name is Bill Blosser. I am here not only representing our own family winery, but the Oregon wine industry and, specifically, the Oregon Wine Growers Association.

I have the dubious distinction of being the only person speaking to you today who comes from a State whose own Senator has proposed this abomination. We are doing what we can to change that in the State, and we are hoping that the testimony we give here will add even more weight to it.

When this proposal first hit the streets several weeks ago, naturally, we were concerned and the wineries got together at the local flyspeck cafe and started discussing it; immediately two questions came to mind. The first one was, again invoking a scriptural reference, that we felt like Job and we asked ourselves, "Why, Lord, why us?" How did we get chosen as the folks who should pull the sled of tax reform in the United States? How could we be so blessed as to be given this great honor?

The second question was, What is this going to do to us? We put a great amount of effort into deciding that and working it out, and I will not repeat any of it since that would repeat much of what has already been said by other people.

The one comment I would like to make is on this question of "Why us?" How did it happen that such a proposal could come down and land on the shoulders of the wine industry? I think I have the answer and it's not a particularly happy answer, I think.

The reason, I think, comes down to the fact that someplace here in the Halls of Congress there is a group who fashioned this proposal in gross ignorance of what the American wine industry is about and what its financial condition is. I think the financial condition has been aptly and ably described to you already.

What happened I think, and what we're hoping to correct today, is that the total knowledge of the folks who proposed this thing came from watching television and, especially, it came from watching the television show which goes under the name of "Falcon Crest." The image portrayed of the American wine industry on

[1] For the information referred to, see appendix.

that program, as you know, is of lavish, opulent wineries, fast cars, fast women, fast times; if you're not having fun with your neighbor's wife, you're out there putting a knife in the back of your competitor or spraying his grapes with poison or something else—a wonderful image of the American wine industry.

Unfortunately, I think it's been translated into legislation by this group right here. The impression from watching "Falcon Crest" would be that we have lots of bucks; we're fat and happy, and certainly the Congress could come to us and ask us to contribute a little more to help some others.

Had we been asked for a few pennies, we probably would not be here arguing with you. But since we have been asked to pull the whole sled, I think the record needs to be made, as it has been today, that, indeed, the American wine industry is not "Falcon Crest." If anything, our program should be called "Failing Acres" and we all live in "Chateau Deficit."

With that, I have nothing further to say. I think, obviously, the whole thing is a grave mistake. We have met with Senator Packwood in the last couple of weeks in Oregon. We tried to make him aware of that fact. I hope some of that has seeped into him from the Oregon side and I hope that the testimony today will further seep into the minds of the rest of the Congress. Thank you.

Mr. BOYLE. Thank you very much, Mr. Blosser.

Mr. Wiederkehr, please proceed.

STATEMENT OF AL WIEDERKEHR, ARKANSAS WINE PRODUCERS ASSOCIATION

Mr. WIEDERKEHR. Thank you, Mr. Boyle. My name is Al Wiederkehr, I am here today to represent—as the president of—the Arkansas Wine Producers Association. I am also chairman of the board of Wiederkehr Wine Cellars, Inc.

The impact that these proposed taxes would have on our industry are such that it would first of all I think cause the destruction of the smaller wineries, many of whom grow all of their own grapes in our State.

By the way, I have also been authorized to speak for the Arkansas Grape Growers Association.

Our State already taxes wine at 75 cents per gallon and 5 cents a case. Other States near us have higher taxes. So we have a great tax burden already and I feel that most other States feel the same burden.

The unprecedented drought of 1980 has already caused a great burden on grapegrowers in 17 counties where many growers lost from 46 to 60 percent of their acreage to drought because they didn't have irrigation facilities and our region depends on natural rainfall. Many of these growers have borrowed to replant new vineyards and many banks are out on a limb and could fold with growers.

Some wineries have already closed and others are for sale. Our wine cellars are the largest in the State but small compared to the overall industry and this is our 106th year in the business. I'm a third generation winery manager. My grandfather and grandmother immigrated in 1880 from Switzerland and our cellers are on the National Register of Historic Places.

They sought a land like their homeland. As a result, they settled in the northwest part of Arkansas in the Boston Mountain Range overlooking south toward Mount Magazine, which is the highest point between the Rockies and the Appalachians and the Alleghenies. The second highest mountain is immediately north of us and affords us the so-called microclimate that permits us to grow the classic varieties similar to Western Europe because the mountain ranges run east and west similar to Western Europe which makes our region a sort of an oasis with flatlands surrounding this whole district.

The major ranges in the United States and all other ranges in the United States run north and south.

Our company used to employ 250 people but we have had to cut back on full-time employees. Part-time help is also being cut back. These employees need their work to support and supplement their family income. Much of this was covered earlier today. They are paid on a piece rate basis and some are paid by the hour and work on a seasonal basis, but it's very important and we feel that these people really need the work—some we have already laid off have applied for welfare, so they are going to be hitting the welfare rolls and hitting the Federal Government in other ways as we unload these employees.

Today, April 9, in Arkansas, the annual Food Processors Convention is in session. They also support our position because of the interdependence of the fruit industry, both growers and processors. Also the Arkansas Horticulture Society supports us.

From the grower's point of view, wineries, for example, are the only outlet that many growers have in our area because of the oasis situation that we have that affords us this wonderful microclimate, but where will they go with these grapes when all these other areas have an oversupply already? They have no place to go but to shut down.

Also fresh fruit growers of grapes, apples, peaches, strawberries and blueberries, et cetera, depend on us. We make wines from many other things, other than grapes. They depend on the wineries when they have storm or hail crop damage. We are 6 to 8 weeks earlier in grape harvest, than Michigan or New York. This is important to the fruit industry in Mid-America and Midsouth and also to the East.

Also, fruit processors, for example, such as Gerber Foods near us, also depend on us when they have storm or hail damage on their growers' process apples, for example, because the small hail peck star does not come off in their peeling process, and ends up as a brown fleck in their apple sauce. As a result, these growers all would absolutely want to harvest at one time—and the first call I got from the Gerber produce manager said, "I've got a man who's angry and he's bulldozing down his orchard and would you please take these apples?" So we did take his and others, mainly because the process industry in this area is very interdependent, and we help each other out, because of the very strong importance of the grower-processor relationship.

Most all winery owners come from the farm. In our area specifically we are second, and third, and fourth generation descendants from immigrant forefathers. There were many Swiss, Austrian, German and French, and Italian immigrant settlers in our district.

If this tax goes through, as for our own wine cellars, we will be forced to abandon our growers in many counties of our State and just simply dump these growers. There's no way to keep these growers, if we're going to save our corporate entity, we will just have to dump them and seek the lowest priced materials, and these happen to be from Western Europe.

We have always kept very close ties with our relatives in Switzerland. We have also some in extremely north Italy and southern Germany and in France.

Also, I had exposure there as an exchange student in postgraduate research work that Senator Fulbright acquired for me in France, so I have seen not only the winemaking over there, but I've seen many of their infractions, their so-called indirect subsidies that they call loans, and that they let the growers and the wineries default on. So I can see these sources. I speak German and French. My oldest daughter Liesl Wiederkehr is 17, and she will be graduating in June from a scholarship she got from a school in Lausanne, Switzerland, the French speaking part of Switzerland. I was hoping my daughter would join us in our industry, but it doesn't look as if we will survive long enough for her to do so. Therefore, she is making her application for international foreign service work in translations and such as that. She's a very brilliant girl. I have four children and this is happening. They are going to give up the farm and to me it's a sad thing because too many people will be losing their jobs and they are very dependent on vineyard work in the area and they will simply move out.

The highest and best use of our land in that area since the invention of trickle irrigation is grape growing—those mountain ranges in northwest Arkansas that were before quite barren except for scrub oak and such except in the major national forest there—it makes them very profitable for growing grapes at this time if we would not have to have the problem of the subsidized foreign imports.

So as a result, to save ourselves, we can get wine produced and subsidized in Europe and shipped directly from Europe up the Mississippi and the Arkansas River through our lock and dam system directly to our own land which has a port authority immediately below our winery in the valley some 1,800 feet below.

I have many of these contacts, of course, but I know that that is our only future if we are to survive as a winery entity and keep our label on the market. Therefore, I would have to just abandon the growers. That's the only outlook we have.

Thank you for being so kind to hear me today.

Mr. BOYLE. Thank you very much. I apologize for mispronouncing your name, my first witness that I introduced here. The fact that I did is indicative of the length of experience I have occupying the chair. Mr. Oliver, please proceed.

STATEMENT OF WILLIAM OLIVER, INDIANA WINE GUILD

Mr. OLIVER. I'm last and the time is late and I'm going to summarize very drastically.

In addition to our family owning the Oliver Winery, the oldest and largest winery in Indiana at 14 years but very small by national standards, I am also a professor at the Indiana University School of Law in Bloomington, IN, where I teach Federal taxation.

I've written out about ten pages on a yellow pad handwritten about this proposal to deny deduction of the excise taxes paid. I'm going to spare this subcommittee that, but I'm not going to spare Senator Packwood.

We have a net income tax and a proposal that a necessary business expense be denied is so shocking that my hunch is that Senator Packwood set this up as a bargaining throwaway that he could say, "Oh, I'm so reasonable, I'm going to abandon that. We'll still have this excise tax increase on wine."

But we're a severely depressed industry and if this excise tax goes through the majority of the wineries in the East which are small, family-owned affairs, will go out of business and suffering with them will be the growers.

Mr. BOYLE. Thank you very much, Mr. Oliver. Again on behalf of the Senator, I apologize for the length of this morning's hearing. His own pressing schedule forced him to leave a few minutes ago and while you might be looking at the lower end of the totem pole up here at the dais, I can assure you that the questions that the Senator left behind come straight from the top.

He asked the previous panel about the impact that Federal taxes currently have and the proposed increase would have upon your business and also the impact that existing State taxes have upon your winemaking industries. I'd be interested in having each of the witnesses comment for the record on the tax systems that exist within the State in which you do business.

Mr. WEED. Well, Virginia has the dubious distinction, despite Mr. Jefferson's interest in this business, of having the second highest wine tax in the country. I would be glad to learn that that's not quite true, but that's our impression.

As I pointed out, it amounts to an average yield of about $1,210 an acre charged to the winery for the grapes it produces. It's $3.60 a case. You can figure that out on a gallon basis. It's about 85 cents or 90 cents a gallon, something like that, and it's a major impact.

The difference last year—I thought perhaps that in my small operation I would see profit. The difference between profit and nonprofit for me last year was the statewide tax. I hate to think what the Federal tax will do to me if they do that.

Mr. WIEDERKEHR. I'd like to point out one thing I think that would come about that would cause perhaps some discrimination in that the technology of the larger wineries, if this is taxed on an alcohol basis also, if they don't have certain plateaus such as the wine cooler with the beer level and so on, if we go just by alcohol content, the small producer will not be able to buy the machinery and equipment to ferment these wines up and remove the alcohol down to that level. To lower their taxes there's going to be a strong tendency to lower the alcohol content. As a result, only the big conglomerates and the international conglomerates can afford this type of equipment.

Right now we have in Europe some very huge conglomerates. I know one that owns 174 wineries in which they also produce machinery equipment for wine cellars and they have that instant technology and the foreign wines will be coming in at lower alcohol and suddenly our small growers over here that are just now fledgling industries that are getting started all over the United States—those people have over 2,000-plus years of experience. We're still in our infancy here. The oldest cellars in the United States are still in their infancy and, as someone pointed out earlier, my family has been since Prohibition—we're very diversified, but the thing is, they do not have the opportunity or the economics of scale in these areas at this time to be able to produce those low alcohol wines because they can't afford the machinery. As a result, they will be taxed much higher and end up probably going out of business.

It also affects the tourist business in our area and our tourist industry is opposed to this because it affects the restaurant industry, the convention business and so on. So it's very important to our State.

Also the area of—we've sold a lot of nursery stock. We've had nurseries for many years. My grandfather sold nursery stock to Stark Brothers in Missouri over 100 years ago and my father did and I have been, but our nursery sales are down because there's not much hope. People are not planting. So also in selling nursery stock nationwide I've also done consulting work throughout Texas and mid-American areas and I'm very familiar with these areas. I know they are in the same position. Many of these varieties and many people that understand that a grape is not just a grape is a grape—some people suggest, well, why don't you make juice out of them? Not every grape is suitable for producing juice. We also have a glut of concord juice which is probably 90-percent plus of the grape juice sales in the United States. Some of the grapes are specifically suited for wines. And in all those growing areas throughout Tennessee, Mississippi, part of Louisiana, and also Texas, New Mexico, Ohio, and Virginia and so on, they will not be able to sell their grapes anywhere else.

Mr. OLIVER. We ship wine to a few other States, although most of our wine is sold in Indiana. The highest tax we have encountered is in Florida and I'm trying to remember the exact amount but I think it's somewhere in the neighborhood of $1.40 a gallon.

Mr. BLOSSER. I think the question has been adequately answered. The States have traditionally used alcohol taxes as a major source of revenue. So the present Federal tax of 17 cents a gallon on wine is small by comparison to what most States exact from the wineries. California is the only one that has not placed a big burden on them. In Oregon, we're talking about 67 cents a gallon right now on wine, in addition to the Federal tax.

When you put it all together, we're paying close to $1 a gallon.

I think one of the important things to remember is that it's sort of like an industry with a clubfoot. You kind of get used to it after a while and you kind of like the clubfoot you have which is, in our case in Oregon, roughly $1 a gallon. In other States, it's less or more.

We have learned to live with it and the market has learned to live with it.

What we are facing here, however, is an increase not of a few percentage points, which probably the market over time could absorb, but we are talking about a base increase of about 500 percent in the tax and then, when you add in the nondeductibility and this indexing thing, we're looking at a 1,000- to 1,200-percent increase in the tax wines are going to pay. That's just murderous. That just plain puts you out of business.

Mr. BOYLE. Gentlemen, as you know, the proposed excise tax increase applies only to wine and, as a result, in the marketplace only the wine industry will have to deal with passing along the higher prices, whether back to the growers or at the winery itself or onto the consumer.

Assuming the latter for the moment, higher prices for consumers, do you anticipate any displacement of your wine sales not just to foreign imports but to other distilled spirits or alcoholic beverages which will not have to deal with this type of excise tax increase? If so, can you speculate at all about how that might affect your particular marketing plans for the next year?

Mr. BLOSSER. Let me start with that. I think basic economic theory, which has proved in the market time and time again, is that there can absolutely be no question that there will be a major impact.

The wineries will have to try to pass it forward. The wineries themselves are making no money so they can't absorb it. The growers are making no money. They can't absorb it. The only thing to try is to pass it forward.

Basic economics tells you that when you increases prices, consumption is going to go down. It's not an inelastic commodity. People will consume less wine. They will either consume more of another product or consume nothing at all and the obvious choice would be to go to beer and hard spirits if they're looking for an alcoholic beverage.

There just can be no question there would be a significant impact and we, ourselves, from the analysis we've done are expecting to see a 10- to 15-percent drop in sales of Oregon wines just within the State of Oregon as a result of it; that basically wipes out any opportunity for any of the brand new wineries to get a foothold and to make a business of it.

Mr. WIEDERKEHR. To add to that, as people mentioned earlier in this problem, also this excise tax on the winery will also create a dramatic cash-flow problem for the winery, any size winery, because that tax has to be reported on the Federal tax 2050 form. As a result, if you wholesale wine and truck it to wholesalers you may have to wait 30 to 60 days or longer to get your money, but you have to ante up, and some medium sized wineries have had to go out and borrow money to pay the Federal tax on their wines before they get the receivables in from their wholesaler. So this would add a greater tax burden also which many of them are just going to say, "no." Their only alternative is to shut down, in my opinion.

Mr. OLIVER. If our winery has to absorb this 410-percent increase in the excise tax on wine, we will go out of business. If we try to pass it forward, and the decrease in sales is as much as 10 percent, which is the lowest estimate I've heard and I think it will be much larger than that, if we had a 10-percent decrease in sales we would also go out of business.

Mr. WEED. The point was made earlier that there's no way to quantify it, but I remember 10 years ago when the interest in wine in this country sort of woke up. You could go into Sears, Roebuck and buy a home winemaking kit. That sort of was an inspiration perhaps to a lot of people to go into the small farm winery business and satisfy this curiosity and this interest in locally produced wines.

You can't go into Sears any more and buy a home winery kit. However, if you increase the price of wines the way we're talking about, that makes it a very interesting proposition for somebody, as was mentioned earlier, to do it, and then there's no revenue at all to the Federal Government or to the State government for that matter.

Moreover, we've seen in the last 5 years a decrease in the number of gallons of hard spirits consumed with an increase in wine gallons. In fact, wine is up more than hard spirits.

I think that we're all dealing with pretty much the same consumer, and he has a choice to make, be it wine, be it beer, be it distilled spirits. I think the Nation benefits from more wine consumption and less hard spirits, but we won't get into that. But I do think that clearly if our costs go up and our prices go up, wherever it happens, we will lose market share. And who gains it is not really germane, I guess.

Mr. Boyle, Well, thank you very much. Mr. Oliver, before we dismiss the panel, while we appreciated the brevity of your oral presentation, your reference to the lengthier written version would be greatly appreciated if you could submit it for the record.

On behalf of Senator Wilson and the Joint Economic Committee, I'd like to thank not only this panel but all the witnesses who testified here today.

Before we adjourn, I'd like to submit on behalf of Senator Wilson, at his instructions, testimony on behalf of Randy Tucker, president of the Yakima Valley Wine Growers Association.

I also understand that Senator Moynihan of New York will be submitting a statement for the record later today or first thing tomorrow morning. And in that regard, the record will remain open for 2 weeks for any additional written submission by any of these witnesses or other interested parties who want to submit comments for the record.[1]

With that, I adjourn the hearing.

[Whereupon, at 12:30 p.m., the subcommittee adjourned, subject to the call of the Chair.]

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[1] For the information referred to, see appendix.

APPENDIX

STATEMENT OF SENATOR ALAN CRANSTON

JOINT ECONOMIC COMMITTEE OF CONGRESS
April 9, 1986

I AM VERY PLEASED TO COMMEND MY DISTINGUISHED COLLEAGUE FROM CALIFORNIA, SENATOR WILSON, FOR CHAIRING THIS IMPORTANT HEARING OF THE JOINT ECONOMIC COMMITTEE ON THE SUBJECT OF THE ECONOMIC IMPACT OF THE PROPOSED EXCISE TAX INCREASE ON WINE.

SENATOR WILSON, I'D LIKE TO TAKE SPECIAL NOTE OF THE FACT THAT YOU ARE CONDUCTING THE FIRST HEARINGS IN THE SENATE TO DATE ON THIS VERY CONTROVERSIAL AND TO MANY -- SHOCKING -- TAX PROPOSAL. FIFTY-FIVE OF OUR COLLEAGUES HAVE ASKED FOR SIMILAR HEARINGS ON THE FINANCE COMMITTEE'S PROPOSAL TO INCREASE EXCISE TAXES AND DENY THEIR DEDUCTIBILITY AS A COST OF DOING BUSINESS. YOU ARE TO BE COMMENDED FOR TAKING THE LEAD.

I KNOW THAT YOU AND OTHER WITNESSES THIS MORNING WILL BE GOING INTO DETAIL ABOUT THE ECONOMIC INJURY THE PROPOSAL TO INCREASE EXCISE TAXES ON WINE WILL DO TO GRAPE GROWERS, WINERIES AND THEIR WORKERS AND TO THE COMPETITIVE POSITION OF THE WINES OF CALIFORNIA AND OF OTHER STATES.

THEREFORE, I WILL SIMPLY STATE BRIEFLY THE BASIC OBJECTIONS TO THE PROPOSAL TO INCREASE EXCISE TAXES ON WINE.

FIRST, IT BEARS REPEATING BY EVERYONE THIS MORNING THAT WINE IS NOT UNIQUE TO CALIFORNIA. WHILE WE ARE JUSTLY PROUD OF CALIFORNIA'S FINE WINES, GRAPES ARE GROWN AND EXCELLENT WINES OF QUALITY ARE PRODUCED IN AT LEAST 38 STATES. NOR, MAY I ADD, IS WINE SOLELY A PRODUCT MADE FROM GRAPES -- MANY OTHER FRUITS, SUCH AS PEACHES, PEARS AND BERRIES, ARE FERMENTED AND MADE INTO POPULAR WINES NOTED FOR FLAVOR AND COMPATIBILITY WITH MANY FOODS.

THE PROPOSAL TO INCREASE EXCISE TAXES BY OVER 400 PERCENT WILL HURT <u>ALL</u> WINES, NOT SOLELY THOSE MADE FROM GRAPES. THE PROPOSAL TO <u>DENY</u> DEDUCTIBILITY OF EXCISE TAXES AS A COST OF BUSINESS WILL COMPOUND THE ERROR AND THE INJURY.

SECOND, IT BEARS REPEATING THAT THE EXCISE TAX ON WINE IS A TAX ON AGRICULTURE. WINE BEARS THE SAME RELATIONSHIP TO GRAPES THAT CHEESE BEARS TO MILK. BOTH ARE FOOD PRODUCTS CHANGED BY NATURAL PROCESSES FROM A HIGHLY PERISHABLE STATE INTO A DIFFERENT FORM WHICH WILL KEEP FOR RELATIVELY LONG PERIODS OF TIME.

SENATOR WILSON, WHAT DO YOU IMAGINE THE UPROAR WOULD BE FROM DAIRY FARMERS IF THE FINANCE COMMITTEE PROPOSED A TEN-CENTS PER POUND EXCISE TAX ON CHEESE? I AM CONFIDENT IT WOULD BE THE SAME UPROAR YOU AND I ARE HEARING FROM GRAPE GROWERS PROTESTING THE EXCISE TAX INCREASE ON WINE.

THIRD, IT BEARS REPEATING THAT THE INCREASE IN THE EXCISE TAX ON WINE WILL MAKE IT EVEN EASIER FOR SUBSIDIZED FOREIGN WINE PRODUCERS AND GRAPE GROWERS TO UNDERSELL HIGHLY TAXED AMERICAN WINES. WHY? BECAUSE THE MAJOR WINE EXPORTING NATIONS, PARTICULARLY IN THE EUROPEAN COMMON MARKET, EASILY CAN DEVELOP WAYS TO OFF-SET THE FEDERAL EXCISE TAX INCREASE THROUGH CREDITS, SUBSIDIES AND OTHER DEVICES. OBVIOUSLY, THE FEDERAL GOVERNMENT IS NOT GOING TO SUBSIDIZE AMERICAN WINE-GRAPE GROWERS IN ORDER TO OFF-SET THE EXCISE TAX ON WINE. AS A RESULT, FOREIGN WINES WILL BE ABLE TO DOMINATE THE LOW COST WINE MARKET -- WHICH ACCOUNTS FOR ABOUT 80 PERCENT OF ALL WINE SALES. THESE ARE THE WINES, AS YOU KNOW, MR. CHAIRMAN, WHICH ARE SERVED AT THE TABLE AND IN THOUSANDS OF RESTAURANTS TO ACCOMPANY FOOD AT MEALTIME. THE BUYERS OF INEXPENSIVE TABLE WINES ARE HIGHLY CONSCIOUS OF THE COST OF THE FOOD THEY EAT AND OF THE WINE THEY DRINK. AND PRICE WILL DETERMINE THEIR CHOICE.

FOURTH, EXCISE TAXES ARE ECONOMICALLY PERNICIOUS TAXES BECAUSE THEY ARE INTENDED TO INCREASE ARTIFICIALLY THE COST OF SPECIFIC PRODUCTS AND SERVICES. WHEN CHIEF JUSTICE JOHN MARSHALL SAID THAT THE POWER TO TAX IS THE POWER TO DESTROY, THIS IS EXACTLY THE KIND OF TAX HE HAD IN MIND. THEREFORE, IF EXCISE TAXES ARE TO BE USED AT ALL AS SOURCES OF REVENUE, THEY OUGHT TO BE SET BY GOVERNMENT AT RATES AS LOW AS POSSIBLE IN ORDER TO MINIMIZE THEIR DESTRUCTIVE INTERFERENCE WITH THE MARKET AND TO AVOID INJURY TO FARMERS, FARM MACHINERY DEALERS, SUPPLIERS, THEIR CREDITORS, AND COMMUNITIES. THE CURRENT PROPOSAL FAILS THIS TEST, AS I BELIEVE YOUR HEARINGS WILL BEAR OUT.

FIFTH, AN EXCISE TAX IS REGRESSIVE. THE TAX IS THE SAME TO THE CONSUMER WHETHER THE WINE IS INEXPENSIVE OR VERY COSTLY. SO THAT WHEN AN AVERAGE FAMILY BUYS A BOTTLE OF WINE FOR THE TABLE A GREATER PERCENTAGE OF THEIR MONEY GOES TO THE GOVERNMENT THAN WHEN A RICH DINER BUYS A BOTTLE OF WINE AT A FINE RESTAURANT.

THAT DOES NOT MAKE SENSE TO ME AS A MATTER OF FAIR TAX POLICY.

LASTLY, THE FUNDAMENTAL PRINCIPLE DRIVING FORWARD TAX REFORM IN THE HOUSE AND THE SENATE HAS BEEN THE CONCEPT OF FAIRNESS IN OUR TAX SYSTEM -- SHARING ON AN EQUITABLE BASIS THE COST OF GOVERNMENT ACCORDING TO ABILITY TO PAY WITHOUT FAVORITISM, SPECIAL ADVANTAGE OR BEING SUBJECTED TO PUNITIVE RATES BECAUSE ONE IS SUCCESSFUL. THAT IS A NOBLE VISION. BUT IT IS NOT THE VISION INSPIRING TAX REFORM IN THE FINANCE COMMITTEE AS EXEMPLIFIED IN THIS HIGHLY DESTRUCTIVE, REGRESSIVE UNFAIR PROPOSAL TO RAISE EXCISE TAXES ON WINE BY OVER 400 PERCENT, TO DENY THEIR DEDUCTIBILITY AND THEN TO INDEX THE EXCISE TAX ITSELF TO INFLATION WITHOUT ANY REGARD TO NATURAL RISE AND FALL IN PRICES DUE TO MARKET COMPETITION AND THE LAWS OF SUPPLY AND DEMAND.

AGAIN, YOU ARE TO BE COMMENDED, SENATOR WILSON, FOR HOLDING THESE HEARINGS. I LOOK FORWARD TO THE REPORT AND YOUR RECOMMENDATIONS AND FINDINGS. AND I APPRECIATE THE OPPORTUNITY TO HAVE MY STATEMENT PRESENTED FOR THE HEARING RECORD.

Statement of: Senator Patrick Moynihan
Before: The Joint Economic Committee

I am pleased to submit my views on the proposed excise tax on wine. I oppose this tax on two grounds.

The first is my belief that excise taxes are generally an unfair method of raising revenue. The second is that it would adversely affect an industry that is important to the economy of New York State.

Excise taxes are regressive. That is to say, they tend to fall unfairly on the poor.

This is particularly the case with wine. Almost 80 percent of all wines are popularly priced under $4 a bottle. The proposed tax will not be placed on a rich man's luxury, but will certainly come out of the pockets of the middle-to-low-income bracket members of our society.

I would also point out that wine is not a low taxed product as some have suggested. Wine is taxed more than beer in 47 states.

In addition, 80 percent of all wines are consumed at home. Consequently, the tax cannot be justified by claiming it will contribute to the public safety in any significant way.

My second concern over the proposed excise tax is the effect it would have on an important part of this Nation's, and my State's economy.

The grape and wine industry are nationwide in importance. These products annually generate over $5 billion in retail sales and income. Many farmers earn their livelihood by producing the fruit to produce the wine. Workers and manufacturers of bottles, containers, and printing materials are dependent upon this industry, as well as those engaged in wholesaling, retailing, transportation, advertising, and other endeavors that bring this beverage of moderation to the consumer. Grapes are raised in 44 states and there are wineries in 34; foremost among these is my state of New York.

In New York State, wine grapes produced approximately $20 million dollars annually in farm income, most of it spent on labor.

Grapes are a labor-intensive crop. According to Cornell University, every 20 acres of vineyard requires the equivalent of one-man-year's worth of labor.

Let me give you an example of how a drop in wine sales can affect my state. In the Finger Lakes region we lost 1000 acres in the last several years. That translates into 50 lost jobs.

And the effects from lost vineyards go beyond those directly employed by wineries. Communities in the grape-growing regions suffer reduced revenues as vineyard acreage declines -- not only in fewer dollars spent, but also in reduced property tax income, since vineyards are taxed at a higher rate than is bare farmland.

It is estimated that the proposed excise tax will decrease the sales of non-premium wines by 20 percent. If this occurs, there will be, in New York, no need for approximately 14,000 tons of grapes. That translates into a loss of over 3,000 acres, 150 jobs and 50-75 farms.

Grapes are perennial and capital intensive. If the vineyards are abandoned or lost one year, they cannot be resurrected the next without great financial inputs.

Any reduction in domestic wine sales will adversely impact the grape juice, raisin, and table grape industries. If the proposals are enacted, demand for wine grapes will decrease, causing those growers who continue in business to dump grapes into markets already glutted.

In summary, this tax is unfair to most of the members of our society, and plain bad economics in general. I strongly urge this panel to reject any increase in the excise tax on wine.

Please give every consideration to the testimony of my following constituents:

John Martini, president, New York State Winegrape Growers Association;

Stafford Krause, secretary, New York Wine Products Association;

Monte Stamp, president, Winegrape Growers of America;

J.W. Moffett, executive director of American Vintners Association;

James P. Finkle, vice president, Canandaigua Wine Company;

DEPARTMENT OF AGRICULTURE
OFFICE OF THE SECRETARY
WASHINGTON, D.C. 20250

April 29, 1986

Honorable Pete Wilson
United States Senate
Washington, D.C. 20510

Dear Senator Wilson:

Thank you for your recent letter requesting Department analysis of the impact of the Senate Finance Committee's Tax Reform Bill on the grape and wine industry.

The bill contains three provisions that would affect the industry. It calls for:

- Elimination of excise tax deductibility for Federal income tax purposes;
- Indexing of excise taxes on alcohol, tobacco, and fuel; and
- An increase in the excise tax on wine to make it equivalent to the excise tax on beer on a per unit of alcohol basis.

The first two provisions would affect the grape and wine industries along with all other industries subject to Federal excise taxes. Their impact would be possibly more significant than the impact of excise tax equalization, but neither provision would impose any unique burden on the industry.

The third provision, however, would put a special burden on the grape and wine industry. Under current law, wine containing less than 21 percent alcohol is subject to a tax of approximately $5.50 per barrel. This rate is substantially lower than the rate for beer, particularly if the two are compared on an alcohol content basis. The differences in rates has traditionally been justified in part on the basis of industry claims that wine is used as more than an alcoholic beverage. Assuming beer is 4 percent alcohol, the typical beer tax of $31 per barrel is the equivalent of a tax of 7.25 percent per 1 percent of alcohol per gallon. The typical table wine with a 12 percent alcohol content is taxed at less than 1.5 percent per 1 percent of alcohol per gallon. The Senate Finance Committee's proposal raises the tax rate on wine to equal the rate on beer. This would increase the tax on table wine, the category most seriously affected, from 15-20 cents to 85-90 cents a bottle. This is the equivalent of a 10 percent increase in retail prices.

While it is difficult to forecast how much of the added tax would be passed backward to producers or forward to consumers, the adjustments involved in either case are significant enough to raise serious questions. If the tax increase were passed back to winery and vineyard operators, it would add to pressure on an industry faced with serious excess capacity problems. If passed forward to consumers, the tax would reduce demand for wine enough to force the industry to scale back. Given the industry's links to other sectors of the economy, a scale-back could cost the economy as a whole more than the likely increase in revenue.

If all of the added tax in question was passed back to producers, it would be the equivalent of $115 per ton of grapes or two-thirds of the price received by growers over the last several years. Clearly, all of the tax could not be passed back to producers despite supply and demand elasticities that suggest growers would normally absorb all or most of the adjustment.

If part or all of the added excise tax were passed on to consumers, the impact on the industry would be somewhat less, but the tax would reduce economic activity outside the sector more than enough to offset any lessening of pressure on the grape and wine industry. A 10 percent increase in the retail price of wine would reduce wine demand 5-6 percent. Assuming such a reduction was spread evenly between domestic and imported wines, U.S. wineries would loose up to 24 million gallons of demand and vineyards would loose a market for 150,000 tons of grapes. This industry loss would affect activity well beyond the sector. Industry economists estimate employment in grape and winery operations at more than 200,000 and suggest that every dollar in activity at the vineyard level ultimately generates another $1.86 in activity while $1 at the winery level ultimately generates another $2.20 in activity.

Given these linkages, the loss of 150,000 tons in grape sales would translate into a $90-million decline in grape sales and related activity up to the vineyard level. The tax would also reduce sales at the winery level $175 million; a loss in winery activity of this magnitude would reduce overall activity in the economy $560 million. Hence, losses at the vineyard and winery levels combined with associated losses elsewhere in the economy could total $650 million.

While the industry data used to generate these impact estimates may overstate vineyard and winery linkages to the rest of the economy, their estimates are comparable to estimates made in university and government circles. The $650 million loss likely if the equalization provision were passed compares with added excise tax revenues of possibly $350 million. The industry's total tax burden with the new provision in place would increase to more than $650 million.

I hope this information is helpful.

Sincerely,

Robert L. Thompson

ROBERT L. THOMPSON
Assistant Secretary
for Economics

WASHINGTON WINE INSTITUTE
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TESTIMONY OF RANDY TUCKER

PRESIDENT, YAKIMA VALLEY WINE GROWERS ASSOCIATION

BEFORE THE JOINT ECONOMIC COMMITTEE

APRIL 9, 1986

TESTIMONY OF RANDY TUCKER
PRESIDENT, YAKIMA VALLEY WINE GROWERS ASSOCIATION
BEFORE THE JOINT ECONOMIC COMMITTEE
APRIL 9, 1986

Mr. Chairman, Members of the Joint Economic Committee, thank you for allowing me to appear before you today. In Washington State we have a new, emerging industry contributing to the tax, economic growth, tourism and agriculture of our state. Our family winery is part of that industry. Together with my parents, Dean and Rose Tucker, my brothers and sister and their families, we have etched out a small market that we can be proud of. The initial investment was high, but the prospect for the whole family to become involved and work together was well worth it.

Eighty-five percent of the wineries from Washington State are integrated; that is, they raise winegrapes for their own winery. We are also in this category with 50 acres of wine grapes. Employment at the winery is primarily family, but employment on the farm reaches 100 - 125 people during harvest time in late November.

The Washington industry has been experiencing significant growth in wine sales as a result of extensive marketing efforts and has an important economic impact on the state's economy. Wine grape producers have responded to the increased sales by planting thousands of acres of wine grapes in Washington. The acreage was planted in anticipation of selling the grapes and wine due to an expanding demand for Washington wines. The planted acreage has the production potential to produce twice as many grapes as have ever been harvested in Washington. This indicates the responsive nature of Washington producers with respect to market price signals. However, the results presented by Raymond J. Folwell, Department of Agricultural Economics, Washington State University, Pullman, Washington, suggest that the proposed federal tax increase could reduce the demand for wine by 120 million gallons by 1990. Since Washington accounts for one percent of the wine market, the reduced demand level for Washington production would be 1.2 million gallons. The demand at the farm level would be reduced by 8,013 tons. This represents a 14.7 percent reduction in the production potential. Given the inelastic nature of the supply of wine grapes, the price per ton will drop by an even larger relative amount. This will mean added problems for the already financially plagued agricultural community.

The 14.7 percent reduction in demand implies that there will be a misallocation of resources. All segments of society will pay for this misallocation in terms of higher prices for all goods and services. It has been estimated that the total investment costs to establish a vineyard in Washington are $6,937.70 per acre. The 8,013 ton reduction in demand, with a 5.4 ton per acre yield translates into 2,300 acres of grapes. Therefore Washington wine grape producers will have misinvested $15.9 million in vineyards if the wine tax becomes reality.

Overall, the proposed tax increase could mean a severe economic hardship, not only on wine grape growers, wineries and consumers, but could mean as much as a 109.5 million decrease in the Washington economy alone not to mention the misallocation of resources ($15.9 million in Washington) and higher prices to consumers. The proposed excise tax on wine could result in a reduction in local and state tax revenues.

WASHINGTON INDUSTRY PROFILE

- New, Emerging Industry
  Contributing to the tax, economic growth, tourism and agriculture of Washington State.
  Has developed from the 1930's, but real growth has come since the late 1970's.

- $150,000 capital investment in vineyards and facilities.

- 85% by volume of the wineries are integrated - grower/winery.

- Wineries sold $40 million, $75 million retail in wine in 1985.

- Winery and wine related jobs - 4,400

- 60 wineries with a total of 11,000 acres planted.

- It's an agriculturally based industry, not subsidized by Federal Government.

Economic Impact

- Impact on Wine Consumption

  - Tax increase would result in per bottle price increase of 9-25%.

  - Higher consumer prices - decreased consumption would translate to 5.2% volume decrease to 14.1% decrease.

  (Based on co-efficient of 0.56 is from Washington State University Department of Agriculture Economics)

  - Reduced economic activity:

    - Washington wine industry.

    - Other sectors which supply goods and services to wine industry.

  - COULD MEAN $109.5 DECREASE IN WASHINGTON ECONOMY ALONE, PLUS A MISALLOCATION OF RESOURCES. ($15.9 million)

  - Looking at wine specifically:

    - Reduce demand for Washington wine by 1.2 million gallons means an 8,013 ton decrease in grape demand. 14.7% reduction.

    - Price/ton drops meaning added financial problems to the financially plagued agriculture community.

OREGON WINEGROWERS ASSOCIATION
P.O. Box 6590 Portland, OR 97228
(503) 233-2377

27 March 1986

The Honorable Robert Packwood
United States Senate
Washington, DC

Dear Senator Packwood:

I am writing on behalf of the Oregon wine industry to express our grave concerns over certain provisions of your proposed tax reform bill.

The Oregon wine industry has shown great promise for future growth. The quality of Oregon wine has achieved international recognition, and the positive benefits to agriculture and tourism in the state are becoming apparent.

However, winegrowing in Oregon is a fledgling industry composed of small, family-owned and operated farms and wineries. Many vineyards have not harvested their first full crop yet and many wineries in Oregon have yet to see a positive cash flow. Furthermore, our wines are competing in a market which is currently depressed, and in which subsidized foreign table wines already hold a 30% share.

Under these circumstances we cannot absorb the proposed drastic 500% increase in the federal excise tax on wine without suffering a severe, and possibly fatal, setback.

Your press release accompanying the proposal stated that "small business is the future of America," and that this tax proposal "helps the family farmer." We hope that you will agree with us that this part of your tax reform plan should not inadvertently punish those whom it is seeking to help, by singling out the wine industry for a uniquely severe tax increase.

We have attached an analysis of the specific effects this tax increase would have on our industry. If you or your staff desire further clarification of these points, we will be happy to provide it.

Respectfully,

Pat Dudley

Pat Dudley
Chair, Legislative Committee
Oregon Wine Growers Association

ANALYSIS OF THE EFFECT OF THE PROPOSED WINE EXCISE TAX REFORMS

Prepared by the Oregon Wine Growers Association

28 March 1986

Assumption:

There is considerable confusion in published materials and among Senate staff about exactly what would be the increase in the excise tax. Absent any clarifying statements from the Committee, we have assumed for the following analysis that the excise tax on table wines of less than 21% alcohol would be increased from the present 17 cents per gallon to 87 cents per gallon. This figure makes the wine tax (based on wine at 12% alcohol average) equivalent on a proof gallon basis to the present beer tax of 29 cents (based on beer at 4% alcohol).

1. Conditions of the market will not allow passing on the tax increase to consumers without a dramatic decline in wine sales.

Table wine is normally marked up 33% by the wholesaler and 50% by the retailer (marking up from their landed cost). This means, roughly, that wine sells at the retail level at about twice what the winery sells it for. Thus, a 70 cent per gallon increase in the wine tax results in a net increase in the retail cost of an average 750 ml bottle of wine of about 30 cents.

Wine retail pricing is very sensitive to certain "price point" levels. That is, wine is normally priced at the ".99" or ".49" price points ($3.99, $4.99, $5.49, etc.). An increase of 30 cents per bottle will push wines to the next price point.

The problem with breaking though a price point is that the consumer perceives the wine to have increased in price significantly. For instance, it is a well-known principle among wineries that if a wine which normally sells for $4.99 is put on sale at $3.99, its sales will increase 2 to 4 times.

Obviously, the reverse is true too. The Wine Institute has developed a consumer pricing formula which indicates that each 1% increase in price results in a 1% decrease in sales of wine. Thus, the Wine Institute calculates that the proposed excise tax increase would result in a 7 to 10% decrease in wine industry sales.

Table wine shipments, the backbone of the industry, have already experienced decreases in sales the last two years, dropping from 281.4 million gallons to 264.7 million gallons. Last year alone, table wine sales decreased 2 percent (excluding wine coolers).

Thus, this dramatic excise tax increase cannot be passed on to the consumer without the already recession-impacted industry experiencing a significant decrease in sales.

2. The marginal profitability of the industry will not allow producers to absorb the excise tax increase.

The US wine industry has been in recession for several years. Wine prices have not increased in proportion to the increase in consumer prices. However, the industry's costs have increased as general prices have risen.

These events have wrung virtually all the profitabiliy out of the industry, leaving no way for the industry to absorb the proposed increase. This is particularly true for the smaller Oregon wineries, most of whom are in the start up phases where considerable early-year losses are experienced.

3. The proposed excise tax increase threatens a promising new industry based on small family farms and businesses.

The wine industry, unlike other industries subject to excise taxes (tobacco, airlines, tires) is not composed primarily of large corporations. In the 34 states where wine is now made, there are about 1200 wineries, of which approximately 20 wineries ship over 90 percent of the wine. The other 1180 wineries are small businesses, primarily owned and operated by families who raise their own grapes and make their own wine.

The Oregon wine industry is composed entirely of small, family-owned wineries and vineyards. The average annual gross income for the state's wineries in 1984 was under $250,000. All but five produced fewer than 10,000 cases of wine in 1985.

Furthermore, over half of the state's 180 vineyards and 50 bonded wineries have been established in the last 6 years. Most are still operating with a negative cash flow, due to the expensive years required to establish vineyards and to establish markets for new wines.

The proposed tax increase will severely reduce the potential earnings for Oregon wineries at a stage in their development where no margin exists. The very survival of the industry, therefore, is in jeopardy.

4. The proposed tax increase will have a major adverse impact on grape growers.

The depressed wine market in the US has resulted in depressed prices for grapes. In many parts of Oregon and elsewhere in the US, grape prices are hovering close to the cost of production. In some cases in Oregon last year, growers had to sell grapes at below cost just to find a market.

As shown above, the tax increase will result in lower wine sales, which will mean the wineries will buy fewer grapes from the growers This will exacerbate the oversupply problem which now exists, and will put further downward pressure on prices. The Wine Institute estimates a loss of 10% in wine sales will translate into a decrease in grape sales of 350,000 tons' nationally; they estimate that about 400 vineyards will fail as a result of this decrease. In California, for example, the value of San Joaquin Valley vineyards has declined 50 to 80 percent between 1982 and 1985. In 1985, 57,000 acres of California vineyards were either abandoned or not harvested. U.S. agriculture is already suffering enough without adding the burdon of this tax.

5. The proposed bill results in punitive treatment of one of the few unsubsidized segments of America's agricultural industry.

Congress has wrestled endlessly with the tremendous burden placed on the U.S. taxpayer by the subsidies paid to many segments of agriculture. The wine industry, an $8.2 billion industry in the U.S., operates entirely without subsidy. The revenues from the proposed wine excise tax increase will be a drop in the bucket compared to the over $20 billion in subsidies already paid to other segments of agriculture. A miniscule alteration in the subsidy formula for the rest of agriculture would more than make up for the potential revenues from this new tax.

So, we ask, what is to be gained from paying out $20 billion to one segment of agricuture, while turning around and clobbering a non-subsidized segment with a new tax? Nothing is gained. Is this the kind of agricultural policy the Senate wants to promote? We think not.

It should be noted that the grain industry is one of the more heavily subsidized segments of agriculture, and it is grains that are the prime ingredient in making the alcohol for beer and distilled alcohols. It would be interesting to calculate whether the U.S. is not, in fact, paying out more in subsidies than it is collecting in beer and distilled alcohol taxes. Put another way, the beer and distilled alcohol industries may be receiving back in subsidy about what they are effectively paying in taxes. This will not be the case with the wine industry, for we only pay out; nothing comes back.

6. The magnitude the the proposed excise tax increase is unprecedented and violates accepted criteria for effective excise taxation.

The attached graphs plainly show that increases in excise taxes of alcohol and tobacco have come in small increments rather than the huge increase proposed in the present bill. There is a general perception that table wine has not borne its share of these excise tax increases, but this is untrue. Since 1939, the table wine excise tax has increased 340% ($.05 to .17). Beer, on the other hand, has increased only 180% in that same period ($.16 to .29).

The Joint Committee on Taxation (1951) outlined the general policies for federal excise tax changes. The Committee states that changes in excise taxes should not:

1. Substantially raise business costs.
2. Increase rates beyond critical levels.
3. Adversely affect depressed lines of business
4. Be regressive.
5. Introduce substantial new administrative costs.

Clearly, the proposed increase violates principles 2 and 3, and indirectly principle 1. The condition of the industry and its pricing structure have been discussed in previous items above.

The Federal government is not the only governmental agency that taxes wine. The states have traditionally imposed large taxes on wine. In Oregon, for example, the state taxes wine $.67 per gallon. The proposed federal increase merely serves to further burdon this heavily-taxed industry.

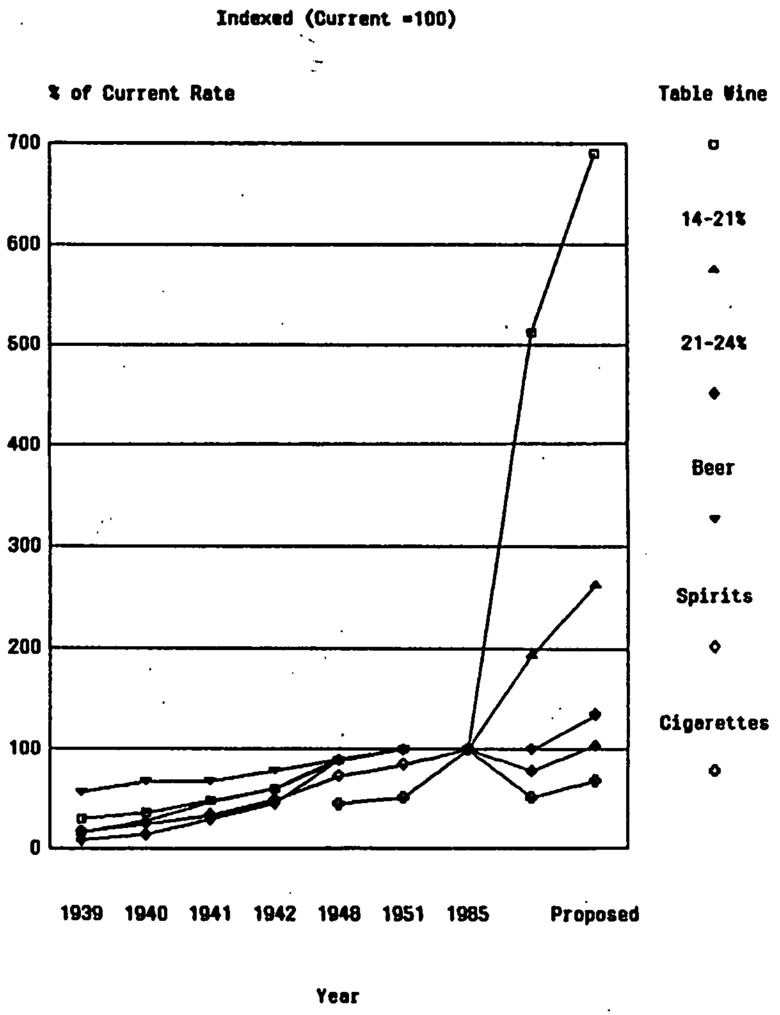
In sum, the proposed increase on an absolute and percentage basis is several times greater than has been imposed on any commodity in the past (see attached graph). And, the proposed increases violate generally accepted principles of excise taxation.

7. The Oregon wine industry has made significant positive contributions to the economy and quality of life in Oregon and should be supported, not penalized.

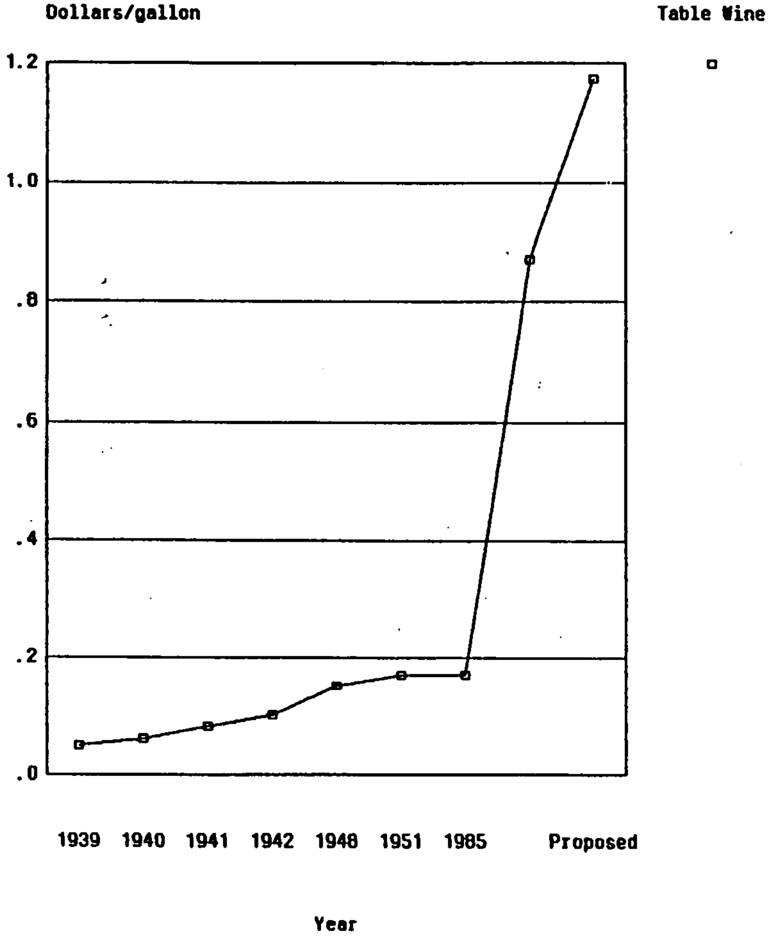
Farmland: the wine industry has contributed to the preservation of Oregon's farmland by establishing viticulture on land unsuited to other forms of agriculture. Vineyard acreage in Oregon increased 85% between 1982 and 1984. Many more acres are suited to viticulture, but further expansion is directly linked to the growth of the wine industry which is threatened by this tax.

Tourism: The wine industry has added a significant new dimension to Oregon tourism. Over 30 Oregon wineries maintain tasting facilities. In 1984 almost 300,000 people visited Oregon wineries; many more visited local wine and food festivals which have become annual attractions in many Oregon communities.

Selected Excise Tax Rates



Wine Excise Tax Rates



The tourist potential of the industry can be appreciated by observing that the Napa Valley in California is the second largest tourist attraction (behind Disneyland) in California; tourist expenditures in the Napa Valley are estimated at over $100 million annually. The Oregon wine industry, too, can be a major contributor to the tourism industry of the state, if it is allowed to continue to grow.

8. Wine producers will be burdoned not only by the tax increase but by the need to finance it.

The excise tax must be paid twice monthly, which means a maximum of 15 days after it is shipped from the winery. However, wineries receive payment from their customers 30 to 60 days after shipment, so the excise tax must be financed for 15 to 45 days. Financing is already extremely difficult for small wineries to obtain; the excise tax increase will add to the problem.

9. The proposed excise tax increase and the non-deductibility of the tax expose the US wine industry to unfair foreign trade practices.

It is well known that foreign governments often provide for the deductibility on income taxes for taxes paid in other countries. In countries with such provisions, or which adopt wuch provisions in response to the change in US taxes, foreign wineries will have a decidedly unfair advantage over US wineries. Add to this the various subsidies already enjoyed by foreign wineries and you crdeate an increasingly adverse competitive climate for US wineries.

American wineries will be put at a competitive disadvantage for another reason, too. American wineries sell virtually all of their wine in the US, and this is particularly true of Oregon wineries. However, foreign wineries sell only part of their production in the US - for most of them the US market is less than 25% of their sales.

The tax increase will be an ideal opportunity for the foreign wineries to increase their market share (which is already about 30%). This is because US wineries will have to raise prices to stay in business, but foreign wineries may choose to absorb the tax increase because they can offset the losses by profits from sales in other countires.

10. Wine is a beverage of moderation and should not be subject to a punitive "sin tax".

History, tradition and practice show wine as a beverage food, part of the family table, to be consumed in moderation. Wine is primarily used and promoted with food. The misuse of wine is insignificant as compared with beer or distilled spirits. Studies have shown that spirits account for 80% of hospital alcohol abuse admissions and beer is the beverage of abuse by over half of the drunk drivers.

Society has traditionally taxed alcoholic beverages differently, recognizing that it is to society's benefit to tax non-abused alcohol products such as table wine more cheaply, and encourage moderate, healthy lifestyles.

Heaven Hill Distilleries, Inc.

A HOUSE OF CRAFTSMEN
DEDICATED TO THE DISTILLING OF TRADITIONALLY FINE
Kentucky Bourbon Whiskies

P. O. BOX 729
BARDSTOWN, NELSON COUNTY, KENTUCKY 40004
TEL. (502) 348-3921

LOUISVILLE OFFICE
520 WEST MAIN STREET
LOUISVILLE, KY 40202

GENERAL SALES OFFICE
HEAVEN HILL—EVAN WILLIAMS CO.
PO BOX 3217
THOUSAND OAKS, CA 91359

The Honorable Peter Wilson
United States Senate
Senate Office Building
Washington, D.C. 20510

Dear Senator Wilson:

I am an employee of Heaven Hill Distilleries, Inc., a manufacturer of distilled spirits. Last year, the Congress increased the federal excise tax on our product by 19%. Now it is my understanding that Senator Packwood's tax proposal, by denying the deductibility of federal excise taxes, would in effect increase the tax on distilled spirits again - this time by another 54%. This is a tax increase on top of another tax increase. To make matters even worse, Senator Packwood is proposing an additional ad valorem tax on our products.

Such moves would be devastating blows to our industry and threaten my job.

Certainly you cannot regard Senator Packwood's proposal to deny the deductibility of excise taxes and to impose ad valorem taxes as "tax reform". Please urge Senator Packwood and all members of the Senate Finance Committee to disapprove this poorly thought-out proposal.

Thank you for your consideration of this most important issue.

Sincerely,
HEAVEN HILL DISTILLERIES, INC.

Leonard Homel

Leonard Homel

LH/tap

Distilled Spirits Council of the United States, Inc.

FEDERAL GOVERNMENT RELATIONS

GEOFFREY G. PETERSON, Director
TIM DUDGEON, Assistant Director
SYDNEY PROBST, Assistant Director

March 18, 1986

Dear Senator:

Enclosed is a copy of our letter to Senator Bob Packwood expressing the opposition of the Distilled Spirits Council of the United States to his tax reform proposal to deny the deductibility of federal excise taxes.

We urge you to contact Finance Committee members to express your opposition to this proposal.

Sincerely,

Geoffrey G. Peterson
Director
Federal Government Relations

GGP/lms
Attachments

Distilled Spirits Council of the United States, Inc.

March 17, 1986

The Honorable Bob Packwood
United States Senate
259 Russell Senate Office Building
Washington, D.C. 20510

Dear Senator Packwood:

On behalf of the entire distilled spirits industry, I want to inform you that your proposals to deny the deductibility of federal excise taxes and to impose some type of new ad valorem tax on our products would be devastating blows to our industry. These are nothing less than income taxes levied on our excise tax and amount to a massive increase on an already high and regressive consumption tax that will fall heaviest on low and middle income families.

No single tax proposal ever suggested for our industry would be as damaging as these are. Over five years, nondeductibility alone would amount to a tax increase of $6.7 billion on liquor.

We have calculated that even assuming a 35% corporate tax rate, the non-deductibility provision would have the same impact as raising our federal excise tax by 54% or approximately $6.75 a proof gallon.

As you know, the distilled spirits industry already pays the highest federal excise tax of all, amounting to 28% of the bottle price. Last year, Congress raised that tax by 19%. The tax is our single largest cost of doing business. Again, just considering the effect of nondeductibility, the new tax you are proposing, combined with last year's hike, would mean an effective tax rate increase on liquor of 83% in just two years. This could cause the typical bottle of spirits at today's price to go up by 25% and this, as I have pointed out, does not even take your yet unrevealed ad valorem tax proposal into account.

Our companies make no money from excise taxes. When the goods leave our warehouses, the tax is levied. We must pay that tax 30 days

1250 EYE STREET, N.W., SUITE 900 WASHINGTON, D.C. 20005 (202) 628-3544

after the end of each bi-weekly tax period - even before we receive payment for the goods. Typically there is a lag of approximately 27 days from the time we pay the tax until we receive payment from the wholesaler. The wholesaler is charged the cost of goods plus the federal excise tax plus our mark-up. When we receive the payment, we deduct the cost of goods sold, which includes that tax payment. This is in keeping with long-established fundamental tax policy - i.e., that taxes are levied on net income once costs are deducted - not on gross income. By disallowing our deduction of federal excise taxes, you are in essence charging us an income tax on the excise tax we pay - a tax on a tax. Ad valorem taxes would only serve to make this situation far worse.

This is especially unfair since we are the tax collector for the government - in fact, an efficient tax collector because we prepay the tax even before getting paid for our goods.

You have described your proposals as boons to small business. In the case of our industry, this is totally inaccurate. Our industry typically gets its product to the consumer through small businesses. Of the roughly 275,000 retail establishments selling spirits - liquor stores and taverns, about 70% are small mom-and-pop establishments employing four or fewer people. Preliminary estimates are that your proposal will result in the loss of some 23,000 lost and the possible demise of 10,000 small business establishments. This is not small business tax reform to them.

Our industry is already reeling from tax increases at the federal and state level. Since 1951, state tax increases have amounted to a nearly 500% revenue increase. In the last six years, there have been 63 state tax increases alone.

Employment is down, plant closings are rising and capacity utilization is down at the manufacturer level. These ill-considered proposals could be the death knell of an industry which provided over $3.7 billion in federal excise taxes in the last year alone and $3.3 billion in state and local tax revenues.

I urge the Senate Finance Committee to disapprove these discriminatory back-door excise tax increases which would result in tax hikes to consumers and products ranging from liquor to tires to telephones to gasoline.

Thank you for your consideration. If you have any questions, please contact me on 628-3544 or my Director of Federal Government Relations, Jeff Peterson on 682-8880.

Sincerely,

F. A. Meister
President/CEO

FAM/lms

BRACCO DISTRIBUTING COMPANY, INC.

2225 Jerrold Avenue • San Francisco, California 94124 • (415) 821-6667

March 19, 1986

The Honorable Pete Wilson
720 Senate Hart Office Building
2nd and C Streets,N.E.
Washington, D. C. 20510

Dear Senator Wilson:

Thank you for taking the time last week to meet with me and discuss the issues affecting America's beer drinkers.

Since our meeting, Senator Packwood has released a Tax Reform proposal which contains provisions that would be very damaging to the brewing industry as well as all other industries that collect excise taxes for the government. The proviso eliminating the corporate income tax deduction for excise tax collections actually represents a tax increase on the consumers of beer, wine, gasoline, tires, and other consumer goods. The proposal would actually shift more of the nation's tax burden to America's working men and women, who are already paying their fair share.

It has been stated that disallowing the deductibility of excise taxes simply closes a corporate tax loophole. In reality, this provision creates a tax on a tax. It would force companies to treat excise taxes as profit, when they are actually tax collections which are simply passed back to the government.

Finally, by indexing the excise tax rate for beer to future price changes, the proposal creates on the tax side of the ledger the same process that has caused so much trouble on the spending side. Surely, such a central government function as levying taxes should be accorded continuing legislative review rather than being put on automatic pilot.

I urge you to vote against these provisions of the Tax Reform package.

Sincerely,

John Bracco
President

Weibel Vineyards
Vineyards Established 1869

Weibel Vineyards
1250 Stanford Ave., Post Office Box 3398, Mission San Jose, California 94539-0339 • Phone (415) 656-2340
Vineyards in Mission San Jose and Mendocino County, California

March 20, 1986

Senator Pete Wilson
Senate Office Bldg.
Washington, D.C. 20510

Dear Senator Wilson:

We are opposed to Senator Packwood's proposed tax reform package eliminating the allowance of federal excise taxes as business deductions for income tax purposes. We also oppose the proposed increase in wine excise taxes which would establish a scale of taxation predicated on alcohol by volume.

An increase based on alcohol by volume would, in the case of a 12% table wine, mean a tax increase of approximately five hundred percent, (from .17 to .87 a gallon) to the producer. Factoring in the income tax impact of the loss of deductibility, we estimate that, for 12% table wine, we must in effect add an additional .73 increase per gallon. A combination of these two provisions would cause the current rate of .17 a gallon to soar, on the average, to $1.60 a gallon, approximately a thousand percent increase!

The impact of these two measures would be catastrophic for the future of the American wine industry. The increase cost of $1.60 a gallon to the producer would, in our three-tier system, be increased at the wholesale and retail levels, presenting the consumer with a substantial increase. An even greater increase would occur in the pricing of champagne and sparkling wines: the elimination of the business deduction for excise taxes would cost the consumer an additional $16.00 per case on the average. In an already troubled market, this would result in disastrous consequences throughout the wine industry.

The higher retail pricing brought about by this program would shift products into higher price categories, resulting in lower overall sales as consumers adjust their purchase preferences to new price categories. This trend would affect the financial stability of many wineries and could result in many cut backs and layoffs throughout the industry. Fewer people working would increase the unemployment rolls, thus costing the government more and serving to decrease tax revenues even more. In conclusion, we are opposed to this unfair and illogical attempt to single out and penalize the wine industry through excessive tax increases.

Sincerely,

Ed Russell
Senior Vice President, Sales

FEW/lmd

TRUST YOUR TASTE

Anheuser-Busch, Inc.

March 20, 1986

The Honorable Pete Wilson
720 Senate Hart Office Building
2nd and C Streets N.E.
Washington, D.C. 20510

Dear Senator Wilson:

Thank you for taking the time last week to meet with me and others from Anheuser-Busch to discuss the issues affecting the brewing industry and America's beer drinkers.

Since our meeting, Senator Packwood has released a Tax Reform proposal which contains provisions that would be very damaging to the brewing industry and all other industries that collect excise taxes for the government. The provision eliminating the corporate income tax deduction for excise tax collections actually represents a tax increase on the consumers of beer, wine, gasoline, tires, firearms, fishing equipment, airline tickets, long distance phone calls and other consumer goods. The proposal could actually shift more of the nation's tax burden to America's working men and women, who are already paying their fair share.

The disallowance for the deductibility of excise taxes really creates a tax on a tax. It would force companies to treat excise taxes as profit, when in actuality they are tax collections which are simply passed back to the government.

Finally, the proposal to index excise taxes creates on the tax side the same process that has caused so much trouble on the spending side. Levying taxes should be accorded continuing legislative review rather than being put on automatic pilot.

May I urge you to vote against these provisions of the Tax Reform package?

Sincerely,

George F. Weston
Plant Manager

Anheuser-Busch, Inc.
P O Box AB
Fairfield, CA 94533-0674
(707) 429-2000

E. & J. GALLO WINERY • *Modesto, California*

OFFICE *of the* CHAIRMAN

March 21, 1986

The Honorable Pete Wilson
U. S. Senate
Washington, D.C. 20510

Dear Pete:

While in Washington, I picked up the impression that some legislators were of the opinion that wineries made a profit on excise taxes. This is definitely not so.

If Senator Packwood is of such an opinion, I attach a brief paper which you may wish to discuss with him.

All the best,

Ernest

Ernest Gallo

EG:om

Attachment

FEDERAL EXCISE TAX COLLECTION
A BURDEN, NOT A LOOPHOLE

Summary

The excise tax taken in by a winery is sent, dollar for dollar, to the federal government with no profit. If excise taxes are made non-deductible, wineries will have to pay income tax on the excise taxes collected and paid over to the federal government and would therefore be forced to increase their prices to consumers.

In fact, wineries suffer a negative cash flow because they must remit the tax to the government before they collect it from their customers.

Profitability and Taxes

From a profitability standpoint for both financial and income tax reporting the collection and remittance of the excise tax is a zero sum transaction.

For example:

Excise tax collections included in sales	$ 1,000
Payments of excise tax to federal government (deducted either as reduction of sales or as a cost of operations)	(1,000)
Taxable income and financial statement income before income taxes	-0-
Federal income tax cost or benefit (46% of net income)	-0-
Net Income for financial statements	$ -0-

Cash Flow

From a cash flow standpoint wineries extend credit of 30 or more days on most sales but must pay the excise tax on the first half month's sales by Electronic Funds Transfer on the last day of the month. Thus wineries already have the burden of financing this tax until they collect from their customers.

BOCK VINES &WINES : BOX 251 : DAVENPORT : CALIFORNIA : 95017
415 : 879-0123

24 March 1986

Re: Federal Excise Tax Increase on Wine, Proposed by US Senate Finance Committee, Robt. Packwood, Chairman

Dear sir:

We are very much against raising the tax on wine from 17¢ to 87¢ per gallon. Everyone in California Wine industry is very aware of the financial problems each winery and each grape grower is experiencing at this time, due to foriegn competition, high interest, and "glut" of product on the market.

The last thing the grower who gets very little for his product, or the winery, who also must sell at cost or often less than cost just to stay in the market, needs is an increase of tax on their product.

Lets support our agricultural industry, its our heritage, its our future. Gain needed tax revenues by taxing oil, not food. At the current rate we can afford to pay a little more for gasoline at the pumps, but we cannot afford to lower another blow on the agricultural industry.

And, for the record, we are particularly not interested in seeing our hard-earned tax dollars go to "the Military-Industrial Complex". We are grape growers and wine brokers who work seven days a week and we would like to see our tax dollars support an industry with integrity- agriculture, not a self-perpetuating doom industry like armaments.

Thank you for your time and consideration and please vote AGAINST THE INCREASE ON FEDERAL EXCISE TAXES FOR WINE.

Sincerely,
Noel Garin Bock

Noel Garin Bock
Co-Owner, Bock Vines and Wines
Brokers and Winegrape growers

VINEYARD : 9201 COLONY DRIVE : REDWOOD VALLEY : CALIFORNIA · 95470

MAIDSTONE WINE & SPIRITS INC.

March 27, 1986

The Honorable Pete Wilson
United States Senate
Washington, DC 20510

Dear Senator Wilson:

I am a member of the beverage alcohol industry, employed by Maidstone Wine & Spirits Inc.

Last year, Congress increased the federal excise tax on distilled spirits products by 19%. Now I understand that Senator Packwood's tax reform proposal includes several excise tax measures which would again seriously impact the beverage alcohol industry. Denying the deductibility of federal excise taxes would in effect increase the tax on distilled spirits products by another 54%. To make matters worse, Senator Packwood is proposing an ad valorem tax on all beverage alcohol products. Such measures would have a devasting effect on this industry and in turn could threaten my job.

As my Senator, I ask that you urge Senator Packwood and the other members of the Finance Committee to drop these proposals. Thank you for your consideration of this most important matter.

Sincerely,

David P. Boyle
Director of Marketing

70 UNIVERSAL CITY PLAZA • SUITE 465 • UNIVERSAL CITY, CALIF. 91608 • TELEPHONE: (818) 508-5461

Beringer Vineyards

2000 MAIN STREET (BOX 111) • ST. HELENA, CA [illegible]

March 27, 1986

The Honorable Pete Wilson
P. O. Box 36004
San Francisco, CA 94102

Dear Senator Wilson:

I'm writing to you to express my concern about the proposed Federal Excise tax on wine. I understand that Senator Packwood's proposal would increase taxes from $.17 per gallon to $1.60 per gallon! This tax increase would devastate the U.S. wine business and really harm a large group of growers because the taxes would reduce sales of wine. With a decrease in wine sales tax income would also diminish.

Our industry is concerned and responsive to the alcohol problem and increased taxes are not the solution to those individuals with a chronic problem. We have tried to position wine as a food beverage, drunk only in moderation; the magnitude of this tax increase proposal can only be viewed by our industry as regressive and punitive.

I am member of the industry and also my relatives are small California grape growers, who all their lives have reverently supported the United States; we all understand the need for reducing the deficit, but this proposal could put us out of business. Please give every consideration to not implementing this tax proposal; which will not generate large tax dollars and will very definitely harm a small part of America.

Very truly yours,

Robert E. Steinhauer
Vice President - Vineyard/
Grower Relations

RES:es

Louis J. Foppiano Winery

March 28, 1986

The Honorable Pete Wilson
Senate Building
Washington, D.C. 20510

Dear Senator,

We need your help!

The proposal to increase taxes on wines which is now before the Senate Finance Committee, will quickly have a devastating effect on our already shakey economic position.

As you know, our sales have fallen off due to numerable factors such as increased importation of wines, existng exorbitant taxes on the state level which requires that those expenses be passed on to the consumer, and last but not least, the reduction of land values in some areas creating a situation not dissimilar to the problems suffered by agricultural producers in the midwest.

Our wine industry in this country is new and full of potential. Our creativity and energies are limitless. We feel that we contribute in many ways to our communities and with all the failures of small business owners in this country it would be a shame to extinguish yet one more productive level of the backbone of our economic foundation.

Please help us to regain our footing and continue to develope our industry into one that can carry its fair load of economic responsibility for the country that gives us the freedom to grow strong.

Respectfully,

Louis M. Foppiano

Louis M. Foppiano
Vice President

/dg

P.O. BOX 606 HEALDSBURG, CALIFORNIA 95448 (707) 433-7272
WINERY LOCATED AT [illegible] OLD [illegible] HIGHWAY, HEALDSBURG

OFFICE OF
BOARD OF SUPERVISORS
108 COURT STREET • JACKSON, CA 95642 • PHONE (209) 223-6470

March 28, 1986

The Honorable Pete Wilson
Senator
Room 613, Dirksen Building
Washington, D. C. 20510

Dear Senator Wilson:

RE: Federal Wine Excise Tax Increase Proposals

The Amador County Board of Supervisors strongly opposes any increase of the Federal wine excise tax as proposed by the Senate Finance Committee.

The wine industry is in serious difficulties and is already heavily taxed at both the state and federal levels. The American wine industry is still in its infancy. In addition to the major wine producing regions, wine grapes are being grown and wineries are emerging as new, primarily family owned, small businesses in 34 states. Even without further tax increases they face economic hard times, falling sales and plummeting land values.

In California, for example, the value of San Joaquin Valley vineyards has declined from 50 per cent to as much as 80 per cent between 1982 and 1985. In 1985, 57,000 acres of California vineyards were either abandoned or not harvested. Table wine shipments, the backbone of the wine trade, have dropped in the last two years from 281.4 million gallons to 264.7 million gallons.

The depressed state of the wine industry is further exacerbated by subsidized foreign imports. The last thing we need is to have additional taxes burdening an already precarious situation.

We cannot urge you strongly enough to oppose any increase to the federal excise tax on wine.

Sincerely,

Edward T. Bamert
Edward T. Bamert
Chairman

cc: Amador County Wine Growers Assoc.
John Kenworthy, Kenworthy Vineyards

Buena Vista Vineyards

ESTABLISHED JANUARY 1857 BY COUNT AGOSTON HARASZTHY

SONOMA, CALIFORNIA 95476 • P O BOX 311 • (707) 938 7244

28 March 1986

Senator Pete Wilson
United States Senate
Washington, D.C. 20511

Dear Senator Wilson

As a California Winegrower of many years standing, I am appalled to learn that the Senate Finance Committee is proposing to burden our hardpressed industry with an even larger excise tax.

Please don't let this tax happen! Our competition (imports still have 30% of the wine market) doesn't need the help.

Cordially,

for/ Antonia P. Bartholomew

HOUSE OF DANIELS INC.

THE PARENT CORPORATION FOR
GOLDEN GATE DISTRIBUTING CO · REDWOOD VINTNERS · GOLDEN GATE LIQUORS
WHOLESALE DISTRIBUTORS AND IMPORTERS OF BEER · WINE · SPIRITS

March 28, 1986

Senator Pete Wilson
The United States Senate
Washington D.C. 20510

Dear Senator Wilson,

This suggestion by Senator Packwood affects the ultimate future of my business directly. As a distributor of distilled spirits, I was extremely troubled to learn that Senator Packwood included a provision to deny the income tax deduction of federal excise taxes in his draft tax reform program. This provision places my business, the entire distilled spirits industry, and many other industries in serious jeopardy.

Distilled spirits were already singled out for a federal excise tax increase of 19% last year. The effect of disallowing the deductibility of federal excise taxes would translate to an additional federal excise tax increase of over 54% -- $6/75 per proof gallon -- even assuming a lower corporate tax of 35%. Including last year's tax hike, this means the effective tax rate increase on spirits would be 83% in just two years. No single tax proposal ever suggested for distilled spirits would be as devastating as this.

Our industry is already suffering from high and inequitable federal and state taxes. Since 1977, employment is down 33%, capacity utilization is down 25% and 10% of all plants have closed. An additional 54% federal excise tax, which will increase the price of a typical bottle of spirits 25%, will cause demand, sales, and employment to fall off drastically -- the effect would be disastrous.

Disallowing the deduction for federal excise taxes is not a corporate tax, but an extremely recessive consumer tax, hitting those least able to pay the hardest. The $62 billion that this proposal raises on its first five years would not be used to reduce the deficit, but to make the federal income tax system less progressive by paying for a large reduction in high income tax rates and the retention of tax breaks for a narrow group of taxpayers. Demanding low and middle income taxpayers to finance such tax breaks is not tax reform and is not fair.

Senator Packwood's nondeductibility proposal singles out only those industries that already pay excise taxes or tariffs. This means that not only will the price of spirits increase, but so will airfares, trucking costs, telephone services, tobacco products, beer, wine, gasoline, and other consumer products. To pick on the narrow group of taxpayers who serve as collectors of the government's excise tax is inequitable and inefficient.

12 HARBOR DRIVE · BLACK POINT-NOVATO, CALIFORNIA 94948 · 415-892-6949

Letter to Senator Pete Wilson Cont'd.
Page Two.

Furthermore, the nondeductibility proposal is a tax on a tax and a gross violation of the traditional concept of income under our federal tax system. Historically, taxable income is only that income that represents a gain or profit. When manufacturers of spirits receive payment from spirits distributors, part of that payment represents excise taxes. That amount, however, is not a profit to the manufacturers. It is merely a reimbursement because they already paid that amount by electronic fund transfer to the federal government when their products left their distillery. Collecting excise tax revenue for the federal government is a service that hardly warrants such a huge additional tax.

Sincerely yours,

Charles I. Daniels, Jr.
President

CID/rn

Wine World, Inc.

2000 Main Street (Box 111) • St. Helena, Ca. 94574 • (707) 963-7115

March 31, 1986

The Honorable Pete Wilson
United States Senate
Washington, D. C. 20510

Dear Senator Wilson:

I am writing to express my opposition to Senator Packwood's unfair, regressive and punitive tax proposal presently before the Senate Finance Committee which, if enacted, would raise prices to consumers and devastate the American wine community.

Senator Packwood calls for a 400% increase in wine taxes and then doubles this amount again by eliminating the deductibility of Excise taxes.

The wine business is made up of many small "farmer-grower" wineries, over 600 now in California alone. It is a business under tremendous pressure from imported wines. It is a very responsible alcoholic beverage, consumed with food. It is heavily taxed at State and Local levels now.

I ask you to join with me in support of the wine industry and against this repressive and ill-conceived tax proposal.

Very truly your,

R E Yates

Robert E. Yates
Human Resources Manager

REY;ys

PHONE (707) 252-8600

RAY CAVAGNARO, INC.

Wholesale Liquors • Wines • Beer

6555 NAPA VALLEJO HWY. • P.O. BOX 750 • NAPA, CALIFORNIA 94558

March 31, 1986

The Honorable Pete Wilson
United States Senate
Washington, D.C. 20510

Dear Senator Wilson,

The Senate Finance Committee's Tax Reform proposal contains a provision that would disallow deductions for excise taxes. This would be a major blow to my company and will produce sharp consumer price increases here in California.

WE URGE YOU TO VOTE AGAINST IT!

Initial estimates indicate this proposal would produce a sales loss of about 100 million cases per year. This loss would severely damage an industry that has already experienced over 30 plant closings in the last ten years.

To add further injury to our lost beer sales, we would also face price increases for gasoline and truck parts. These costs must be passed on to the consumer, as well.

I do not understand why the Senate is considering a "reform" that produces hidden taxes and will result in higher prices for the working people of America. This proposal will increase the cost of their beer, their sporting equipment, and their vehicles. It is an unfair "lifestyle tax" that punishes the very people who make America great.

Please vote against any proposal to disallow the deductability of excise taxes; or any other proposal to increase consumer costs by increasing excise taxes on beer.

Sincerely,

Richard Cavagnaro

RICHARD CAVAGNARO, PRES.
Ray Cavagnaro, Inc.

RC:mc

LOUIS ROESCH COMPANY

MARCH 31, 1986

THE HONORABLE PETE WILSON
UNITED STATES SENATE
720 HART SENATE OFFICE BUILDING
WASHINGTON, D.C. 20510

Dear Senator Wilson:

I am writing to ask you to do whatever you can to defeat a proposal by Senator Packwood to end the deductibility of Federal excise taxes.

It would be terribly unfair if this proposal is ever enacted into law, but the Senate Finance Committee is already considering it. I am the President of a Lithograph Company employing one hundred and twenty five people specializing in printing wine, liquor and beverage labels. The repeal of the deductibility of Federal excise taxes could be crippling to the spirits and wine industries, and consequently very damaging to our own industry.

No matter what it is called, the Packwood proposal is really a tax increase. It will amount to a 54 percent increase in distilled spirits. The Federal excise tax on spirits just recently went up 19 percent. So, what is proposed is a 83 percent Federal excise tax increase on spirits since October of 1985.

In addition, the nondeductibility provision would also add another 73¢ to a gallon of 12% table wine.

The burden of the nondeductibility provision will have to be passed on to consumers, for no industry can absorb such a massive increase. As a result, sales will drop sharply. An anticipated increase in government revenue probably will not be realized, either, because of declining sales.

The continued well-being of my family, (and the 125 people I employ), are jeopardized by this unfair proposal.

To not permit deduction of federal excise taxes really means the taxing of taxes, serious damage to an industry, and most likely, little or no increase in government revenues to show for it.

Please use whatever influence you can bring to bear to stop the proposal.

Sincerely,

Michael A. Davos
President

MAD/kr

MAIN OFFICE AND PLANT • 1886 MISSION STREET, SAN FRANCISCO, CA 94103 PHONE (415) 621-4700

Lite · Miller High Life · Meister Bräu · Löwenbräu

HARBOR DISTRIBUTING COMPANY

April 1, 1986

The Honorable Pete Wilson
Member of the Senate
Washington D.C.

Dear Senator Wilson,

As a member of the business community within the State of California, I would like to bring to your attention Senator Packwood Tax Upon Tax Proposal.

We as business men can only pass on taxes. In order to take this suppossed reform and pass it on to our consumer, we would raise the price of our commodity beyond the consumers ability to pay. This is not truly a tax reform, but it seems to be tax trickery. I would hope that you would sign on as a co-sponsor to Senators Ford and McConnell, hearings on the non taxable, tax deductable issue.

Thank you for your concern, we appreciate your constant help.

Sincerely,

Jeffery N. Spellens
Vice President/General Manager

JNS;dc

2824 East 208th Street, Long Beach, CA 90810

(213) 632-LITE or 979-1452

SEQUOIA GROVE
V I N E Y A R D S

8338 St Helena Highway Napa, California 94558
707/944-2945

Senator Pete Wilson
United States Senate
Washington, D.C. 20510

April 1, 1986

Dear Senator Wilson:

I beseech you with all due respect to voice your opposition to the Federal Excise Tax Increase on Wine Proposal which is presently before the Senate Finance Committee.

For an industry that has suffered a repeated drop in sales (table wine shipments down 16.7 million gallons in the last two years); a decline in vineyard value in certain areas (San Joaquin Valley - 30% decrease); and widespread economic hardship (57,000 acres of California vineyards were either abandoned or not harvested in 1985), this proposal to increase excise tax and to eliminate the deduction of that tax would greatly aid in the devastation of the American wine industry.

Senator, the American wine industry is becoming more and more a family working with family style business, a reflection of the Agrarian society. Family owned vineyards and wineries now operate in thirty-four states. These families would be financially crippled by this unfair tax increase, and if these outrageous increases are passed on to the consumer by the survivors of the increase, then it is the American people in general who suffer. The cost of a bottle of wine may become prohibitive to most people, and since statistics show that the average wine drinker does so with food, the pleasure of wine and food would no longer be available to the masses.

In a day when we are constantly urged to buy American, why is the American wine industry being singled out for such an unfair proposal? When at the same time our Government is considering reducing or eliminating onerous tariffs and no-tariff barriers with Japan and Canada to free American wines to their markets. Foreign imported wines presently own a 30% share of our table wine market. How much more are we expected to give?

I urge you, Senator, to be instrumental in stopping this proposal immediately. It simply is not worth an estimated loss of 20,000 jobs, the failure of minimum 400 vineyards, and the ruination of countless family owned wineries.

Respectfully,

Barbara Allen

Olive Ann Allen

James Allen

Steve Allen

THE ALLEN FAMILY WINERY

DELICATO
VINEYARDS

April 1, 1986

Senator Pete Wilson
Room SD-613
Senate Office Building
Washington, D.C. 20510

RE: Proposed Wine Excise Tax Increase

Dear Senator Wilson:

The American wine industry needs your help. The wine tax proposal before the Senate Finance Committee would deal an additional financial blow to our already ailing industry.

We are currently facing the burden of foreign government subsidies that have helped foreign wines acquire a 30% share of the U. S. table wine market. The additional burden of a 400% increase in excise taxes on wine will eliminate some of our smaller family-owned wineries.

In our area, the San Joaquin Valley, vineyard values have declined at least 50% in the last three years. Vineyards are being pulled. Our next door neighbor didn't even harvest 30 acres of grapes last year. We're concerned!

In view of the serious difficulties faced in the wine industry, we urge you to vote NO to the wine excise tax increase.

Very truly yours,

DELICATO VINEYARDS

Dorothy Indelicato

Dorothy Indelicato
Treasurer

DI:js

12001 South Highway 99, • Manteca, California 95336-9209 • (209) 239-1215, (209) 982-0679 • B.W. 4004

Master Brewers Association of America

DISTRICT NORTHERN CALIFORNIA

April 2, 1986

The Honorable Pete Wilson
United States Senate
Washington, D. C. 20510

Dear Senator Wilson:

I am writing this letter on behalf of the Master Brewers Association, District Northern California. We would appreciate it very much if you would vote against any tax proposal that would increase the price of beer. We have reference to the tax reform proposal which is presently before the Senate Finance Committee.

By eliminating the deductibility of excise taxes, the proposal creates a hidden tax increase on consumers of beer and a variety of other products on which excise taxes are levied.

Increased taxes on beer means higher prices for consumers. Most of the beer is consumed by America's working men and women, who already pay the majority of all Unites States taxes. Increased taxes will have another effect on all small brewery operations and especially the Micro breweries.

The small breweries already must charge more for their beer in order to stay in business and with the proposed tax increase they would have to raise the price so high that consumers would switch to hard liquor and they would have to close their doors.

Large breweries would also lose sales for the same reason. In this connection, the manpower force would be curtailed initially and if the brewery would be of medium size, then they would probably be forced to close down just like the Micro breweries; this will increase unemployment across the United States. To prevent this, you could increase revenue very easily by raising the import taxes on beer, wine, and everything that is imported into this country. Support the workers and companies in the United States of America.

I have been in two (2) wars and I love my country; I believe this country should help the people and the companies here in the United States of America.

This letter is a little longer than planned, but I covered the points that needed to be covered.

Please do not let us down by voting for a tax increase on beer. Please vote NO!

Please advise me if you are going to increase the cost of beer either by raising taxes or by removing deductions for excise taxes.

Thank you very much.

Sincerely,

John J. Brikman

John J. Brikman
PAST PRESIDENT OF MASTER BREWERS ASSOCIATION
DISTRICT NORTHERN CALIFORNIA

SILVER OAK CELLARS
P. O. BOX 414, OAKVILLE, CALIFORNIA 94562
(707) 944-8808

April 2, 1986

Senator Pete Wilson
Senate Office Building
Washington, D.C. 20510

Dear Senator Wilson:

I want to thank you for your support of the California wine industry in the past and urge your continued support against Senator Packwood's proposal of a discriminatory and oppressive wine excise tax which would have a devastating effect on one of the few segments of agriculture still managing to survive on its own.

Sincerely,

Justin Meyer

Justin Meyer
winegrower

JM:pt

CABERNET SAUVIGNON

CALIFORNIA WINE EXPORTS
DOUGLAS L. CROWTHER, WINE BROKER
828 IRVING STREET
SAN FRANCISCO, CA 94122 USA
(415) 661-1250

April 2, 1986

Senator Peter Wilson
United States Senate
Washington, DC 20510

Dear Senator Wilson:

I have reviewed the specifics on the Senate Finance Committee proposal to increase the Federal excise taxes on wine and would like to point out the following:

1) The U.S. wine industry is already heavily taxed at the state level (additional excise and sales tax).

2) If the proposed tax increase is passed, we can expect a 10% drop in overall sales amounting to 58 million gallons.

3) The current state of the California grape growers shows the value, e.g., of San Joaquin vineyards there has been a 50-80% decline between 1982 and 1985.

4) Returns to growers in California have declined 17% overall--with certain districts suffering a loss of 40%.

5) Foreign wines, assisted by government subsidies have attained a 30% share of the U.S. table wine market.

These reasons alone dictate that all available means be used to defeat the proposed increase of tax on wines--a tax that would increase present taxes by 1,000%!

Yours sincerely,

Douglas Crowther

/ROF

Ultra Specialty Inc.

April 4, 1986

Mr. Pete Wilson
Senator
United States Senate
Washington, D.C. 20510

RE: Federal Excise Tax Increase
on Wine

Dear Senator Wilson:

We are one of the very few exportors of United States products. California Wines are one of our proud product lines. With high labor and still strong U.S. dollars we move with progress, every inch competiting in the world markets.

The prospoosed increase of Federal Excise Tax on wine will indirectly kill our just sprouting business, a result of much hard work. We already have enough to combat abroad, please give us a hand at home!

Thank you for your immediate attention to our petition opposing tax increase on wine in next week's meetings. It will be disastrous both at home and abroad for wine industries, particularly and most unfair when other alcoholic items or agricultural products are not to face the same fate.

Sincerely,

Júliet Wong
Vice President