

## Wine industries grow out of the vineyards from the ground up.

The issue is not that we cannot sell our wines. The issue is in the headwinds to producing enough Montana Wine to be competitive. We need more Montana grown grapes in the face of excessive barriers to entry. These barriers have always existed in all wine regions and have always been alleviated by simplifying and focusing winery regulations as beginning in the vineyards. This testimony is to describe the conditions of wine industry economics, from production to product identity, to consumer engagement, and the relatable regulations to sustain an industry of Montana Wine.

### **Montana WINERIES and Montana WINE. It's all about the VINEYARD.**

*Define "Canadian wine"*: Wine made in Canada from grapes/fruit grown in Canada. (French, Italian, CA...)

*Define "Montana wine"*: Same.

*Define "Canadian winery"*: Facility making wine in Canada (assumed from Canadian grapes/fruit).

*Now, define "Montana winery"*.

Incorporating all sorts of fruits from California, Washington, Montana, Minnesota, Nebraska...

Or producing cider from fruits from anywhere...

Or producing Meade from honey from anywhere...

Or *importing* wine to be bottled, presented, and sold to consumers as Montanan...

And allowing a tasting room functioning as a wine bar...

*Why are these definitions of "wine" and "winery" generally important?*

...because of consumer demand/expectation/assumptions regarding both wine and winery:

- 58-year-old woman, boxed wine, with ice, with cigarette knows grape varietal and growing region.
- 2004 movie: *Sideways*
  - A movie character portrayed as a wine expert.
  - 13-year setback for Merlot.
  - Doubled a stagnate Oregon Pinot production in 2 years, quintupled before Merlot recovered.
- Brix Bottle shop: "I can't get behind a Montana wine from Washington grapes."
- Helena wine festival: "There are over 50 vineyards in Montana, each one offering its own special vibe."
- 85% of wine is purchased in grocery stores / 95% by women.
  - Criteria: 1-Varietal, 2-Growing region, 3-Appeal, 4-Descriptors, 5-Brand (winery)
  - DtC/wine club criteria: 1-Region, 2-Winemaker, 3-Varietal, 4-Exclusivity, 5-Farming practices (note: agricultural identity and personal connections. "*Know Your Farmer*" sells wine.)

*How is this specifically important to Montana?*

- Cold hardy grape breeding around the Great Lakes region (MN, WI, IA, NY, PA...) is booming.
  - Minnesota, (U of MN) environment deep, black, wet dirt...
  - Cuttings in MT (granite, volcanic ash, elevation, semi-arid, glacial water...)

This results in significantly different chemistry and physiology of the grape => an individually "Montana" wine.

(note: Al Putnam's *Harbinger* as first Montana born grape varietal w/ MSU and 362 vines in WMW.)

BUT...

Transport a grape from that same vine in Minnesota to a Montana winery and get exactly the Minnesota wine.

Currently, Montana hobby and commercial growers are realizing differences in these grapes between the

Tobacco, Flathead, Lower Clark Fork, Bitterroot, and Yellowstone valleys. *Montana winegrapes are for real.*

- Labeling is federally and typically state regulated.
  - Required by TTB and each state to identify wines for consumers and to protect regional winegrowing identities.

(example: The TTB requires a reference to the vineyard location of grapes sourced in any wine. Washington prohibits any reference to Washington on any wine made from Washington grapes outside of a Washington winery. Therefore, when a Montana licensed winery obtains grapes from Washington to make wine in Montana, the label can reference neither Washington nor Montana, but must indicate “American wine”.

- Feds require wine to be identified by the dirt in which it grows.
- Winery location means nothing to the wine’s identity.

THE POINT of all this to MONTANA WINERIES and MONTANA WINE...

Montana wineries have the regulatory latitude (burden) to function as wineries, wine bars, cideries, Meade producers, manufacturers, wholesalers, retailers, or bottlers without the hinderance of vineyard restrictions.

*Montana Wine* is a vineyard product for the vineyard industry, with vineyard marketing, with benefits and burdens of vineyard regulations.

### Montana Winery and Wine Economics

#### A Little History:

All “wine country” and wine regions of the world began with growing grapes. Oregon did not begin by making wine with California grapes.

Montana began with the pioneering of Mission Mountain, Ten Spoon, and Hidden Legend in an environment when winegrapes did not have the developments we have available to us today. (Ken Schultz, “Who knew...?”)

- Compelled to survive without vineyard “wine country”.
- Dismissed vineyards for outsourced grapes, wine bar business models, and alternative ag. (honey).
- Current winery license evolved from these three features, with inherent internal conflicts/arguments.
- Montana wineries have been established from these conflicting license requirements and allowances.

#### *Currently the Montana winery norm:*

- Tasting rooms are wine bars.
  - Unlimited importation of wine.
  - Facilities of “non-production” enable simplified access to metro markets.
  - Wine importation allows for immediate production and sale.
  - No imposed limits on consumer sales quantities
  - No imposed limits on business hours
  - No imposed limits on sample tastings
- Farm wineries suffer significant pushback from the alcohol coalition and non-production wineries.
  - Tavern owners oppose wine bars. (non-production wineries join MTA?)
  - Distributors oppose unregulated importers.
  - Brewers and distillers oppose Montana ag requirements.
  - Non-production wineries perceive “winners/losers” advantages to Farm wineries. (join MTA?)
- 5 winery websites have cited the lack in availability and the lack in quality of Montana grapes to justify their import business models.
- Rep. Fitzgerald, “There’s no such thing as Montana wine. It all comes from out-of-state.”
- LT. Gov. Juras, “There are two things you need to remember. You will always have to deal with the Department of Revenue, and Montana will never be wine country.”
- Dan Haney, Wine Manager, Summit Beverage Distributing, “You will never produce 2,000 cases.”

#### *Economics:*

(\*Excel Start-up and Production Calculations\*)

Wine Bar Tasting Room Concepts.

- Permitting full-service accommodations

- Sanitation, ADA, traffic impacts are start-up cost prohibitive.
  - Operations (impracticality)
    - Vineyards and wineries each demand full time efforts, management, reporting, and focus.
    - Saloon hours, staffing, open product, security, liability...
    - Either travelling to town or consumers travelling to vineyard.
  - Consumer engagement is convoluted.
    - Murphy's note of wine bars' struggles to sell bottles/cases.
  - Significant benefits to and from agritourism once a vineyard/winery is established and independent.
- Simple Tasting Room (SB 199)

- Direct engagement with consumer at vineyard
- Limited services
  - Controlled samples
  - Sales of sealed, off-premises packaging only
  - Reduces regulations at DOR and county level by curtailing wine bar operations and importations.
  - Low start-up cost. Low operational cost.
  - Reduces consumer impact on time, community, facilities.
  - Limited liability
  - WA tasting room average: 1 visit, 2 people, 13 minutes, \$269.

#### **What Does This Vision Look Like?**

- Do not alter the current license's rights and obligations.
  - The current license reflects the rights and obligations of the current wineries (Cider, Meade...)
  - Open access to outside commodities accommodates the law.
  - Businesses are fully established.
  - A greater number of wineries attracts more commerce, primary and ancillary.

*Two types of Farm/vineyards, with regulations and allowances reflecting the rights and obligations of growers:*

- Grower (with or without winery)
  - Small, perhaps single operator
  - Minimum vine ownership requirement
  - Maximum wine production limitation
  - Montana fruit only requirement
  - Custom Crush option. Wine is manufactured in Montana only.
  - Simple tasting room allowance/limitation
  - Farmers Market permits
  - DtC wine sales limitation
  - (Designed to defray start-up vineyard costs, limit regulations, reduce barriers to entry)
- Farm Winery
  - Larger operation
  - Minimum land ownership requirement
  - Larger minimum vine ownership requirement
  - Tight restrictions on importation of fruit and wine
  - Manufacturing begins with raw fruit.
  - Farmers Market permits
  - 2 simple tasting rooms (discuss 700 cs min. to operate in town).
  - One full-service tasting room allowed with endorsement.
  - Freedom to exchange input and finished products among Montana wineries.
  - Designed to incentivize vineyard expansion.