



**THE TEXAS WINE INDUSTRY:
BARRIERS TO AND ASSETS OF WINEMAKING IN
TEXAS**

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TEXAS**

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Table of Contents

Abstract	1
Chapter 1 — Introduction	
1.1 Introduction	2
1.2 Research Problem and Research Questions	4
Chapter 2 — Background	
2.1 Winemaking in America	5
2.2 Prohibition	6
2.3 History of Winemaking in Texas	8
2.4 Texas Winemaking Today	10
2.5 The Texas Three-Tier Alcohol Beverage Distribution System	14
2.6 Major Legislative Changes to the Texas Alcoholic Beverage Code Since 2001	16
2.7 Recent Court Decisions Affecting the Wine Industry	19
2.8 Chapter Summary	22
Chapter 3 — Methods	
3.1 Introduction	23
3.2 Research Objectives and Research Questions	24
3.3 Research Justification	25
3.4 Research Methodology	26
3.5 Research Questionnaire	27
3.6 Sample Size	30
3.7 Research Analysis	31

Chapter 4 — Results

4.1 Introduction32
4.2 Research Question I33
4.3 Research Question II.....34
4.4 Research Question III.....39
4.5 Research Question IV42

Chapter 5 — Discussions and Conclusions

5.1 Introduction46
5.2 Research Question I47
5.3 Research Question II.....52
5.4 Research Question III.....54
5.5 Research Question IV56
5.6 Conclusions57
5.7 Limitations of the Research.....61
5.8 Future Research62

References63

Appendix 1

Questionnaire Cover Letter66
Questionnaire.....67
Answers to Sections 2, 3, & 473

Appendix 2

Data from the Texas Wine Marketing Research Institute.....90

Appendix 3

Wet/Dry Status of Texas Counties97

Appendix 4

Susan Combs on Texas Wine Marketing Assistance Program100

Appendix 5

Size Distribution of Wineries in the United States.....103

Appendix 6

Section 2, Question 6 – Varietals104

THE TEXAS WINE INDUSTRY: BARRIERS TO AND ASSETS FOR GROWTH

ABSTRACT

The history of Texas winemaking spans three centuries, but the growth of the industry has been lethargic in the last decade. The primary objective of this thesis is to assess the potential for future growth. Demographics of Texas vineyards and wineries were appraised and barriers and assets were reviewed. In conjunction with the Texas Senate Committee on Intergovernmental Relations, a self-administered questionnaire was sent to Texas vineyards and wineries and the responses tabulated.

The majority of the survey respondents have been in business fewer than 10 years, have no prior experience, and are small producers. However, the industry is dominated by a few large producers. Most of the wine is made from Texas grapes and sold in Texas.

A law designed to prohibit out-of-state wineries from shipping directly to Texas consumers which, in turn prevented Texas wineries from shipping to those states was declared unconstitutional, but confusion still exists who can ship where.. The regulations of "wet" and "dry" counties add to the confusion.

The Texas Wine Marketing Assistance Program has had a positive impact. There still is a lack of enology support and education. Legal requirements for the ownership of wineries are perceived as barrier to capital investment. Pierce's Disease is another challenge faced by grape growers.

Sixty percent of new wineries established between 1979 and 1989 failed, but the future looks brighter. Texas wines showed a 15% increase in sales for the 52-week period ending March 31, 2004.

CHAPTER 1: INTRODUCTION

1.1 INTRODUCTION

The adult per capita consumption of wine in the United States is at an all-time high. Between 2000 and 2003, there was a gain of 32% in the core wine drinking population. Further, there is evidence that the current generation of young adults has a strong inclination toward wine as part of their lifestyle, suggesting they will be entering the category of core wine drinkers (Wine Market Council). This trend holds promise for the wine market of the future.

In general, public consciousness of the United States wine industry has traditionally been synonymous with wines of Northern California. More recently, the wines of Washington, Oregon, and New York have gained widespread notice. The opening of the Pointe of View vineyard in North Dakota in July 2002 gave all fifty states operating wineries (Frost, 2003). However, most state wines, produced outside of California, Oregon, and Washington are sold locally and have little national exposure (DeBord 2002).

Viticulture and winemaking in Texas actually predate California winemaking by a century (Ciesla). Spanish missionaries came to Texas in the late 1650's, bringing vines from Europe. From the beginning, winemaking in the territory that would become Texas has been challenging. Early grape-growing settlers had to stave off attacks from various marauders, as well as contend with the climatic extremes of the region. Common weather problems of the area include too much rain, too little rain, either of these extremes of precipitation at the wrong time, and high humidity. Infestations of insects were rampant. More recently, religious and political agendas have added to the difficulty by placing constant hurdles in the way of the Texas winemaker.

In the early nineties, Texas was poised to become a major wine-producing state. Oregon, now the fourth-largest producing state, was at a similar juncture. Today Oregon

Texas Wine Industry

produces over one million cases of wine per year (Oregon Wine Board), while Texas produces only 530,000 cases (Dodd 2003, see Appendix 1, Table 9). The Texas wine industry is growing, but the pace has been lethargic. Meanwhile, Oregon wine production has surged to a much higher level.

1.2 RESEARCH PROBLEM AND RESEARCH QUESTIONS

The objective of this thesis is to explore the growth potential of the Texas wine industry. Current trends in the market for Texas wines will be described. The assets and barriers that affect the industry's growth in the state will be outlined. Perceptions and attitudes of the members of the Texas grape-growing and wine-making industry toward the current situation will be presented.

Specifically the following questions will be addressed:

- 1) What are the current demographic trends in the Texas wine industry?
- 2) What barriers are perceived by the Texas wine industry to producing and selling Texas wine?
- 3) What assets are perceived by the Texas wine industry related to producing and selling Texas wine?
- 4) What is the perception of Texas wineries and grape growers of the current situation and potential for growth in their industry?

CHAPTER 2: BACKGROUND

2.1 WINEMAKING IN AMERICA

The Norse explorer, Lief Ericson, named America “Vineland.” Historians now think what he called grapes were probably squash berries. The New World was, in fact, covered in vines bearing thick-skinned, strong-flavored grapes. The earliest colonists, however, were not captivated by the taste of these native grapes. They struggled to make wine as they had in Europe, trying to grow the grape varieties that succeeded in their native countries (Airey 2003). The harsh climate and the prevalence of vineyard diseases led to consistent failure in growing European type grapes on the newly settled continent. For three centuries, early Americans struggled to grow grapes from their native soils before recognizing that only the native grape varieties could survive (Pinney, 1989).

In the mid-1850’s, settlers migrated to the west coast of the North American continent. It became apparent to those colonizing what is now California that the European grape types could thrive there. At approximately the same time, newly-developed hybrid grapes and technical advances were permitting winemaking across the United States. In fact, Ohio led the United States in wine production in 1860 (Ciesla). At least forty-three of what would become the contiguous forty-eight states had made some sort of an attempt at grape growing and winemaking before the end of the nineteenth century. By the turn of the twentieth century, grape growing and winemaking had become a significant economic activity (Pinney, 1989).

Then, just when three hundred years of winemaking effort was paying off, a national prohibition of alcohol in 1920 threatened to end the American winemaking story.

2.2 PROHIBITION

The Eighteenth Amendment to the Constitution of the United States made all trade in alcoholic beverages illegal. This “noble experiment” of the prohibition of alcohol was undertaken with the goals of reducing crime, solving social problems, improving health and hygiene, emptying the prisons, and decreasing taxes (Thornton, 1991). This was all to be accomplished by a legally enforced abstinence to alcohol.

As we now know, Prohibition only added to the evils that it was created to solve. After an initial drop, per capita consumption of alcohol actually increased. Prohibition did not improve health and hygiene. Prisons soon filled to capacity with an increased homicide rate and the advent of organized crime. Ultimately, it took the repeal of prohibition to reduce crime, especially organized crime and corruption (Thornton, 1991).

The intent of Prohibition to eliminate the production and sale of alcoholic beverages had success with respect to the wine trade. According to Pinney, “all that most wineries in the country could do was quietly go out of business.” And most of them did exactly that (Pinney, 1989). Production of wine in the United States in 1919 was over 55 million gallons. In 1920, it sank to 20 million; in 1922, it was just over 6 million. By 1925, production reached a low of 3.6 million gallons. In California, approximately 700 wineries existed in 1920; when prohibition was repealed, only 130 to 160 wineries had survived (Weekendwinery.com). These wineries survived only by virtue of special provisions in the law that allowed the production of unfermented grape juice or for wine to be made for specific purposes. The specific purposes included religious use, medical reasons, as a food additive, and limited home manufacture of wine for personal use (Pinney, 1989).

The American wine industry was in shambles after Prohibition. There had been a huge decline in grape acreage. In addition, the grape varieties that remained were of inferior quality for making wine. The situation is described in a quote from Leon Adams’ book, *The Wines of America*:

The once proud American Wine Industry, which before 1900 had exported its wines around the world and won prizes ... was reborn in ruins. It was making the wrong kinds of wines for the

wrong kind of consumer in a whisky-drinking nation with guilt feelings about imbibing in general and a confused attitude toward wine in particular. (English,1989)

As a result, until the early 1960's in California, there were barely over 2,000 acres of Cabernet Sauvignon, Pinot Noir, Riesling, and Chardonnay combined, of a total of approximately 425,000 acres of vines, left planted. (Pinney,1989). In the late 1960's, there was a rebirth of interest in winemaking throughout the nation (Ciesla).

The repeal of Prohibition had given individual states the power to legislate control over the manufacture, distribution, and sale of alcohol within their borders. This decision predictably allowed for the creation of a chaotic patchwork of inconsistent state law. Texas may well have one of the most complicated set of such laws. This has had no small impact on the development of the Texas wine industry, as will be elaborated below.

2.3 HISTORY OF WINEMAKING IN TEXAS

An intricate set of factors has determined the shape of the development of the Texas wine industry. From the beginning, conflicts between man and nature and between cultures have been fundamental to the advancement and regression of grape propagation in the Lone Star State (Ciesla).

The state of Texas covers 275,416 square miles and contains a wide range of physical microenvironments. The Gulf of Mexico, which is the southeastern border of the state, is a major force in generating climate patterns and, therefore, the development of the varied plant life across the state. Of approximately 26 species of grapes in the world, represented by more than 2,000 varieties, more than one-half of them are indigenous to Texas (English, 1989). The Native Americans and the Siberians who came to the area apparently ate the native grapes, but there is no record of either of them producing wine. In the 1680's, The Spaniards settled the area around what is today El Paso, planting the Spanish Black grape they brought with them. This variety of grape came to be known as the El Paso or "Mission" grape. These Spanish settlers produced most of the sacramental wines for the region stretching from Chihuahua, Mexico to New Mexico (Ciesla). These extensive vineyards vanished by the end of the nineteenth century due to nature and economics, and the area never regained its viticultural importance.

Texas became the Republic of Texas in 1836. France was the first European power to recognize the geographically large, but economically fledgling, new country. Apparently, the French government was somewhat threatened by the Texas wine industry (English 1989). A. Dubois de Saligny, the first diplomat sent to Texas, reviewed the republic's tariff policy and concluded that there was a very high tax on all imported goods from France, including French wine. He took steps to protect his country's imports. In correspondence, dated February 4, 1980, De Saligny wrote:

There was a duty of twenty-five cents per gallon on all our wines without distinction of quality except for champagne which was taxed two dollars each dozen bottles.... I have protested incessantly and have the satisfaction of reporting that I was completely successful in my efforts.... and all duties

on French wines imported directly from France have been abolished. (English 1989)

In the mid-eighteenth century, European immigrants began to arrive in Texas. They gave viticulture and winemaking a boost by producing a drinkable wine from the native Mustang grapes. Around 1875, there was an influx of Italian immigrants, who, of course, had a culture of winemaking, into northern Texas. By the early 1900's, small wineries were being opened in all parts of the state

No history of the Texas wine industry would be complete without mention of the work of Thomas Volney (T.V.) Munson. Munson moved to Northern Texas in April 1876 from Kentucky. He developed a reputation as the authority on wild grapes in North America and created one of the most well known vineyards in the South. His greatest contribution to viticulture resulted from his grafting of a phylloxera-resistant rootstock onto a European vinifera. When phylloxera destroyed six million of acres of grapes in Europe, France requested the rootstock from Munson. It was this Texas rootstock that saved the French wine industry (Ciesla). Thus, the most delicate and appreciated wines of the world can attribute their being to this man from Texas (Renfro).

From 1900 to the beginning of Prohibition in 1920, there were approximately 30 Texas wineries. These vineyards covered 2,900 acres, had 1.3 million vines, and produced over 100,000 gallons per year. The decades that followed Prohibition reduced the Texas industry to one winery in Val Verde County that produced 5,000 gallons from 20 acres of grapes (Michaud, Segarra, and Dodd 1998). In 1982, Texas produced about 70,000 gallons of wine and by 1986 production had reached about 650,000 gallons. Production numbers from 2003 indicate that Texas is currently producing 1,265,000 gallons of wine from 2900 acres. (See Appendix2, Table 9.) This constitutes a twelve-fold increase in production over that of the early 1900's from the same size of planted acreage.

2.4 TEXAS WINEMAKING TODAY

In 1992, the Texas wine industry was ready to be one of the next big stories in American wine. Production had increased by 1000% since 1979. The number of wineries had risen from five to 27. The development of the Texas wine industry appeared to be off and running (Dodd, 2003).

According to Matthew DeBord in the November 30, 2002 issue of the *Wine Spectator*, good wine is being made everywhere in the United States including the Texas Hill Country. However, American regional winemaking (that is other than California, Oregon, Washington, and Long Island, N.Y.) is at a crossroads. Regional winemakers, like those found in Texas, for the most part only sell their wine “at the cellar door” or in a small area around the winery. The ongoing marketing questions are: Is it possible to escape from this provincial pothole? And, if so, how? Clearly, if the right decisions are not made, the results can be disastrous.

The Texas Wine Marketing Research Institute at Texas Tech University in Lubbock, Texas, headed by Dr. Tim Dodd, has collected and distributed information that profiles the Texas wine and grape industry since 1988. The mission of the Institute is to “foster the economic development and growth of the Texas wine and wine grape industry.” The Institute works to achieve their mission “through education, research, and service, and works in cooperation with a variety of individuals and organizations including the private sector, other educational organizations, and government officials.”

The Institute also publishes “A Profile of The Texas Wine and Wine Grape Industry.” Highlights of recent profiles are presented below. The Executive Summary of the 2003 Profile states that Texas is the fifth largest wine producing state in the nation with 1.26 million gallons produced annually. This places Texas after the states of California, New York, Washington, and Oregon. At the end of 2003, there were approximately 3,000 acres of vineyards, which constituted a decrease in wine grape acreage of approximately 10% from 2001. There were 54 established wineries and several new wineries in various stages of completion. As of August 24, 2004, the Texas Wine and Grape Growers Association (TWGGA) reports the number of wineries as 56.

Thirty-two of these wineries, (about 60%) produce less than 5000 gallons (2,100 nine liter cases) and concentrate on tourism for their sales. Of the total estimated 170 million dollar direct and indirect impact that the Texas wine and wine grape industry on the state, almost 16% (about 27 million dollars) is related to tourism. The growth of the impact from tourism has slowed over the last few years. The indirect impact of the wine industry has nearly doubled from over 48 million dollars in 2001 to almost 93 million dollars in 2003. According to Dodd, the indirect growth came from two sources. Increased production in the amount of wine produced led to an increase in the direct impact, which then led to growth in the indirect. In addition, there was a modest price increase from the previous year that also impacted the indirect portion.

Executive Summaries from the last three years mention weather and or pests as “typically” hampering or curtailing Texas grape production. For example, in 2002, weather factors affected the St. Genevieve vineyard, whose production normally constitutes at least 50% of the total production for the state. As a result, the 1.26 million gallons produced in 2003 were a 70% increase (500, 000 gallons) over the 2002 production.

Texas is the sixth largest agricultural state by dollar volume with 4.44 billion dollars in crop value in 2003. This is 4.1% of the U.S. total. The contribution of wine grapes to Texas agriculture is small, providing only 7.7 million dollars of this total (Dodd, see Appendix 2, Table 1). Table 1 below from the Wine Institute summarizes the top ten American Viticultural Areas by size in descending order. Effective dates and acreage are also provided. The largest area is the Ohio River Valley. The Texas Hill Country, an area north of San Antonio and east of Austin, is next in size. It spans an area of 15,000 square miles and is larger in size than the states of New Hampshire, Vermont, Massachusetts, Rhode Island, Connecticut, Hawaii, New Jersey, Delaware, or Maryland. The Trans-Pecos Region in Far West Texas and the Texas High Plains Viticultural Area on the South Plains each contribute approximately 40% each of the state’s wine grape acreage (Combs).

Table 1
Ten Largest Viticultural Areas in the United States

Ohio River Valley [IN,KY,OH,WV]	16640000	2/27/87
Texas Hill Country	9600000	12/30/91
Puget Sound	5536000	10/4/95
Mississippi Delta [LA,MS,TN]	3840000	10/1/84
Ozark Mountain [AR,MO,OK]	3520000	8/1/86
Willamette Valley	3300000	1/3/84
North Coast	3008000	10/21/83
Arkansas Mountain	2880000	10/27/86
Sierra Foothills	2600000	12/18/87
Shenandoah Valley [VA,WV]	2400000	2/27/87
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Production in the Texas wine industry is dominated by a few large wineries. Ste. Genevieve, located in west Texas, and Llano Estacado are two examples. Ste. Genevieve, Texas' largest winery, is actually a joint venture between the University of Texas and *Cordier* of France. Ste. Genevieve's production generally amounts to more than 50% of the entire production in the state. However, there is a concentration of the Texas wineries in the Texas Hill Country, and three of the state's viticultural appellations are located there (Dodd, see Appendix 2, Figure 3).

As shown in Appendix 2, Table 9, Texas wine production hit an all-time high in 2001 (Dodd). Bad weather, disease, and problems with pests took it to a fifteen-year low a year later. This was primarily caused by weather conditions at the St. Genevieve vineyard. Production bounced back in 2003 to a more representative level, but, as is typical in Texas, growers in some regions did well while others had significant weather problems. Actually, a criticism of the Texas wine industry is a high yield per acre. Such growth can produce saleable wine, but not necessarily great wines with specific grape uniqueness from a particular place (Koplan, Smith, & Weiss, 2002).

There are approximately 3,000 acres of vineyards grown by 250 wine grape growers and 55 wineries producing wine as of July 2004 in Texas. Several of the large producers have developed markets for their wine in Texas, the U.S., and countries around the world. Many of the small producers generate their sales primarily from tourism. Over

Texas Wine Industry

60% of the wine produced in Texas is bottled as varietals and the remainder as non-varietal wine (Dodd, 2003).

Other data from The Texas Wine Marketing Institute's profile is included in Appendix 2.

2.5 THE TEXAS THREE-TIER ALCOHOL DISTRIBUTION SYSTEM

In 1935, the Texas legislature enacted the Texas Alcoholic Beverage Code (TABC) following the repeal of Prohibition, which returned to the states the power to regulate the distribution and sale of alcoholic beverages within their borders. The TABC (this paper refers to the code and the Commission created to enforce it synonymously) was first enacted and amended since that time for the purpose of protecting the “welfare, health, peace, temperance and safety of the people of the state” (Texas Alcoholic Beverage Code). The Commission was also given the authority to collect all appropriate taxes relating to the manufacture and sale of alcoholic beverages in the state of Texas. The Code was enacted in its present form in 1963.

Before the Prohibition Amendment was made law in 1919, manufacturers of alcoholic beverages were permitted to distribute directly to Texas retailers. The TABC prohibited this by creating a three-tier system, similar to the laws in many other states. This system prohibits, except for rare exceptions, the vertical integration of the manufacture, distribution, and retail sale of alcoholic beverages. A spokesman for Glazer’s Family of Companies, one of the largest distributors of wine and spirits in the U.S., said the presumption was that the three-tier system would eliminate the “tremendous pressure to maximize sales in Texas, which ultimately leads to the indiscriminate promotion of alcohol, and would create checks and balances within the system” (Glazer’s Family of Companies).

Another complicated aspect of Texas alcoholic beverage landscape is the regulation of “wet” and “dry” areas within the state. In a wet area, alcoholic beverages may be sold; in dry areas, sales of alcoholic beverages are ordinarily not allowed. To further confuse matters, there are also partially dry areas where, within the boundary of a county, another political subdivision has the option to vote the area wet (Texas Alcoholic Beverage Code).

Local option laws dealing with wet/dry options were offered by the Constitution of the Republic of Texas in 1876. This resulted in the establishment of a fragmented and bewildering system, much of which survives today (English, 1989). As of August 31,

2001, there are 52 completely dry counties in Texas and 37 that are completely wet. The remainder of the 254 counties are either partially dry or partially wet. (See Appendix.3.)

The new code also established strict requirements for permits to sell alcoholic beverages. To be granted a permit, an applicant must prove residency in Texas for at least a year. In addition, if a permit is to be granted to a corporation, 51% or more of the ownership must be held by a Texas resident. The only exceptions to this apply to certain retail establishments. The code also required a strict separation of ownership in any of the three tiers (Texas Alcoholic Beverage Code). Another restriction placed on Texas residents is that they may not import into Texas more than three gallons of wine for their own personal use without holding a permit (Texas Alcoholic Beverage Code).

2.6 MAJOR LEGISLATIVE CHANGES TO THE TEXAS ALCOHOLIC BEVERAGE CODE SINCE 2001

A number of significant changes have been made in Texas law since 2000 that relate to the sale and distribution of wine in the state. These have been aimed at increasing the production and marketing of wine in Texas. The important changes are outlined below.

The 77th Legislature passed HB 892 into law effective September 1, 2001. In this bill, Chapter 110 of the Texas Alcoholic Beverage Code (TABC) was added and is titled “The Texas Wine Marketing Assistance Program in the Department of Agriculture” (TWMAP). This program was established “to assist the Texas wine industry in promoting and marketing Texas wines and educating the public about the Texas wine industry” (HB 892). The Texas Senate Research Center, which is the official public policy and legislative analyst for the Texas Senate, explains the rationale of this program as follows:

The growth of the Texas wine industry has had a positive impact on the Texas economy. California produces many times the amount of wine Texas produces, but consumes only a fraction more than Texas consumes. Texas is a significant consumer of wine, but demand is not being supplied by Texas wineries. The Texas Wine Marketing Assistance Program allows Texas wineries increased access to the Texas market and provides consumers with better access to Texas wines.

The Commissioner of the Department of Agriculture, along with an Advisory Committee created by the act to assist the Commissioner, was given the charge to establish and implement the program. The funding for this program was set at \$250,000 annually. The promotion, marketing, and education objectives of the program are summarized below:

- ◆ To organize a network of package stores to receive and deliver wines produced in Texas for a consumer who is physically present at the winery or who is not present but places an order from the winery

- ◆ To develop and maintain a database of wineries and package stores in Texas that allows the program's staff to identify where the wines are made
- ◆ To operate a toll-free telephone number to receive inquiries from consumers who wish to buy Texas wine, to provide information about the wineries and package stores in the program, and to inform consumers how to purchase and receive the wine
- ◆ To use market research to develop a wine industry marketing program to increase consumption of and access to Texas wine
- ◆ To promote and market wineries and package stores that participate in this program and to educate consumers about the wines produced in this state

(Participation in this program by a package store is voluntary, but if after twelve months the Commissioner determines that not enough package stores in the state are participating, he may request the TABC to require all package stores in the state to participate.)

This bill permitted direct shipment of wine to someone who had visited a winery and purchased wine and wanted the wine shipped directly to their residence. The bill also allowed for limited wine shipping to consumers in dry areas of Texas through participating package stores in wet areas.

An amendment to the Texas Constitution was passed in September 2003 that gave the Texas Legislature the authority to set policies for Texas wineries. As a result, there were additional changes made that affected how the TABC regulates Texas wineries.

For example, the 78th Texas Legislature in House Bill 1199 allowed for wine sales from tasting rooms in dry areas, even if there had been an error in certifying the location of the winery as being in a wet area when it was not. This certification may not be changed until after a local option election was held. During the same legislative session, a number of bills were passed related to the sale of wine for off premise consumption and local option elections to permit these sales.

Also in September of 2003, House Bill 2593 amended TABC Chapter 16.01(a) that deals with winery permits. The changes included increasing the amount a winery could sell directly to “ultimate consumers” either for consumption on the winery premises or for off-premise consumption from 25,000 to 35,000 gallons annually. The bill also allows wineries in dry counties to operate in a dry county in Texas if they produce wine that is at least 75% by volume fermented juice of grapes or other fruit grown in Texas. In addition, the bill permitted wine sales and free samples to visitors to their wineries and from tasting rooms in dry areas. Also in this bill, the Legislature voted to allow the selling and buying of wine in Texas from permit-holders authorized to purchase and sell wine. This change made it possible for wineries to sell directly to other wineries, and, more importantly, directly to restaurants and retailers.

In summary, the Texas Legislature has made changes in the laws relating to wines marketing and sales since 2000. These have begun to remedy some of the more onerous restrictions on the industry and have demonstrated a legislative desire to promote the wine industry in Texas.

2.7 RECENT COURT DECISIONS AFFECTING THE TEXAS WINE INDUSTRY

The changes described above to the law relating to the sale and shipping of wine have predictably raised questions about the shipment of all wine in and into Texas. These questions have begun to be addressed through the courts.

In April of 1999, three oenophiles from Houston filed suit against the Administrator of the TABC in United States District Court. They sought to have wine shipped directly to their homes from a Louisiana winery. Under the law, out-of-state wineries are prohibited from selling and shipping directly to Texas consumers. The Louisiana winery did not have a wholesaler willing to distribute its products into Texas because of its small size. This made the wine unavailable in Texas because of the three-tier system.

The Court found that the practice of denying shipment of more than three gallons of wine from an out-of-state winery into the state while allowing up to, at the time, 25,000 gallons of wine from a Texas winery to be shipped within the state, violated Federal law, including the U.S. Constitution, and was in opposition to many previous U.S. Supreme Court decisions. The statutes at issue in this case dealt with exceptions to Texas three-tier system.

The U.S. District Court concluded:

The Court finds that there is no temperance goal served by the statute, since Texas residents can become as drunk on local wines or on wines of large out-of-state suppliers able to pass into that state through its distribution system, and available in unrestricted quantities, as those that, because of their sellers' size or Texas wholesalers or retailers' constraints, are in practical effect kept out of state by the statute. (Judge Melinda Harmon, February 11, 2000 United States District Court, S.D. Texas, Houston Division, No CIV.A. H-99-1247)

Judge Harmon granted summary judgment for the Houston residents, stating "Because legislating is not the proper role of the Court, in the final judgment it will

enjoin the State of Texas from enforcing these statutes and defer to action by the legislature to repair the Alcoholic Beverage Code” (TABC Today, Fall 2002).

The court gave the TABC the opportunity to file objections, which the agency did. The court remained firm with respect to most of its original conclusions. In addition, the court found that the Texas legislature had changed Texas law relating to the purchase and shipment of wine directly to Texas residents by enacting the Texas Wine Marketing Assistance Program. One example of the law change is the exemption that allows Texas wineries to directly sell and ship wine to Texas consumers through package stores (H.B. No. 892). At the same time, out-of-state wineries were prohibited under threat of criminal penalties from shipping wine directly to anyone residing in Texas (TABC Ann. Section 107.07(f)).

The plaintiffs were permitted to amend their complaint to challenge the new act as “economically protectionist” and the Court issued a new summary judgment again in favor of the plaintiffs. The Court found that the Legislature, rather than correcting any discriminatory treatment of out-of-state wineries, had “‘dug in its heels’ and made economic protectionism of its own wine industry ... an explicit state policy.” The Judge went on to say that the “plaintiffs have performed a valuable service in challenging, pursuing, and prevailing against the resulting economic discrimination.”

The TABC appealed this decision to the United States Court of Appeals, Fifth Circuit, and this court affirmed the District Courts opinion on June 26, 2003. In the Courts’ opinion, the judge refers, as did the lower court, to violations of the Commerce Clause. This clause is the section of the U.S. Constitution that empowers Congress “[t]o regulate Commerce ... among the Several States”(U.S. Constitution Article I, Section 8 Clauses 3). The position that the Supreme Court has taken in its opinions since the early nineteenth century, as a response to this language, is that if Congress has the power to regulate commerce between the states, then the states should not be able to hinder commerce between the states with their own laws. As recently as 1988, the Supreme Court Stated that this “negative aspect” of the Commerce Clause, commonly known as the “dormant Commerce Clause” doctrine, “prohibits economic protectionism-that is, regulatory measures designed to benefit in-state economic interests by burdening out-of-state competitors” (Wyoming v. Oklahoma, 502 U.S. 437,454(1992) (quoting New

Energy Co. Of Indiana v. Limbach, 486 U.S. 269,273-274). This court also pointed out that any out-of-state winery that is permitted to export their wines into Texas still must deliver their products to a licensed Texas wholesaler.

The Appeals Court came to the same conclusion as the District Court that without an identical limitation on Texas wineries, the fact that the state does not allow out-of-state wineries to sell and ship directly to Texas consumers was unconstitutional. As a result, the court concluded that the Texas legislature achieved specifically what it set out to do, make only Texas wines more available for purchase

The U.S. Supreme Court has agreed to hear two cases that will potentially decide direct shipping in the United States. Depending on the outcome, the Texas Legislature may have to put in place legislation that complies with the high court's decision. This could greatly impact the wine industry in Texas.

2.8 CHAPTER SUMMARY

Texas has over a three-hundred-year history of winemaking. It has survived natural threats from weather and pestilence, the man-made threats of local option and Prohibition, and post-Prohibition state laws. This inconsistent patchwork of laws was designed to serve religious, moralistic, and economic protectionist interests. These laws are slowly being addressed and revised through the Texas Legislature and the Federal judicial systems.

CHAPTER 3: METHODS

3.1 INTRODUCTION

Despite its long history of wine production, Texas is still struggling to establish an identity as a wine producing state. In the early nineties, Texas was poised become a major wine state. Oregon, now the fourth largest producing state, was at a similar juncture then. Oregon now produces over one million cases of wine (Oregon Wine Board), while Texas produces only 530,000 cases (Dodd, 2003). The Texas wine industry has grown at lethargic pace in comparison to Oregon. This research project has been designed to explore the past and current obstacles to the success of the Texas wine industry.

3.2 RESEARCH OBJECTIVE AND RESEARCH QUESTIONS

The primary goal of this thesis is to assess the growth potential of the Texas wine industry. Specifically, this thesis will explore the demographic trends in the Texas wine industry and seek to understand barriers to and assets related to growing, producing, and selling wine in Texas. Also, this paper will explore the perception Texas grape growers and winemakers have of these barriers and assets. The following specific research questions will be addressed:

RESEARCH QUESTION I

What are the current demographic trends in the Texas wine industry?

RESEARCH QUESTION II

What barriers are perceived by the Texas wine industry to producing and selling Texas wine?

RESEARCH QUESTION III

What assets are perceived by the Texas wine industry related to producing and selling Texas wine?

RESEARCH QUESTION IV

What is the perception of Texas grape-growers and wineries of the current situation of and potential for growth in their industry?

3.3 RESEARCH JUSTIFICATION

As detailed in Chapter 2, there has been a great deal written about the Texas wine industry's past and present struggles with climate and the environment. The Texas Wine Marketing Institute has for more than ten years been gathering, "Statistical information about Texas wine grape and wine production, wine sales and consumption in the state and the estimated economic impacts on the Texas economy." Also the Texas Department of Agriculture has researched the benefits and pitfalls of growing grapes in Texas..

However, there has not been targeted research on how the Texas wine industry has been affected by specific barriers and assets to growing grapes and producing wine in Texas. In addition, no one has explored what impact Texas grape-growers and vineyard owners perceive these barriers and assets having on their business, and what changes they would see as promoting growth. This research is relevant given the apparent potential of the Texas Wine Industry.

3.4 RESEARCH METHODOLOGY

An exploratory study using a self-administered questionnaire was undertaken in order to understand the barriers to and assets related to the growth of the Texas wine industry. This method was chosen to further define in a quantitative fashion the factors that influence the growth of the industry, to understand of how the wine industry views the attempts to stimulate growth, and to elicit opinions as to what interventions would foster success.

3. 5 RESEARCH QUESTIONNAIRE

A self-administered questionnaire was designed to elicit answers to the research questions and obtain demographic data about Texas wineries and vineyards (see Appendix 1, Questionnaire). This questionnaire was designed with reference to existing surveys used in California in association with University of California Davis Graduate School. The Davis questionnaire was modified with information derived from extensive background research into legislative and legal issues and demographics pertaining to the Texas wine industry (See Chapter 2). As a result of an email received from the Texas Senate Committee on Intergovernmental Relations, it was discovered that this committee had been given the task by the Texas legislature to obtain similar information relating to the grape-growing and wine-making industry. Therefore, the actual development of the questionnaire used was a collaboration between Ms. Sherry Muller, the Chief of Staff of the office of Senator Frank Madla, Texas State Senate District 19, Democrat, and this researcher. Senator Madla is a member of the Texas Senate Committee on Intergovernmental Relations.

The questionnaire was created to gather as much information as possible about individual businesses, without being overwhelming with the number of questions. The goal was to obtain an accurate and concise snapshot of the industry. To the best of the knowledge of both parties, this was the first time that a questionnaire to the Texas wine industry sought to 1) elicit opinion regarding the perceived barriers to and assets for their growth, or 2) give individual grape-growers and vineyard owners the opportunity to provide feedback directly to the legislative committee charged to benefit the industry.

The questions were structured to elicit the demographics of the vineyards and wineries and to provide the recipients opportunity to reveal relevant information about their businesses. Combinations of both open and closed ended questions were used. The open-ended questions were formulated to allow the owners to respond in their own words. This type of a written reply gives a richer, fuller perspective to the research questions asked. The closed-ended questions provide a number of alternative replies. The response to these questions used both dichotomous terms and graded alternatives, multiple choices with three to five alternative answers.

The questions were sequenced with the demographic sections in the beginning and the specific research questions following. The final layout was approved by this researcher and Senator Madla's staff.

The questionnaire was designed to elicit information in four different areas:

1. Current trends and demographics in the Texas grape-growing and winemaking industry.
2. Viticultural, entomologic, legal, and legislative barriers to producing and selling wine in Texas.
3. Legal and legislative assets relevant to producing and selling wine in Texas.
4. Perception of the wineries and grape-growers as to the current state of and potential growth of their industry.

The questionnaire was divided into four different sections relevant to this research.

Section 1. Requested the owners name, address, contact information, and type of interest (i.e., vineyard or winery owner, tasting room, investor, or other). This was an attempt to capture data from anyone operating within the industry. Other information included the location of the interest, including county and American Viticultural Area (A.V.A.), if applicable; and any associations or organizations in which the respondent-owner had membership. There was also a space provided for comments and instructions as to where to send responses.

Section 2. Requested demographic data from vineyard owners.

Section 3. Requested demographic data from vineyard and winery owners.

Section 4. Requested additional demographic data that applied to both groups, as well as opinions on both barriers and assets to the development of the Texas wine and grape industry. The last three questions requested perceptions as to any current federal or state regulations that were creating problems, changes needed over the next five years to help the industry meet its potential, and any suggestions on acquisition of funding to help the maintenance and growth of the industry.

A letter of introduction and instructions for completing the questionnaires were prepared and distributed by Senator Madla's office. The cover letter described the

purpose of the questionnaire, a date for its return, and the involvement of this researcher (see Appendix 1, Questionnaire Cover Letter). There was also a request to the recipients to provide this questionnaire to any other members of the industry that may have not received it directly from this distribution. The questionnaire was sent to the subjects by e-mail and mail. A return envelope was sent in the mail packets. The questionnaire was sent on July 24, 2004.

3.6 SAMPLE SIZE

The sample size for the questionnaire for this study was 55 wineries (the number licensed as of July 24, 2004), and 74 vineyards. The number of vineyards was limited to the membership list provided by TWGGA as of the same date. There were 15 responses from wineries and 28 from vineyards, including 14 wineries that have their own vineyards. Not every reporting entity responded to every question.

3.7 RESEARCH ANALYSIS

The surveys were returned to the office of Senator Madla, who provided copies to this researcher. As the questionnaires were returned, they were logged in, checked for usability, and assigned an identification number. Useable information was obtained from each of the surveys.

This researcher analyzed the opened-ended questions and data from closed-ended questions were entered into a Microsoft Excel program. Not every question was answered by each respondent. As a result, some questions have different response rates. The open-ended questions were analyzed by highlighting relevant information and then sorting the responses into look/alike piles. The number of participants giving each response was tabulated. The closed-ended questions were answered on a 1-4 scale; the responses to each part of the questions were independent and not interrelated. A weighted response approach was used to analyze these questions. Giving an answer one counted for four points, answer two for three points, answer three for two points, and answer four counted one point. The points were tabulated and overall rankings of these questions were given. Dichotomous answers, yes or no questions, were tabulated.

CHAPTER 4: RESULTS

4.1 INTRODUCTION

This thesis chapter reports the results of the data collected from the questionnaire. The chapter is subdivided into sections based on the research questions developed in Chapter 3. The sections of this chapter state the research questions and then report results of each question with some observations for clarification. A discussion of the results and conclusions will be presented in Chapter 5.

4.2 RESEARCH QUESTION I

What are the current demographic trends in the Texas wine industry?

This section presents data that is relevant to Question 1. There were twenty-nine respondents to this section but not every respondent answered every question. The answer N/A was counted as a response if otherwise valid data was offered. The responses are shown in the same order as in the questionnaire. Due to its length, the responses to the demographic data are given in Appendix 1, Answers to Sections 2, 3, & 4.

4.3 RESEARCH QUESTION II

What barriers are perceived by the Texas wine industry to producing and selling Texas wine?

This section presents data that is relevant to Question 2. Both vineyards and wineries answered these questions. There were two sources of information: responses to closed- ended questions from Section 4, question 10, items a thru k, and open-ended responses to the same question.

The closed-ended questions had a 1-4 scale and the responses to each part of the question were independent and not interrelated. The closed-ended questions had 24 valid respondents but not every respondent replied to all sections of every question. The results of the questions are shown below using a weighted response method of analysis with answer one counting for four points, two for three, etc. The overall rankings are shown from 1 to 11.

Question 10. At this time, what are the greatest barriers to the development of the Texas Wine and Grape Industries? Please rate each item on a 1 - 4 scale, with 1 being greatest. (Feel free to add additional items on extra pages if necessary)

a) No centralized entity to coordinate the development of the Texas Wine and Grape Industries.

Scale

1 2 3 4 NA

Number of responses

9 4 7 3 3

Weighted average 69

Rank 4

b) Lack of access to a full time enologist

Scale

1 2 3 4 NA

Number of responses

7 5 6 6 2

Weighted average 61

Rank 10

c) *Insufficient entomology support and expertise*

Scale

1 2 3 4 NA

Number of responses

4 8 5 6 3

Weighted average 55

Rank 11

d) *Insufficient viticulture support and expertise*

Scale

1 2 3 4 NA

Number of responses

2 13 5 3 3

Weighted average 62

Rank 9

e) *Lack of appropriate viticulture education programs in the state*

Scale

1 2 3 4 NA

Number of responses

7 9 4 3 3

Weighted average 67

Rank 6

f) *Lack of appropriate enology education programs in the state*

Scale

1 2 3 4 NA

Number of responses

9 9 2 4 2

Weighted average 69

Rank 3

g) *Lack of a four-year degree program in the state*

Scale

Texas Wine Industry

1 2 3 4 NA
Number of responses
10 3 5 5 3
Weighted average 64
Rank 8

h) Inability to ship your product directly to consumers in other states.

Scale
1 2 3 4 NA
Number of responses
11 5 6 1 3
Weighted average 77
Rank 1

i) Requirement/perception that telephone or internet sales to Texas residents must be shipped through a package store.

Scale
1 2 3 4 NA
Number of responses
13 3 3 5 2
Weighted average 70
Rank 2

j) Lack of an official, central resource indicating wet/dry areas of Texas.

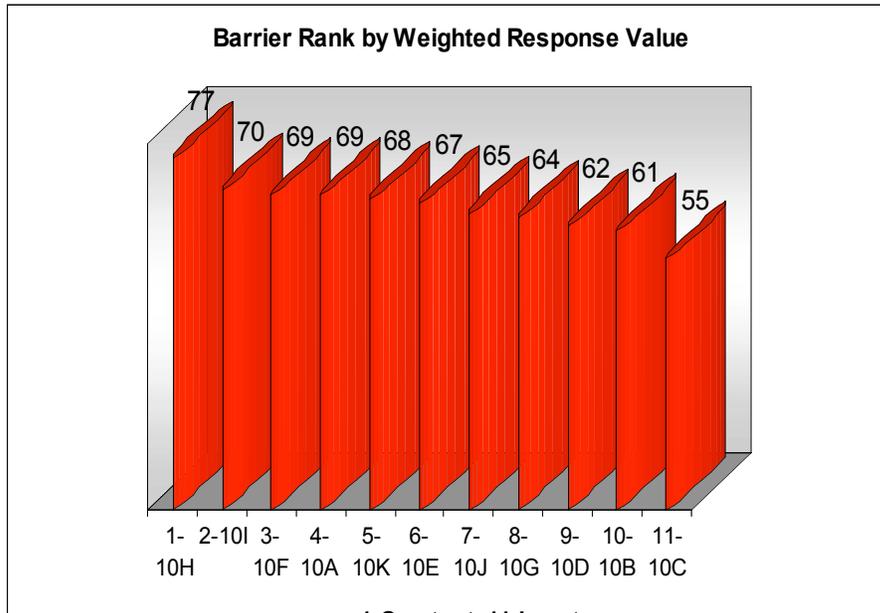
Scale
1 2 3 4 NA
Number of responses
11 2 5 5 3
Weighted average 65
Rank 7

k) Hesitancy of common carriers to deliver your product because of inadequate wet/dry data

Scale

1	2	3	4	NA
Number of responses				
8	7	5	3	3
Weighted average 59				
Rank 5				

Figure 2



This section presents the opened-ended data that are relevant to Research Question 2. These data are from the open-ended part of section 4, question 10, “*At this time, what are the greatest barriers to the development of the Texas Wine and Grape Industries?*” There were twenty open-ended responses from 13 vineyard and winery owners. In this section the respondents had an opportunity to write in as many barriers as they felt were important. Not every respondent replied to every question. The following are the responses given and the number of respondents that gave similar answers.

- Three responses indicate the law requiring wineries to be owned at least 51% by a Texas resident needs to be changed
- Two responses mentioned lack of growers or grape supply.
- Two responses mentioned public perception of Texas wines to be inferior.
- Two responses mentioned Pierce’s Disease research.

Texas Wine Industry

- Two responses mentioned viticultural research.
- One response mentioned each of the following:
 - Lack of acknowledgement of a centralized Texas grape and wine organization
 - Lack of funding of TWGGA
 - Elimination of the 75/25 rule for wineries in dry counties
 - Lack of good suppliers
 - No laboratory services available
 - No reciprocity with other states for shipping
 - Lack of research on the best grape varieties to grow
 - Use of the chemical 24D

4.4 RESEARCH QUESTION III

What assets are perceived by the Texas wine industry to producing and selling Texas wine?

This section presents data that is relevant to Question 3. Both vineyards and wineries answered these questions. There were two sources of information: responses to closed-ended questions from Section 4, question 14, items a thru f, and open-ended responses to the same question, shown in the adjacent section.

The closed-ended question used a 1-4 scale and the responses to each part of the question were independent and not interrelated. This part of the question had twenty-two valid respondents but they did not all answer all parts of every question. The results of the questions are shown below used a weighted response method with answer one counting for four points, two for three, etc. The overall rankings are shown from 1 to 11.

Question 14. What are the greatest assets available to the Texas Wine and Grape Industries at this time? Please rate on a 1 - 4 scale, with 1 being greatest. (Feel free to add additional assets)

a) Marketing efforts of the TDA's Texas Wine Marketing Assistance Program.

Scale

1 2 3 4 NA

Number of responses

8 5 4 5 4

Weighted average 59

Rank 1

b) Loans, grants, and assistance from other divisions of the Texas Department of Agriculture.

Scale

1 2 3 4 NA

Number of responses

4 4 7 6 5

Weighted average 49

Rank 5

c) Technical advice and assistance from the Texas A&M Extension Service.

Scale

1 2 3 4 NA

Number of responses

4 5 7 5 5

Weighted average 52

Rank 4

d) Ability to ship wine to Texas consumers that visit your winery.

Scale

1 2 3 4 NA

Number of responses

5 6 2 5 8

Weighted average 44

Rank 6

e) Ability to ship wine to Texas consumers in dry areas.

Scale

1 2 3 4 NA

Number of responses

9 4 3 3 7

Weighted average 57

Rank 2

f) Court ruling nullifying Texas' prohibition against the direct shipment of wine to consumers.

Scale

1 2 3 4 NA

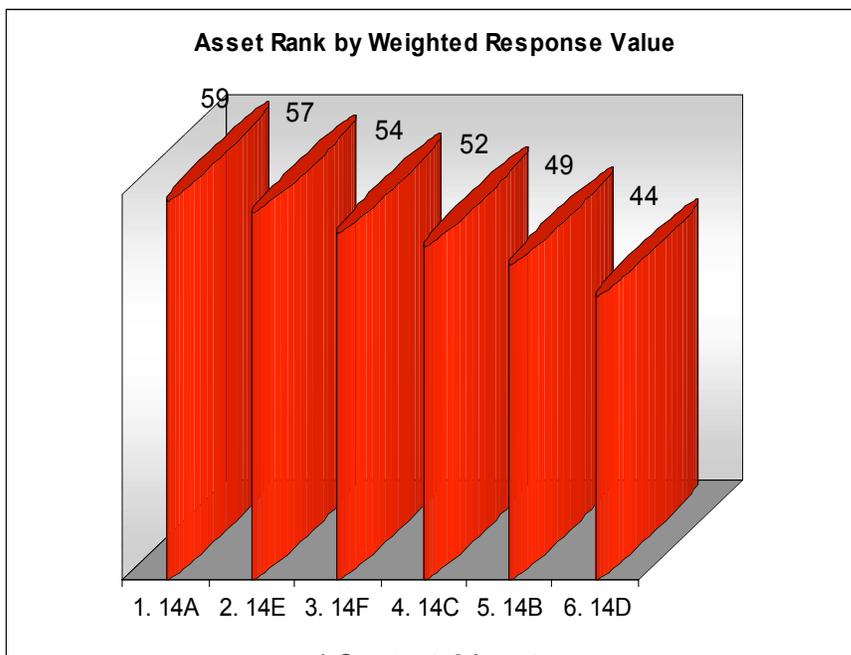
Number of responses

12 0 2 3 9

Weighted average 54

Rank 3

Figure 3



The following data is from the write-in part of question 14. The respondents had an opportunity to write in responses indicating as many assets relating to growing grapes, producing, and selling wine in Texas as they felt were important to them. Not every respondent replied to this part of question. This part of the questionnaire had three valid responses from three winery owners. The sources of information were the open-ended responses to question 10, “*What are the greatest assets available to the Texas Wine and Grape Industries at this time?*” The three responses were as follows:

- The Texan identity; i.e. Texans will tend to choose what is made in Texas
- Large consumer demand for Texas wines
- Legislators who support the industry

4.5 RESEARCH QUESTION IV

What is the perception of the Texas grape growers and wineries of the current situation of and potential for growth in their industry?

This section presents data that is relevant to Question 4. Vineyards and wineries could respond to these questions. The respondents had an opportunity to write in responses indicating as many perceptions as they felt were important to them. Not every respondent replied to this part of the questionnaire. The sources of information were the open-ended responses to questions 15, 16, and 17 found in Section 4. The answers to questions 15 and 16 were combined, since the questions addressed the same areas of concern. The respondents to all questions could supply as many answers as they preferred.

The responses to questions 15 and 16 were combined to supply 59 suggestions to these open-ended questions. There were 10 respondents to question 15 and 17 respondents to question 16.

15. Please list any current state or federal statutes, rules, regulations, or policies that are particularly problematic to or not effective for the production, distribution, sale, and promotion of your wine and/or grapes. (Please feel free to attach additional sheets if necessary)

16. What are the top three changes needed over the next five years to help your industry reach its full potential?

- Nine responses mentioned the ability to be able to ship directly from the winery to any customer that orders wine. Three responses expressed the opinion that Texas should have reciprocity with any state where it is now legal to ship.
- Five responses that indicated that a full-time enology specialist should be available in the state.

- Four responses replied that the 51% rule for ownership by a Texas resident was hindering the growth of the industry.
- Three responses wanted the restriction on a winery selling to a private club eliminated.
- Two mentioned elimination statewide of the wet/dry controversy by making the entire state of Texas “wet.”
- Two wanted additional Pierce’s disease funding and research.
- Two suggested review of the TABC code as it deals with inter- and intra-state shipment of wines.
- Two responses suggested elimination of the 75/25% rule requiring wine in dry counties to consist of at least 75% Texas grapes.
- One response suggested each of the following:

Expanded viticulture support

Additional extension viticulturalist

Allow off-premise tasting rooms

Removal of restrictions on advertising

Additional funding to TASS for accurate data collection

Education of lenders to make loans to the wine business more available.

Viable, coordinated marketing program

Additional large growers who grow the grape types the wineries want and the provision of more economical conditions for purchasing grapes

Larger travel budget for existing state enologists

Labels that make it easier for the consumer to determine where the grapes in a bottle of wine originate

Self-funding by wineries

Creation of a Texas Wine Quality Alliance

More money for TWGGA

Getting rid of “bad laws”

No more restrictive changes involving the use of Texas grapes as it hurts large growers

Change three-tier system

Improve quality of Texas Wine

Relax the use of distributor rules

There are no remedies through TABC when distributor pays winery beyond terms like the rest of the alcohol industry in Texas

Federal label proposals

Remove label submission to TABC as it duplicates the process done with TTB

Wineries should be able to touch and pout their own wines at any tasting or event such as festivals, etc

Remove restriction on having a restaurant on winery premises and not being able to sell their own wine

Allow coupons for discounts on the purchase of wines

Additional federal label proposals will be burden to wineries especially smalls

Elimination of restriction of not be able to state on winery web-site where wine can be purchased

Assistance with marketing for wineries

17. What are your suggestions for acquiring additional funding for research, development, technical assistance, marketing, and education programs to assist the Texas Wine and Grape Industries?

There were 13 respondents to question 17. They provided 14 responses.

- Ten responses suggested new or additional taxes and levies on all wines sold in Texas
- Three suggested appropriation of general revenue
- One suggested specialty license plates

CHAPTER 5 DISCUSSIONS AND CONCLUSIONS

5.1 INTRODUCTION

The first part of this chapter discusses the results presented in Chapter 4 and draws conclusions from the findings. The last part of this chapter reflects upon limitations of the research and makes recommendations for future research.

Responses were categorized as coming from a vineyard or a winery, as not all of the questions applied to the vineyards. There is an overlap in categories of ownership interest, i.e., vineyard, winery, tasting room, and investor. The majority of the wineries own vineyards and grow a large portion of the grapes used in their production. There were 29 total responses: 15 wineries and 14 vineyards.

The overall response rate from the wineries was 27.3 % and the response rate of the vineyards 19%. In addition, the vineyard data from 14 wineries that have vineyards and that responded to that section of the questionnaire are included in those results.

In general, there did not appear to be significant differences, other than on questions relating to sale and use of grapes, based on whether the respondent was a vineyard (grower) or winery-vineyard.

To review, the primary objective of this thesis is to explore the growth potential of the Texas wine industry. Is there truly a bright future for a large expansion of the Texas Wine Industry?

Specifically this thesis will focus on the trends as well as the legislative and legal assets and barriers that currently appear to exist in Texas that would directly affect this growth.

5.2 RESEARCH QUESTION I

What are the current demographic trends in the Texas wine industry?

This section presents data that is relevant to Question 1. The responses to the questions are grouped by the Sections of the questionnaire. This Section of the questionnaire had 29 respondents. Not every question was answered to by every respondent. The significant information that can be drawn from the responses follows:

QUESTIONNAIRE Section 2. Vineyard Owners including those who own wineries.

The responses to the questionnaire show that the Texas grape-growing industry is largely made up of small growers who are relatively new to the industry. The exception to this is the larger wineries that grow their own grapes. Only 21% of the respondents had experience prior to starting their own vineyard.

The responses showed that 56% of growers harvest their grapes by hand. However, the larger growers who tend also to own wineries use mechanical harvesters.

Half of the small new growers are planning new wineries.

All of the grapes grown in Texas are used in Texas wine.

Sixty-five percent of growers do not believe a cooperative would be of any benefit in selling their grapes.

There are many different varieties being grown in Texas. Responding vineyards listed 32 different varieties of grapes grown. The statistics, including data from two large vineyards operated by wineries, show a dominance of four grapes. Therefore, there is large percentage of growers growing the same grapes. The grape varieties with the largest acreage are cabernet sauvignon, chardonnay, sauvignon blanc, and chenin blanc. Except for three growers, there are no dominant grape varieties for growers of less than 80 acres among those who responded to variety by acreage.

According to the survey, no significant expansions of existing vineyards are currently being planned in Texas. Therefore, little or no growth in grape acreage will come from existing wineries. In terms of overall acreage, there is little additional planting being planned over the next five years. It appears there will continue to be an unfulfilled

demand for Texas grapes which could seriously impact the existence of and growth of new wineries subject to the 75/25% laws.

QUESTIONNAIRE Section 3 Winery Owners

Twelve of the 15 respondents to this part of the question started their wineries in the last ten years. Eleven of those produced less than 2000 cases of wine from six or fewer varieties of grapes in the first year of operation.

The average winery operator has an average 12.3 years' experience in the wine business. Seventy-three percent had no previous winery experience when they went into business. As of 2004, 10 of 16 respondents still have less than 10 years' experience. Eleven of 15 respondents produced less than 10,000 cases of wine in 2003 and expect to do the same in 2004. Twelve of the 15 respondents plan to produce more Texas wine, but only two plan to increase their production to more than 10,000 cases by 2009.

Ten of the wineries make more than five different kinds of wine and seven of the 15 see future growth in the syrah grape.

Ten wineries responded to sales by variety: six listed cabernet sauvignon; three listed chardonnay, viognier, syrah, sangiovese, merlot, orange muscat, blanc du bois, and cabernet franc. Sauvignon blanc was mentioned twice. Ten other varieties were listed one time. There was no significant data that could be extracted from sales by percentage of volume.

Thirteen of the wineries responded to sales by price point:

< \$3	0
\$3 - \$7	2
\$7 - \$10	5
\$10 - \$14	8
\$14 - \$24	10
\$25 ++	3

Thirteen of the 15 wineries have their own vineyards. The two that do not have plans to plant.

Twelve of the 15 have bottling lines, and the three that do not have no plans to purchase bottling lines.

Five of the 15 wineries used 76% or more of their own grapes. The majority of the balance of the remaining 10 (other than the state's largest winery which did not submit any data on this question) used Texas grapes to make over 90% of their wine. Fourteen of 15 wineries said that they would purchase more Texas grapes if they were available.

Eleven of the 14 respondents generate 10% or less of their sales from non-wine items.

Only one of the 14 respondents sells less than 90% of their wine to Texas residents.

Nine of the respondents do not use a distributor. Reasons given for this are cost, lack of access, or no desire to use a distributor. Six of the nine plan to use a distributor in the future.

Ten of 15 respondents say they have shipped wine directly to other states since the Texas direct shipping laws were declared unconstitutional. However, only 11 91 cases have been shipped.

Seven respondents to this questionnaire have been established in the last 10 years, but only one of the new wineries expects to produce 30,000 or more cases by 2009. The 15 respondents expect to increase their total production of Texas wine by 15% from 2003 to 2004. All but two new wineries expect to stay at a production level of less than 10,000 cases by 2009.

In summary, the majority of the wineries in Texas have been recently established, are owned and run by individuals with no prior experience in the wine industry, grow their own grapes, and produce 2000 or fewer cases of wine. The majority of the wine is made from Texas grapes and sold in Texas. If there were more Texas grapes being grown, they would purchase them.

In 2003, eight of the wineries priced most of their wines (per 750 ml) at prices between \$10 and \$24. Three wineries priced a portion of their wine at \$25 or more. Eight of the thirteen respondents said they would not change their pricing for 2004. No winery planned any price decreases.

There were not enough respondents to draw any conclusions on pricing from this part of the group. However, it is of interest that the largest winery in the state prices all of its products between \$3 and \$7 per bottle.

QUESTIONNAIRE SECTION 4: Vineyard and Winery Owners

There were 26 respondents to this part of questionnaire, but not every respondent answered every question or all parts of every question.

None of the vineyards, other than those owned at the winery location, are open to the public. As a result, the only respondents to this question were the 15 wineries.

All but one of the wineries, 14 of 15 that are open to the public, responded to the questionnaire.

Ninety three percent are open for tours; tasting and sale of wine; sales of other merchandise; and dining, catering, or other food services. Seven are open for special events; seven are not. The same number operate a bed and breakfast or other lodging. There was one “no response” to this section.

Seven respondents have 10,000 or fewer visitors a year. One of the larger wineries located in the Hill Country has 50,000 visitors a year. For ten of the wineries, wine sales to visitors constitute 90% or more of sales to the visitors; merchandise accounts for the remainder.

With respect to profitability, 38% (10 respondents) said they were profitable in 2003, while 35% (9 respondents) said they were not. There were seven who did not reply. However, 58% (15 respondents) said they expected to be more profitable in 2004. Twenty-three percent (6 respondents) said they would not be. Five did not reply.

Income is being drawn by 58% of respondents or 6 respondents more than said they were profitable in 2003. Only 15% of the respondents indicated their wine business was their sole source of income. However, 54% expect it to be in the future.

Eleven or more of the respondents purchase 50% or more of their supplies and equipment from Texas vendors. Nine respondents said they purchased 70% or more from out-of-state vendors. As to the reasons given for purchasing from out-of-state, 21 of the 29 replies from the 26 respondents indicated lack of availability in Texas for these products

Sixty-nine percent of the respondents said direct shipping was fundamental to the growth and ultimate success of the Texas wine and grape industry. While there were seven respondents that did not reply to this question, there was only one no response; that was from a large winery (80,000 cases) that sells the majority of its wines through a distributor.

5.3 RESEARCH QUESTION II

What barriers are perceived by the Texas wine industry to producing and selling wine in Texas?

This section presents data that is relevant to Question 2.

The main source of information for the answer to Question 2 is found on page four, question 10 of the survey. The first part of the question is closed-ended. The responses from the closed-ended type questions are summarized below:

Using the weighted average results approach, direct shipping question parts (h) and (i) ranked one and two. These two parts of the question also received the most single responses as the first choice. Delivery, related to the shipping part of the question also had a significant number; eight of first choice responses.

Lack of enology and a four-year program received nine and ten first ranking responses.

The open-ended part of the question had responses from 13 out of the total of 26 overall respondents. The most common responses were the 51% ownership requirement by a Texas resident; the poor perception of Texas wines by the public; the lack of overall research to benefit the Texas Wine and grape industry; and not enough larger, knowledgeable, competitively priced growers. One response referred to the 75/25 rule that relates to production of wine in dry counties.

The respondents to this questionnaire state that the shipping laws, which they believe do not permit them to ship directly to a consumer, either in or out of state, are the greatest barriers to the growth of the Texas wine industry.

The direct shipping laws and the interpretation of the TABC laws by the TABC itself and by the wineries are a constant source of confusion. Current interpretation by the law according to a letter written by Lou Bright, General Counsel TABC on December 5, 2003, states, "A consequence of this understanding of the law is that, like out of state suppliers, Texas wineries may ship their wine directly to consumers through the agency of permitted carrier. Accordingly, permitted carriers may deliver wine anywhere in the state." A reference on the TABC website that is not dated refers to the legality of direct shipping. There is still a great deal of confusion among the industry, as 13 of the

respondents still perceive or believe that there is a requirement that a winery can ship only to a package store. As shown in Section 3, question 20, wineries have directly shipped very few cases.

The reasons for this could be poor communication or lack of understanding. Also in a phone call to a winery about shipping a case to a home address, they thought their distributor would not like it if they did.

It is currently not possible for out-of-state investment to come to Texas and be able to control the ownership of a winery without the primary owner establishing residency in Texas. The establishment of the largest winery in Texas was as a result of an out-of-state (French) resident becoming a Texas resident. Not many others have made that move.

A continuing issue in Texas is wet/dry counties and even smaller municipalities within counties. This limitation on the sale or manufacture of alcohol is as a result of post-prohibition era laws. Many of the counties and municipalities are calling elections and voting in the ability to make sales and shipments from and to these areas, but they are not clearly defined and simple to determine.

5.4 RESEARCH QUESTION III

What assets are perceived by the Texas wine industry to producing and selling Texas wine?

This section presents data that is relevant to Question 3.

There were two sources of information: responses to closed-ended questions Section 4, question 14 items a thru f; and open-ended responses to the same question, shown in the following section.

The results in Chapter 3 show that the respondents felt that the marketing efforts of the TWMAP were their biggest asset on a weighted basis, even though only 8 respondents answered 1 to this section of the question. There was no significant difference between the answers of vineyards and wineries.

In September 2001, the Texas legislature passed House Bill 892, which created and initially funded the Texas Wine Marketing Assistance Program, along with other changes in the TABC. (See history of legislation in Section 2.6.)

The Legislature had been convinced of the benefits of promoting the wine industry for the state by the success other states have had generating revenue from the industry, both directly and indirectly. In an attempt to help grow the Texas industry, lawmakers allowed a form of “direct shipment” from the wineries through package stores and a promotional boost from marketing by the Department of Agriculture. The Texas Wine Marketing Assistance Program was established to help boost the industry.

The response to an email sent to Commissioner of the Texas Department of Agriculture is presented in Appendix 4. Conclusions in research sanctioned by the State of Texas on the effectiveness of this program disclose that 67% of the wineries saw an increase in sales since the launch of TWMAP. The research showed an additional \$5.9 million in annual impact to the Texas economy. The research concludes that 40% of their increased exposure was due to TWMAP; therefore \$2.36 million of the increase can be attributed to this program. (The Texas Wine Marketing Assistance Program Economic Impact 2003, The Texas Department of Agriculture, received August 23, 2004)

The second and third highest-ranking assets according to the responses both deal with shipping. Those assets are the ability to ship to Texas consumers in a dry area and

the court ruling nullifying Texas's prohibition against the direct shipment of wine to consumers. However, the ability to ship to winery visitors is not very important, as the weighted average response to this part of the question was ranked last among the six choices. The changing of the old laws and the court decisions cited above have enabled wineries to sell more of their wine outside of the winery and without the help of a distributor. Nine of the wineries at this time do not use distributors.

Technical advice and assistance only ranked four out of six and consequently is not considered to be a great asset by most of the respondents.

Financial assistance from the Texas Department of Agriculture was ranked fifth and does not appear to be perceived as a valuable asset by the industry.

5.5 RESEARCH QUESTION IV

What is the perception of the Texas grape growers and wineries of the current situation of and potential for growth in their industry?

This section presents data that is relevant to Question 4.

The main sources of information for the answer to Question 4 are the replies to the open-ended questions 15 and 16 in Section 4 of the questionnaire.

Please list any current state or federal statutes, rules, regulations, or policies that are particularly problematic to or not effective for the production, distribution, sale, and promotion of your wine and/or grapes. (Please feel free to attach additional sheets if necessary)

What are the top three changes needed over the next five years to help your industry reach its full potential?

The results in Chapter 4 show 59 suggestions for changes and problems that the people who make up the Texas wine industry believe are affecting the operation of their businesses and the way in which they are able to sell their wine.

Thirty of the responses in one manner or another indicated desired changes in the law (TABC) or interpretations of the code. Fourteen respondents again addressed the ability to be able to ship wine directly from the winery anywhere in Texas or into anywhere else it would be legal to ship. This aspiration continues to be repeated over and over throughout this questionnaire. Lifting of the restriction against shipping to private clubs, wet/dry restrictions and elimination of the 75/25% rule for dry counties all are changes that concern some of the wineries.

Additional enology and viticultural support and Pierce's Disease funding and research also have been a constant theme. A coordinated marketing program was suggested by two respondents, even with the apparent success of the TWMPA.

Two respondents mentioned improving the quality of Texas wine.

The requirement for Texas residency of the controlling ownership has also been listed as a barrier twice and twice in these responses.

5.6 CONCLUSIONS

Texas is the fifth largest-producing wine state. The growth in the Texas wine industry has been slow to evolve. As has been observed at a number of occasions in the winemaking history of Texas, the industry had appeared positioned for a growth spurt. There are many opinions and explanations given as to why the Texas wine industry has not gone forward more consistently. Sixty percent of 29 wineries established from 1979 through 1989 were unable to survive (Ciesla). The question is whether the Texas wine industry can attain its potential.

The majority of the wineries in Texas have been established late in the twentieth century or early in the current century. They are owned and run by individuals who had no prior experience in the wine industry, who grow their own grapes, and produce 2000 or fewer cases of wine. The majority of the wine is made from Texas grapes and sold in Texas. Wineries in Texas are currently the only major segment of the alcoholic beverage industry in Texas in which the manufacturer of an alcoholic product can sell directly to the end consumer, as well as to a wholesaler or retailer. There is therefore, a two-tier system of wine of the manufacture and sale of wine.

The production and sales dominance of the Texas wine industry by a small number of larger wineries is similar to the situation of the industry as a whole in the United States. According to the Texas Wine Marketing Research Institute 2003 Profile, approximately 70% of Texas wine is produced by only four of the 54 producers. Similarly, in the U.S. in 2002, 87% of the wine was produced by a little less than 2.5% of the wineries, in according to Wine America statistics. (See Appendix 5.)

Clearly, there are actual and perceived barriers to the growth of the Texas wine industry that involve investment in the industry, growing grapes, wine production, and wine sales. The law requiring 51% ownership by a Texas resident winery limits the willingness of out-of-state investors to risk substantial investment in the Texas winemaking industry. The most noteworthy exception to that was nearly twenty years ago by a large France based cooperative. According to the results of this questionnaire and general observations of the Texas industry, the growth in the number of wineries is

largely by wineries with small production goals. This may be as a result of a lack of venture capital.

Despite being mentioned by a small number of the respondents, Pierce's Disease remains a huge problem in certain portions of Texas. According to an article in the San Antonio Express-News on August 22, 2004 (Allen), 25% of the Texas vineyards have been destroyed by Pierce's Disease. However, Dr. George Ray McEachern, Texas A&M University horticulturalist says that West Texas from Plainview to South Midland is an excellent place to grow grapes in Texas because of the climate, soil, water, and lack of disease(McEachern).

There is an apparent lack of enology support and education in Texas. Many of the new winery owners have little or no experience. Advice and assistance from the state is limited and resources are in very short supply. Only a two-year program in enology and viticulture exists at a community college.

Many of the respondents have suggested that additional taxes on all wine sales be levied in Texas to be used to help fund additional entomology, viticultural, and enology research and support.

TWMAP has had positive impacts in the experience of the state's wineries, especially the smaller ones, who were the primary respondents to a survey done by the Texas Department of Agriculture (TDA). The respondents were all aware of the program and 90% indicated that, since the program was begun in 2001, the marketing and educational aspects of the program had a positive impact on their sales (Combs, 2003).

However there are some aspects of the program called for in the legislation that are yet to be consummated, have not had the desired effect, or favorable results have not been announced. One of the objectives of the program is to use market research to develop a marketing plan to increase consumption. The TDA does not acknowledge any progress on this important part of the plan. This part of the program should be initiated.

Another objective of the program is to allow the shipment of Texas wines from an order placed by a consumer, without differentiation as to whether the consumer is physically present or not at the winery. These shipments would be made to a network of package stores around the state. This has not had the intended impact on sales from the winery. According to the TABC, the agency which maintains this data, from the outset of

the program, September 1, 2001 through June 30, 2004, there have been 1,150 bottles delivered to package stores. This demonstrates that this part of the program has not had the desired effect of increasing Texas wine sales.

There could be several reasons for the apparent lack of interest in this part of the program by the Texas consumer. One possibility might be the cost inefficiencies of delivering small quantities of wine from winery to package store. Another explanation could be the court decision that struck down the ban on direct shipment of wines from out of state and the subsequent interpretation by some wineries that they could ship directly to the consumer. Availability of some of the same wines at local retail outlets also diminishes interest by a Texas consumer.

Shipping is clearly the most prevalent issue on the Texas wine industry's mind. Some of the larger wineries are already shipping direct to customers who do not visit their winery. However, the majority of wineries, especially the smaller producers that make up the majority of the Texas industry, perceive shipping as additional exposure to customers in markets that many of them may never be able to reach without a distributor. For many of them it may not be cost efficient. Reaching the right customers on a limited budget is a major challenge.

Since 2001, the Texas Legislature has passed the legislation reviewed in Section 2.6 with the intention of supporting the wine industry and stimulating the growth of the Texas wine market. This legislation is still being debated and interpreted in the Federal courts. Texas wineries and growers have not been informed and are generally confused about the legislation. The impact of these changes has yet to be evaluated.

But there may be good news. According to information from TWGGA announced at their June marketing conference, Texas wines have shown a 15% increase in sales for the 52-week period ending March 31, 2004. Wine sales in Texas increased for that period by 28.5 million dollars and Texas wines represented a little over 11.5% of that total. This was the third highest region of sales for the state. For the same period, even though 60% of the top one hundred wine brands in Texas had sales declines, 80% of the Texas wineries had sales increases.

The recommendations that are identified by this research include simplification and clarification of all sections of the TABC code, especially in light of the impending

U.S. Supreme Court decision on shipping. The TWMAP should initiate the market research called for by House Bill 892 and put more emphasis on “Brand Texas.” A four-year viticulture and enology program should be created at a state supported University in Texas. More research on the Pierce’s Disease in Texas should be undertaken.

Encouragement and support should be given for growth of new Texas vineyards and for Texas vendors to supply the Texas wine industry. Texas vendors would help supply the development and expansion of wineries. There also need to be a strong centralized entity to administer all of the above. Research to study the feasibility of adding an additional tax on all wine sales in Texas to fund the recommendations above should be considered.

5.7 LIMITATIONS OF THE RESEARCH

This type of questionnaire has a limited generalizability of findings. The questionnaire that was used was reviewed by TWGGA membership but was not pretested. Completion rates tend to be low on self-administered questionnaires but there were very limited resources available. As of August 26, 2004, there has been no follow-up mailing due to a conflict with the grape harvest schedule in Texas.

Not all of the respondents answered all questions or even all parts of a particular question. The results of that survey were somewhat limited by the number of responses. However, the feedback from the respondents was very informative. A complete list of contact information for all of the vineyards in Texas could not be provided.

5.8 FUTURE RESEARCH

This research raises several important questions relevant to the growth potential of the Texas wine industry.

More research needs to be conducted on the consumer perception of Texas wine. The question of what consumers know or think about Texas wines needs to be answered.

Wineries have expressed that they would buy more Texas grapes if they were available. This raises the question as to whether a larger supply of quality Texas grapes can be economically produced. Alternately, will any large growth in production have to come from out-of-state grapes and juices?

The majority of wine made in Texas is consumed in Texas. As the industry grows, will Texas consumers support a large growth in that market? Will Texas wineries need to be able to export a greater portion of their production and have the right product and marketing savvy to be successful?

If the requirement for 51% ownership were to be relaxed, would more out-of-state investment enter the Texas market?

Can the Texas wine industry market to our large and growing population of Hispanic consumers?

It is expected that there will be follow-up mailings and contacts to gather more responses to the questionnaire. This will provide more complete information for the Committee and the Texas Legislature. There is an open hearing on the Texas wine industry scheduled in Austin on October 6, 2004.

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TEXAS SENATE COMMITTEE ON INTERGOVERNMENTAL RELATIONS

Senator Frank Madla
CHAIRMAN

Members:

SENATOR KIM BRIMER, VICE CHAIR
SENATOR BOB DEUELL
SENATOR MARIO GALLEGOS
SENATOR JEFF WENTWORTH

DATE: July 23, 2004
TO: Vineyard/Winery Owners
FROM: Frank Madla, Chair

As you know the Senate Committee on Intergovernmental Relations is gathering data and studying the Texas wine producing industry in order to develop recommendations to the 79th Legislature for increasing the economic impact of the wine producing industry in Texas.

In order for the committee to develop a clearer picture of this industry, it is vital for us to gather as much information as possible from those of you who are engaged in the wine and grape business in this state. The committee is hopeful that you will complete the enclosed questionnaire with as much detail as possible and return it to us by August 8th. We apologize, in advance, for the length of the document, however we wanted to give you the greatest opportunity to provide information for the incoming Legislature and those in the future.

Please don't hesitate to add additional pages or information that you feel will prove useful to the committee's task. You can also feel free to skip questions that you prefer not to answer. Of course, the more information we have, the better.

The questionnaire is divided into four sections. In the first section we are looking for contact and general information regarding your interest in the Texas Wine Producing Industry. The second section is tailored to gather data about the production, use, and sale of Texas grapes. In the third section, we are seeking information about the production and distribution of Texas wines. From the information provided in the fourth section, we hope to get a clearer picture of the economic impact and potential of the industry. Mr. David Scotch, a San Antonio CPA, Master's Candidate at Bordeaux University, and TWGGA member has volunteered to help the committee compile the data submitted to the committee.

Although the committee has contact information for all the Texas wineries that are currently licensed and a number of Texas grape growers, our list of industry stakeholders is not complete. In keeping, we are hopeful that you will share a blank copy of the questionnaire with your colleagues or have them contact my Chief of Staff, Sherry Muller, for a copy.

As always, please don't hesitate to contact Sherry or me should you have any questions or require more information.

Appendix 1 – Questionnaire

P. O. Box 12068, Austin, Texas 78711 TEL: (512) 463-2527 FAX: (512) 463-2858

**Texas Senate Committee on
Intergovernmental Relations**

**Questionnaire
For: Vineyard & Winery Owners**

**Charge 4
Texas Wine Producing Industries**

Name: _____	Phone: _____
Mailing Address: _____	Fax: _____
City, State, Zip: _____	Cell: _____
County: _____	Other: _____
Email Address: _____	Website: _____

Interest: (Please check all that apply)

Vineyard owner: ___ Winery owner: ___ Tasting Room: ___ Investor: ___ Other: ___

<u>Type of Interest</u>	<u>Name</u>	<u>Town/Community</u>	<u>County/Other State</u>	<u>Viticultural Area</u>
_____	_____	_____	_____	_____
_____	_____	_____	_____	_____
_____	_____	_____	_____	_____
_____	_____	_____	_____	_____
_____	_____	_____	_____	_____
_____	_____	_____	_____	_____
_____	_____	_____	_____	_____
_____	_____	_____	_____	_____
_____	_____	_____	_____	_____

Please list any wine and grape industry associations, societies, or professional organizations of which you are a member.

_____	_____
_____	_____
_____	_____

Comments:

Please return your completed survey via one of the methods below by August 8, 2004

Email: sherry.muller@senate.state.tx.us

Office of Senator Frank Madla

Texas Wine Industry

Fax: (210) 922-9521

**Attn: Sherry Muller
1313 S.E. Military Dr., Suite 101
San Antonio, Texas 78214-2850**

SECTION 2: Vineyard Owners (Including those who own wineries)

1. What year did you first plant grapes in Texas? a) ____ b) How many acres did you plant? ____
2. Did you have any previous experience growing grapes? a) Yes /No b) If so, where? _____
3. How many total years experience do you have in: a) General agriculture? ____ b) Viticulture? ____
4. What is the # of your: a) Mature acres? ____ b) Acres in development? ____ c) Unplanted acres? ____
5. Do you have an overall maximum number of acres you intend plant in grapes? a) Yes / No b) How many?__
6. What are your most important varieties? _____

<u>Varietal</u>	<u>Location</u>	<u>Acreage</u>	<u>Production in Tons</u>		
			2003	Est. 2004	Est. 2005
_____	_____	_____	_____	_____	_____
_____	_____	_____	_____	_____	_____
_____	_____	_____	_____	_____	_____
_____	_____	_____	_____	_____	_____
_____	_____	_____	_____	_____	_____

7. Do you plan to introduce additional varieties within the next five years? Yes / No
 8. If so, which? _____
 9. What % of your total commercial acreage is planted in grapes? a) __% b) On how many tracts of land? ____
 10. Do you plan to increase your grape acreage over the next five years? a) Yes / No b) If so, by how much?
 11. What % of your grapes is sold under: a) long term __% b) short term __% c) spot __% contracts?
 12. During the next 12 months, do you plan to do any of the following regarding grape production?
 - a) Buy new acres? Yes / No
 - b) Lease new acres? Yes / No
 - c) Sell grape acreage? Yes / No
 - d) Convert grape acreage to another crop? Yes / No
 13. If you plan to sell or convert acres that are currently in grape production, why? _____
-
14. How are your grapes harvested: a) mechanically ____ b) by hand ____ c) both ____?
 15. Have you ever paid to have wine made from your grapes? Yes /No
 16. Do you own a winery? a) Yes/No b) If not, do you plan to? Yes/No c) If so, when? ____
 17. Do you sell your grapes or the juice from your grapes to entities in other states or countries? Yes /No
 18. If so, what percentage of your grapes is sold to entities: a) In other states? __% b) In other countries?
 19. If you do not sell your grapes outside the state, why not? (Check all that apply)
 - a) Sufficient Texas market _____%
 - b) Undeveloped market outside of Texas _____%
 - c) Lack of demand _____%
 - d) Insufficient profitability _____%
 20. Do you think that the formation of a cooperative would help you sell your grapes? Yes / No

SECTION 3: Winery Owners

- 1 a) When did you open your winery in Texas? ___ b) How many cases of wine did you produce? ___
2. Did you have any previous winery experience? a) Yes / No b) If so, from where? _____
3. How many total years of experience do you have in the wine industry? _____
4. How many varieties of wine did you produce in your first year of operation in Texas? _____
5. How many cases of Texas wine did you produce in: a) 2003? ___ b) Est. 2004? ___ c) Est. 2009? ___
6. Do you currently plan to increase your production of Texas wine? Yes / No
7. What is your goal for production? a) ___ b) How many different Texas wines do you currently produce? ___
8. In which new grape varieties do you see growth in Texas? _____

9. Sales: Estimated % of your case sales by primary variety

Grape Variety	2003	2009	Estimated % of Case sales by volume in the following price points	
			\$ Per 750 ml	2003 Est. 2009
_____	_____	_____	< \$3	_____
_____	_____	_____	\$3 - \$7	_____
_____	_____	_____	\$7 - \$10	_____
_____	_____	_____	\$10 - \$14	_____
_____	_____	_____	\$14 - \$24	_____
_____	_____	_____	\$25 ++	_____

10. a) Do you have your own vineyard(s)? Yes / No b) If not, do you plan to ? Yes / No c) When? ___
11. a) Do you have your own bottling line? Yes/No b) If not, do you plan to? Yes/No c) When? ___
12. Please provide an estimated percentage of the source of the grapes used in your wine?
 - a) Your grapes ___% b) Other Texas Grapes ___% c) Grapes/juice from other states ___%
13. Would you purchase more Texas grapes if they were available? Yes/No
14. Compared to 2003, how will FOB case prices change in 2004 ? Increase ___ Decrease ___ N/C ___
15. What percentage of your wine is available for sale to the public? ___% What % is from non-wine items ___%
16. Approximately what percentage of your wine is Sold:

a) from your winery or tasting rooms?	e) for marketing purposes
b) through a distributor?	f) for charitable causes
c) at wine festivals or other events? _____%	
d) from a package store to fill a winery order?	
e) from a package store, restaurant, or other retailer where you or your employees delivered the wine _____%	
17. From the sales at your winery, what percentage of your wine is sold to:
 - a) Texas residents ___% b) People from other states ___% c) People from other countries ___%
18. If your wine is not currently marketed through the distribution network, why? (Check all that apply)
 - a) Lack of access to a distributor _____ c) production volume makes use cost prohibitive _____
 - b) Don't want to _____ d) Other: _____
19. Is it your plan to use a distributor in the future? Yes / No
20. Have you been able to ship wine to other states since our direct shipping laws were declared unconstitutional? Yes/No
21. If so, approximately how many cases of wine have you shipped? _____

SECTION 4: Vineyard and Winery Owners

1. Is your vineyard/winery open to the public? Yes/No
- a) For tours? Yes/No e) Dining, catering, or other food services? Yes/No
- b) Tastings and sales of wine? Yes/No f) Weddings, meetings, and special events? Yes/No
- c) Sales of wine Yes/No g) As a Bed & Breakfast or other lodging? Yes/No
- d) Sales of other merchandise? Yes/No h) Other: _____ Yes/No
2. How many visitors do you have to your vineyard/winery each year _____
3. What % of your sales to these visitors is from wine? a) _____% b) From other merchandise? _____%
4. a) Were you profitable in 2003? _____ b) Do you expect to be more profitable in 2004? Yes/No
5. Do you currently draw income from your winery/vineyards? Yes/No
6. Is your winery/vineyard(s) your sole source of income? Yes/No
7. If not, do you plan for it to become your sole source of income in the future? Yes/No
8. Please provide the number and average monthly compensation of the following types of employees at your winery/vineyard(s). Please do not include yourself.
- a) permanent, full-time? # _____ \$ _____ c) seasonal employees in 2003? # _____ \$ _____
- b) permanent, part-time? # _____ \$ _____ d) seasonal employees in 2004? # _____ \$ _____
9. What tax revenues were generated by your winery/vineyard for FY2003?
- a) State Excise Tax: \$ _____ d) Federal Excise Tax: \$ _____
- b) State Sales Tax: \$ _____ e) Local Taxes :\$ _____
- c) State Franchise Tax: \$ _____ f) Other : _____ \$ _____
10. At this time, what are the greatest barriers to the development of the Texas Wine and Grape Industries. Please rate each item on a 1 - 4 scale, with 1 being greatest. (Feel free to add additional items on extra pages if necessary)
- | | | | | |
|--|---|---|---|---|
| a) No centralized entity to coordinate the development of the Texas Wine and Grape Industries | 1 | 2 | 3 | 4 |
| b) Lack of access to a full time enologist | 1 | 2 | 3 | 4 |
| c) Insufficient entomology support and expertise | 1 | 2 | 3 | 4 |
| d) Insufficient viticulture support and expertise | 1 | 2 | 3 | 4 |
| e) Lack of appropriate viticulture education programs in the state | 1 | 2 | 3 | 4 |
| f) Lack of appropriate enology education programs in the state | 1 | 2 | 3 | 4 |
| g) Lack of a four-year degree program in the state | 1 | 2 | 3 | 4 |
| h) Inability to ship your product directly to consumers in other states | 1 | 2 | 3 | 4 |
| i) Requirement/perception that telephone or internet sales to Texas residents must be shipped through a package store. | 1 | 2 | 3 | 4 |
| j) Lack of an official, central resource indicating wet/dry areas of Texas. | 1 | 2 | 3 | 4 |
| k) Hesitancy of common carriers to deliver your product because of inadequate wet/dry data | 1 | 2 | 3 | 4 |
| l) Other _____ | 1 | 2 | 3 | 4 |
| m) Other _____ | 1 | 2 | 3 | 4 |
11. What % of your supplies and equipment are purchased from the following?
- a) Texas Vendors? _____% b) Out-of-State Vendors? _____% c) International Vendors? _____%
12. What is the main reason you buy from out-of-state or international vendors?
- a) Lack of local availability _____ b) Cost of local products _____ c) Quality of local products _____
13. Do you believe that the ability of Texas wineries to ship their product directly within the State of Texas and to other states and countries is fundamental to the growth and ultimate success of the Texas Wine and Grape Industries? Yes/No

SECTION 4: Vineyard and Winery Owners (Continued)

14. What are the greatest assets available to the Texas Wine and Grape Industries at this time. Please rate on a 1 - 4 scale, with 1 being greatest. (Feel free to add additional assets)

- | | | | | |
|---|---|---|---|---|
| a) Marketing efforts of the TDA's Texas Wine Marketing Assistance Program. | 1 | 2 | 3 | 4 |
| b) Loans, grants, and assistance from other divisions of the Texas Department of Agriculture. | 1 | 2 | 3 | 4 |
| c) Technical advice and assistance from the Texas A&M Extension Service. | 1 | 2 | 3 | 4 |
| d) Ability to ship wine to Texas consumers that visit your winery. | 1 | 2 | 3 | 4 |
| e) Ability to ship wine to Texas consumers in dry areas. | 1 | 2 | 3 | 4 |
| f) Court ruling nullifying Texas' prohibition against the direct shipment of wine to consumers. | 1 | 2 | 3 | 4 |
| g) Other: _____ | 1 | 2 | 3 | 4 |
| h) Other: _____ | 1 | 2 | 3 | 4 |

15. Please list any current state or federal statutes, rules, regulations, or policies that are particularly problematic to or not effective for the production, distribution, sale, and promotion of your wine and/or grapes. (Please feel free to attach additional sheets if necessary)

16. What are the top three changes needed over the next five years to help your industry reach its full potential?

- a) _____

- b) _____

- c) _____

17. What are your suggestions for acquiring additional funding for research, development, technical assistance, marketing, and education programs to assist the Texas Wine and Grape Industries? (Please feel free to add additional sheets)

Texas Wine Industry

18. Please provide an estimate of how much you expended on the following to produce your wine and or grapes last year

- | | | | | | |
|--------------------------|---------|----------------|---------|----------------------|---------|
| a) Seed & Rootstock | \$ ____ | g) Marketing | \$ ____ | m) Property Taxes | \$ ____ |
| b) Fertilizer & Lime | \$ ____ | h) Electricity | \$ ____ | n) Motor Vehicles | \$ ____ |
| c) Transportation | \$ ____ | i) Pesticides | \$ ____ | o) Capital Dwellings | \$ ____ |
| d) Repair/Maintenance | \$ ____ | j) Storage | \$ ____ | q) Machine Hire | \$ ____ |
| e) Employee Compensation | \$ ____ | k) Fuel & Oil | \$ ____ | r) Interest Expenses | \$ ____ |
| f) Contract Labor | \$ ____ | l) Equipment | \$ ____ | s) Net Rents | \$ ____ |

SECTION 2: Vineyard Owners (Including those who own wineries)

1. What year did you first plant grapes in Texas?

a) Year _____

Year Started	Count
1976	1
1979	1
1981	1
1983	1
1991	1
1992	2
1995	2
1996	3
1998	4
1999	1
2000	3
2001	2
2002	1
2003	2
2004	2
NA	2

b) How many acres did you plant? _____

Range in acres	Count
0 -20	25
21 - 40	1
41 - 60	0
61- 80	0
81 - 100	0
101 - 120	0
121 - 140	0
141 - 20000	1
NA	2

2. Did you have any previous experience growing grapes?

a) Yes/ No

Responses	Count
Yes	6
No	21
NA	2

b) If so, where? _____

Responses	Count
California	3
Texas	2
France	1

3. How many total years experience do you have in:

a) General agriculture? _____

b) Viticulture? _____

Range in years	Count
0 - 5	14
6 - 10	4
11 - 15	0
16 - 20	0
21 - 25	1
26 - 30	4
31 - 9999	1
NA	5

Range in years	Count
0 - 5	11
6 - 10	9
11 - 15	4
16 - 20	0
21 - 25	1
26 - 30	1
31 - 9999	1
NA	2

4. What is the # of your:

a) Mature acres? _____

b) Acres in development? _____

c) Unplanted acres? _____

Range in acres	Count
0 - 5	15
6 - 10	4
11 - 15	1
16 - 20	2
21 - 25	1
26 - 30	0
31 - 9999	4
NA	2

Range in acres	Count
0 - 5	21
6 - 10	3
11 - 15	0
16 - 20	0
21 - 25	0
26 - 30	0
31 - 9999	3
NA	2

Range in acres	Count
0 - 5	12
6 - 10	3
11 - 15	3
16 - 20	1
21 - 25	2
26 - 30	2
31 - 9999	4
NA	2

5. Do you have an overall maximum number of acres you intend plant in grapes?

a) Yes / No _____

b) How many? _____

Response	Count
Yes	24
No	3
NA	2

Range in acres	Count
0 - 5	6
6 - 10	3
11 - 15	1
16 - 20	2
21 - 25	2
26 - 30	3
31 - 9999	5
NA	7

10. Do you plan to increase your grape acreage over the next five years? _____

a) Yes / No _____ b) If so, by how much? _____

Response	Count	Range in acres	Count
Yes	15	0 - 5	5
No	12	6 - 10	2
NA	2	11 - 15	1
		16 - 20	1
		21 - 25	1
		26 - 30	0
		31 - 9999	1
		NA	18

11. What % of your grapes is sold under:

a) long term contracts? _____% b) short term contracts? _____% c) spot contracts? _____%

Range	Count	Range	Count	Range	Count
0% - 9%	6	0% - 9%	6	0% - 9%	9
10% - 19%	0	10% - 19%	0	10% - 19%	0
20% - 29%	0	20% - 29%	0	20% - 29%	1
30% - 39%	0	30% - 39%	0	30% - 39%	0
40% - 49%	0	40% - 49%	0	40% - 49%	0
50% - 59%	0	50% - 59%	0	50% - 59%	0
60% - 69%	0	60% - 69%	0	60% - 69%	0
70% - 79%	0	70% - 79%	0	70% - 79%	0
80% - 89%	1	80% - 89%	0	80% - 89%	0
90% - 100%	4	90% - 100%	5	90% - 100%	1
NA	18	NA	18	NA	18

12. During the next 12 months, do you plan to do any of the following regarding grape production?

a) Buy new acres? Yes /No _____		b) Lease new acres? Yes/No _____		c) Sell grape acreage? Yes/No _____		d) Convert grape acreage to another crop? _____	
Response	Count	Response	Count	Response	Count	Response	Count
Yes	1	Yes	1	Yes	0	Yes	0
No	26	No	26	No	27	No	26
NA	2	NA	2	NA	2	NA	3

13. If you plan to sell or convert acres that are currently in grape production, why?

Response	Count
No	27
NA	2

14. How are your grapes harvested?

a) mechanically _____		b) by hand _____		c) both _____?	
Response	Count	Response	Count	Response	Count
Yes	4	Yes	16	Yes	16
No	22	No	10	No	10
NA	3	NA	3	NA	3

15. Have you ever paid to have wine made from your grapes?

Yes / No _____	
Response	Count
Yes	1
No	26
NA	2

16. Do you own a winery?

a) Yes / No _____		b) If not, do you plan to? Y/ N		c) If so, when? _____	
Response	Count	Response	Count	Response	Count
Yes	7	Yes	7		
No	6	No	6		
UNK	1	UNK	1		

17. Do you sell your grapes or the juice from your grapes to entities in other states or countries?

Yes/No _____	
Response	Count
No	27
NA	2

18. If so, what percentage of your grapes is sold to entities: a) In other states? _____% b) In other countries?

NA

Texas Wine Industry

19. If you do not sell your grapes outside the state, why not? (Check all that apply)

- a) Sufficient Texas market _____%
- b) Undeveloped market outside of Texas _____%
- c) Lack of demand _____%
- d) Insufficient profitability _____%
- e) Use in your own winery _____ **100%** _____%

20. Do you think that the formation of a cooperative would help you sell your grapes?

Yes / No _____

Response	Count
Yes	6
No	19
UNK	2
NA	2

SECTION 3: Winery Owner

There were 15 respondents to this section.

1. a) When did you open your winery in Texas?

a) Year _____

b) How many cases of wine did you produce? _____

Year	Count	Range in cases	Count
1975	1	0 - 0	1
1981	1	1 - 1000	3
1984	1	1001 - 2000	7
1995	2	2001 - 3000	0
1999	2	3001 - 4000	1
2000	1	4001 - 5000	0
2002	3	5001 - 6000	0
2003	1	6001 - 20000	1
2004	3	NA	1
		UNK	1

2. 2. Did you have any previous winery experience?

Yes / No _____

Response	Count
Yes	4
No	11

3. How many total years of experience do you have in the wine industry?

Years _____

Range in years	Count
0	0
1 - 5	6
6 - 10	3
11 - 15	2
16 - 25	1
26 - 35	3
Average	12.3

Texas Wine Industry

4. How many varieties of wine did you produce in your first year of operation in Texas?

# of Varieties	Count
1	0
2	2
3	2
4	1
5	2
6	2
7	0
8	0
9	0
10	2
NA	3
UNK	1

5. How many cases of Texas wine did you produce in:

2003? _____		Est 2004? _____		Est 2009? _____	
Range in cases	Count	Range in cases	Count	Range in cases	Count
0	4	0	0	0	0
1 - 10000	8	1 - 10000	12	1 - 10000	8
10001 - 20000	0	10001 - 20000	0	10001 - 20000	1
20001 - 30000	1	20001 - 30000	1	20001 - 30000	2
30001 - 40000	0	30001 - 40000	0	30001 - 40000	0
40001 - 50000	0	40001 - 50000	0	40001 - 50000	0
50001 - 60000	0	50001 - 60000	0	50001 - 60000	0
60001 - 70000	0	60001 - 70000	0	60001 - 70000	0
70001 - 80000	1	70001 - 80000	0	70001 - 80000	0
80001 - 1000000	1	80001 - 1000000	2	80001 - 1000000	1

6. Do you currently plan to increase your production of Texas wine?

Yes / No _____

Response	Count
Yes	12
No	2
NA	1

7. What is your goal for production? a) _____ b) How many different Texas wines do you currently produce? _____

a) Production goal? _____

b) Different wines? _____

Range in cases	Count	Range in types	Count
1 - 10000	9	1 - 5	3
10001 - 20000	1	6 - 10	5
20001 - 30000	2	11 - 15	4
30001 - 40000	0	16 - 20	1
40001 - 50000	0	21 - 9999	0
50001 - 60000	0	NA	1
60001 - 70000	0	UNK	1
70001 - 80000	0		
80001 - 1000000	1		
NA	2		

8. In which new grape varieties do you see growth in Texas?

Six wineries responded with syrah; five said tempranillo; three answered viognier; two answered mouvedre and sangiovese; and seven other mentioned other varieties.

9. Sales: Ten wineries responded to sales by variety:

Six listed cabernet sauvignon; three listed chardonnay and viognier; and syrah, sangiovese, merlot, orange muscat, blanc du bois, cabernet franc, and sauvignon blanc were mentioned twice. Ten other varieties were each listed one time. There was no significant data that could be extracted from sales by percentage of volume.

Thirteen of the wineries responded to sales by price point :

< \$3	0
\$3 - \$7	2
\$7 - \$10	5
\$10 - \$14	8
\$14 - \$24	10
\$25 ++	3

Texas Wine Industry

10. a) Do you have your own vineyard(s)? Yes / No

Response	Count
Yes	13
No	2

b) If not, do you plan to ? Yes / No

Yes	1
-----	---

c) When? _____

Unknown	1
---------	---

11.a) Do you have your own bottling line?

a) Yes / No _____

Response	Count
Yes	12
No	3

b) If not, do you plan to? Yes / No

No	3
----	---

c) When? _____

NA

12. Please provide an estimated percentage of the source of the grapes used in your wine?

a) Your grapes _____%

b) Other Texas Grapes
_____%

c) Grapes/juice from other
states _____%

Range in percent	Count	Range in percent	Count	Range in percent	Count
0%	3	0%	2	0%	8
1% - 15%	2	1% - 15%	1	1% - 15%	2
16% - 30%	1	16% - 30%	3	16% - 30%	3
31% - 45%	1	31% - 45%	0	31% - 45%	0
46% - 60%	1	46% - 60%	1	46% - 60%	0
61% - 75%	1	61% - 75%	3	61% - 75%	0
76% - 80%	2	76% - 80%	1	76% - 80%	0
81% - 99%	2	81% - 99%	1	81% - 99%	0
100%	1	100%	1	100%	0
NA	1	UNK	1	UNK	2
		NA	1		

13. Would you purchase more Texas grapes if they were available?

Response	Count
Yes	13
No	1
Possibly	1

14. Compared to 2003, how will FOB case prices change in 2004 ? Increase _____

Decrease _____ N/C _____

Response	Count
Increase	5
Decrease	0
No Change	8
No Answer	2

15. a) What percentage of your wine is available for sale to the public? _____ %

Percentage	Count
0	1
100	14

b) What % is from non-wine items? _____ %

Range in percent	Count
0%	2
1% - 15%	8
16% - 30%	3
31% - 45%	0
46% - 60%	0
61% - 75%	0
76% - 80%	0
81% - 99%	0
100%	0
UNK	1
NA	1

16. Approximately what percentage of your wine is sold:

- a) from your winery or tasting rooms? _____% b) through a distributor? _____% c) at wine festivals or other events? _____% d) from a package store to fill a winery order? _____% e) from a package store, restaurant, or other retailer where you or your employees delivered the wine _____%

Range in percent	Count								
0%	1	0%	9	0%	9	0%	11	0%	3
1% - 15%	2	1% - 15%	1	1% - 15%	5	1% - 15%	3	1% - 15%	10
16% - 30%	2	16% - 30%	0	16% - 30%	0	16% - 30%	0	16% - 30%	0
31% - 45%	1	31% - 45%	0	31% - 45%	0	31% - 45%	0	31% - 45%	1
46% - 60%	0	46% - 60%	0	46% - 60%	0	46% - 60%	0	46% - 60%	0
61% - 75%	2	61% - 75%	1	61% - 75%	0	61% - 75%	0	61% - 75%	0
76% - 80%	1	76% - 80%	1	76% - 80%	0	76% - 80%	0	76% - 80%	0
81% - 99%	3	81% - 99%	1	81% - 99%	0	81% - 99%	0	81% - 99%	0
100%	2	100%	1	100%	0	100%	0	100%	0
NA	1								

Approximately what percentage of your wine is given away:

- e) for marketing purposes? _____%

Range in percent	Count
0%	3
1% - 15%	10
16% - 30%	0
31% - 45%	0
46% - 60%	0
61% - 75%	0
76% - 80%	0
81% - 99%	0
100%	0
NA	2

- f) for charitable causes? _____%

NA

17. From the sales at your winery, what percentage of your wine is sold to:

a) Texas residents _____%		b) People from other states _____%		c) People from other countries _____%	
Range in percent	Count	Range in percent	Count	Range in percent	Count
0%	0	0%	3	0%	3
1% - 15%	0	1% - 15%	10	1% - 15%	10
16% - 30%	0	16% - 30%	0	16% - 30%	0
31% - 45%	0	31% - 45%	1	31% - 45%	1
46% - 60%	1	46% - 60%	0	46% - 60%	0
61% - 75%	0	61% - 75%	0	61% - 75%	0
76% - 80%	0	76% - 80%	0	76% - 80%	0
81% - 99%	10	81% - 99%	0	81% - 99%	0
100%	3	100%	0	100%	0
NA	1	NA	1	NA	1

18. If your wine is not currently marketed through the distribution network, why?

Reason	Count
Lack of Access	4
Don't Want To	5
Volume Prohibits	4
Other	3
NA	6

19. Is it your plan to use a distributor in the future? Yes / No

Response	Count
Yes	6
No	4
NA	5

20. Have you been able to ship wine to other states since our direct shipping laws were declared unconstitutional?

Yes / No _____

Response	Count
Yes	11
No	4

21. If so, approximately how many cases of wine have you shipped?

1191

SECTION 4: Vineyard and Winery Owners

1. Is your vineyard/winery open to the public? Yes/No

Yes / No		a) For tours?		b) Tastings and sales of wine?	
Response	Count	Response	Count	Response	Count
Yes	14	Yes	14	Yes	14
No	1	No	0	No	0
		NA	1	NA	1

c) Sales of wine		d) Sales of other merchandise?		e) Dining, catering, or other food services?	
Response	Response	Response	Response	Response	Count
Yes	Yes	Yes	Yes	Yes	7
No	No	No	No	No	7
NA	NA	NA	NA	NA	1

f) Weddings, meetings, and special events?		g) As a Bed & Breakfast or other lodging?		h) Other _____ Yes/No	
Response	Count	Response	Count	Response	Count
Yes	7	Yes	7	Yes	2
No	7	No	7	No	13
NA	1	NA	1		

2. How many visitors do you have to your vineyard/winery each year? _____

Range in visitors	Count
1 - 5000	6
5001 - 10000	1
15001 - 30000	2
30001 - 40000	0
40001 - 50000	1
50001 - 60000	0
UNK	3
NA	2

3. What % of your sales to these visitors is:

a) from wine? _____%

b) from other merchandise? _____%

Range in percent	Count	Range in percent	Count
0% - 9%	1	0% - 9%	8
10% - 19%	0	10% - 19%	4
20% - 29%	0	20% - 29%	2
30% - 39%	0	30% - 100%	1
40% - 49%	0		
50% - 59%	0		
60% - 69%	0		
70% - 79%	2		
80% - 89%	2		
90% - 100%	10		

4.a) Were you profitable in 2003? _____
profitable in 2004? Yes / No

b) Do you expect to be more profitable in 2004?

a) Were you profitable in 2003?

b) Do you expect to be more profitable in 2004?

Response	Count	Response	Count
Yes	10	Yes	15
No	9	No	6
NA	7	NA	5

5. Do you currently draw income from your winery/vineyards? Yes / No

Yes / No

Response	Count
Yes	10
No	13
NA	3

6. Is your winery/vineyard(s) your sole source of income?

Yes / No

Response	Count
Yes	4
No	19
NA	3

7. If not, do you plan for it to become your sole source of income in the future?

Yes / No

Response	Count
Yes	14
No	8
NA	4

8. Please provide the number and average monthly compensation of the following types of employees at your winery/vineyard(s). Please do not include yourself.

- a) permanent, full-time? # _____ \$ _____
- b) permanent, part-time ? # _____ \$ _____
- c) seasonal employees in 2003? # _____ \$ _____
- d) seasonal employees in 2004? # _____ \$ _____

No pertinent information could be drawn from this section due to lack of response and incomplete data.

9. What tax revenues were generated by your winery/vineyard for FY2003?

- a) State Excise Tax: \$ _____
- b) State Sales Tax: \$ _____
- c) State Franchise Tax: \$ _____
- d) Federal Excise Tax: \$ _____
- e) Local Taxes: \$ _____
- f) Other : _____ \$ _____

No pertinent information could be drawn from this section due to lack of response and incomplete data.

10. See other research question

11. What % of your supplies and equipment are purchased from the following?

a) Texas Vendors? _____ %	Count	b) Out-of-State Vendors? _____ %	Count	c) International Vendors? _____ %	Count
Range in percent		Range in percent		Range in percent	
0% - 9%	2	0% - 9%	0	0% - 9%	20
10% - 19%	3	10% - 19%	2	10% - 19%	0
20% - 29%	5	20% - 29%	3	20% - 29%	0
30% - 39%	1	30% - 39%	2	30% - 39%	0
40% - 49%	0	40% - 49%	2	40% - 49%	1
50% - 59%	4	50% - 59%	4	50% - 59%	0
60% - 69%	1	60% - 69%	0	60% - 69%	1
70% - 79%	2	70% - 79%	2	70% - 79%	0
80% - 89%	2	80% - 89%	3	80% - 89%	0
90% - 100%	2	90% - 100%	4	90% - 100%	0
		NA	4	NA	4

12. What is the main reason you buy from out-of-state or international vendors?

- a) Lack of local availability _____ b) Cost of local products _____
 c) Quality of local products _____

Reason	Count
a) Lack of local availability	21
b) Cost of local products	5
c) Quality of local products	3
NA	3

13. Do you believe that the ability of Texas wineries to ship their product directly within the State of Texas and to other states and countries is fundamental to the growth and ultimate success of the Texas Wine and Grape Industries?

Yes / No

Response	Count
Yes	18
No	1
NA	7

Questions 14, 15, 16, and 17 used in other research questions

18. Please provide an estimate of how much you expended on the following to produce your wine and or grapes last year.

- | | | | | | |
|--------------------------|---------|----------------|---------|----------------------|---------|
| a) Seed & Rootstock | \$ ____ | g) Marketing | \$ ____ | m) Property Taxes | \$ ____ |
| b) Fertilizer & Lime | \$ ____ | h) Electricity | \$ ____ | n) Motor Vehicles | \$ ____ |
| c) Transportation | \$ ____ | i) Pesticides | \$ ____ | o) Capital Dwellings | \$ ____ |
| d) Repair/Maintenance | \$ ____ | j) Storage | \$ ____ | q) Machine Hire | \$ ____ |
| e) Employee Compensation | \$ ____ | k) Fuel & Oil | \$ ____ | r) Interest Expenses | \$ ____ |
| f) Contract Labor | \$ ____ | l) Equipment | \$ ____ | s) Net Rents | \$ ____ |

No pertinent information could be drawn from this section due to lack of response and incomplete data.

Appendix 2

Data from

Texas Wine Marketing Research Institute

Table 3

Employment Impact, 2003

	Wine Grape Industry	Wine Industry	Total
Direct	133	752	885
Indirect	110	615	725
Total	243	1367	1610

Source: Texas Wine Marketing Research Institute

Table 4

Employment Impacts, 1997 - 2003

	1997	1998	1999	2000	2001	2002	2003
Wine Grape Industry	172	169	154	178	266	530	885
Wine Industry	1408	1131	1263	1294	1526	434	725
Total	1580	1300	1417	1472	1792	964	1610

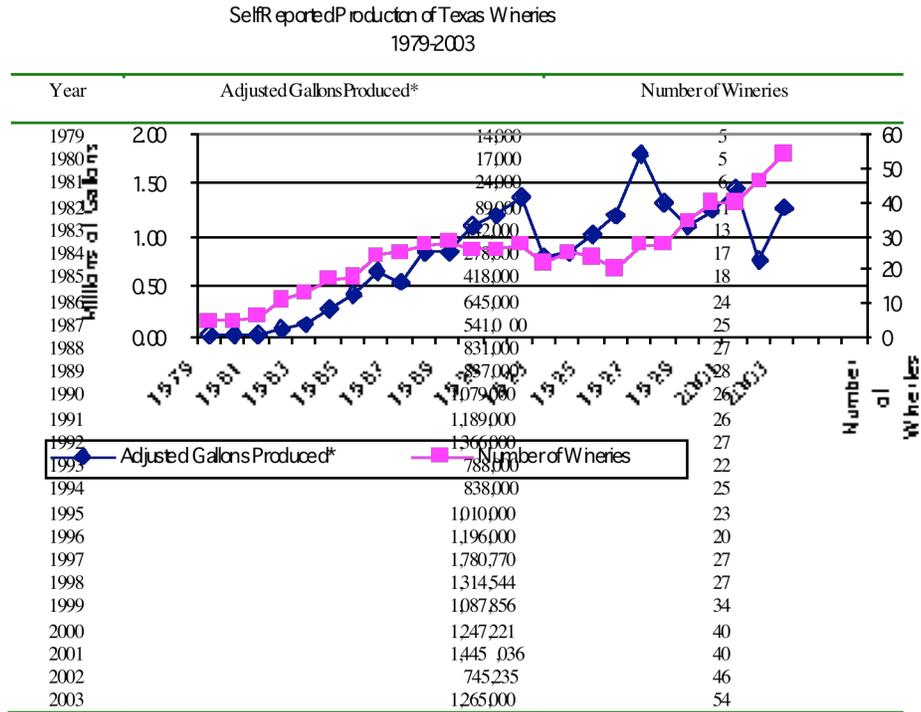
Source: Texas Wine Marketing Research Institute

Table 5

Tourism Impact, 2003

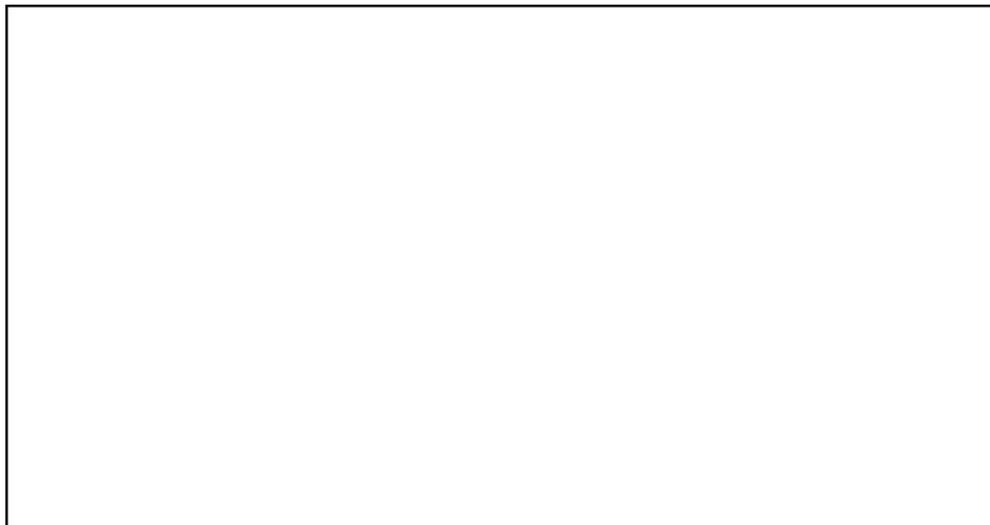
	Wine Accessory Items	Travel Impact	Total
Direct	\$ 5,346,000	\$ 10,854,000	\$ 16,200,000
Indirect	3,474,900	7,055,100	10,530,000
Total	\$ 8,820,900	\$ 17,909,100	\$ 26,730,000

Table 9
Self Reported Production of Texas Wineries, 1979 - 2003



*Adjusted for juice and bulk wine sales between Texas wineries.
 Source: Texas Wine Marketing Research Institute

Figure 2



Source: Texas Wine Marketing Research Institute
 Texas Wine Marketing Research Institute – College of Human Sciences – Texas Tech University

Table 10

Number of Wineries by Production Category, 1999-2003

Source: Texas Wine Marketing Research Institute

Production Category in Thousands of Gallons	1999	2000	2001	2002	2003
< 5 (Less than or equal to 5,000 gallons annual production)	18	23	20	26	32
5-10 (5,000 – 10,000 gallons annual production)	4	5	7	6	7
10-50 (10,000 – 50,000 gallons annual production)	8	8	9	10	11
>50 (More than 50,000 gallons annual production)	4	4	4	4	4
Total	34	40	40	46	54

Table 11

Adjusted Gallons Produced*, Fermenting, and Storage Capacities by Production Category, 1999-2003

	Production Category in Thousands of Gallons	1999	2000	2001	2002	2003
<5	Produced	25,095	32,021	27,365	26,847	46,054
	Fermenting	51,800	76,316	40,180	40,853	26,158
	Storage	56,900	97,367	53,255	64,067	41,040
5-10	Produced	28,096	35,349	56,575	44,995	72,452
	Fermenting	75,600	38,796	59,488	55,438	75,710
	Storage	102,800	46,216	79,258	56,056	80,541
10-50	Produced	107,367	133,498	162,288	174,732	272,242
	Fermenting	218,000	263,580	248,695	287,529	134,526
	Storage	271,370	358,240	376,255	410,820	219,058
>50	Produced	804,291	944,502	1,165,629	498,661	874,252
	Fermenting	1,478,000	1,486,000	2,064,502	2,068,745	2,392,036
	Storage	1,823,000	2,157,545	2,148,887	2,160,045	2,571,404
Total Produced		964,849	1,145,370	1,411,857	745,235	1,265,000
Total Fermenting		1,823,400	1,864,692	2,412,865	2,452,565	2,628,430
Total Storage		2,256,070	2,659,368	2,657,655	2,690,990	2,912,041

*Adjusted for juice and bulk wine sales between Texas wineries.

Source: Texas Wine Marketing Research Institute

Table 12

Percent Adjusted Gallons Produced* by Production Category, 1999-2003

Production Category in Thousands of Gallons	1999	2000	2001	2002	2003
<5	3%	3%	2%	4%	4%
5-10	3%	3%	4%	6%	6%
10-50	11%	12%	11%	23%	21%
>50	83%	82%	83%	67%	69%
Total	100%	100%	100%	100%	100%

*Adjusted for juice and bulk wine sales between Texas wineries.

Source: Texas Wine Marketing Research
 Institute <http://www.backseatbangers.com/consoles/exitConsole.html>

Table 13

Texas Winery Crush Gallons Extracted by Wine Grape Origin and Source, 2003

Source	Gallons			Percent		
	Origin			Origin		
	Within Texas	Outside Texas	Total	Within Texas	Outside Texas	Total
Own	671,303		671,303	67.5%	0.0%	67.5%
Purchased	266,552	56,120	322,672	26.8%	5.7%	32.5%
Total	937,855	56,120	993,975	94.3%	5.7%	100.0%

Source: Texas Wine Marketing Research Institute

Table 14

Texas Winery Juice and Bulk Wine Gallons Sold by Destination and Form, 2003

Form	Gallons			Percent		
	Destination			Destination		
	Within Texas	Outside Texas	Total	Within Texas	Outside Texas	Total
Juice	29,000	-	29,000	89.2%	-	89.2%
Bulk Wine	3,500	-	3,500	10.8%	-	10.8%
Total	32,500	-	32,500	100.0%	-	100.0%

Source: Texas Wine Marketing Research Institute

Table 15

Texas Winery Juice and Bulk Wine Gallons Purchased by Origin and Form, 2003

Form	Gallons			Percent		
	Destination			Destination		
	Within Texas	Outside Texas	Total	Within Texas	Outside Texas	Total
Juice	12,032	15,258	27,290	11.3%	14.3%	25.6%
Bulk Wine	29,110	49,981	79,091	27.4%	47.0%	74.4%
Total	41,142	65,239	106,381	38.7%	61.3%	100.0%

Source: Texas Wine Marketing Research Institute

Table 16

Percent Bottled Gallons Produced by Type and Industry Structure, 2003

Production Category in Thousands of Gallons	Varietal	Non - Varietal	Sparkling	Fortified	Total
< 5	2.6%	0.8%	0.0%	0.0%	3.4%
5-10	3.3%	6.9%	0.0%	0.0%	10.2%
10-50	14.3%	0.8%	0.0%	0.3%	15.4%
>50	41.0%	30.0%	0.0%	0.0%	71.0%
Total	61.2%	38.5%	0.0%	0.3%	100.0%

Source: Texas Wine Marketing Research Institute

Table 17

Percent Bottled Gallons Produced by Color and Industry Structure, 2003

Production Category in Thousands of Gallons	Red	White	Blush	Total
< 5	1.9%	1.0%	0.4%	3.3%
5-10	8.4%	1.8%	0.0%	10.2%
10 -50	8.8%	5.4%	1.2%	15.4%
>50	31.2%	28.4%	11.5%	71.1%
Total	50.3%	36.6%	13.1%	100.0%

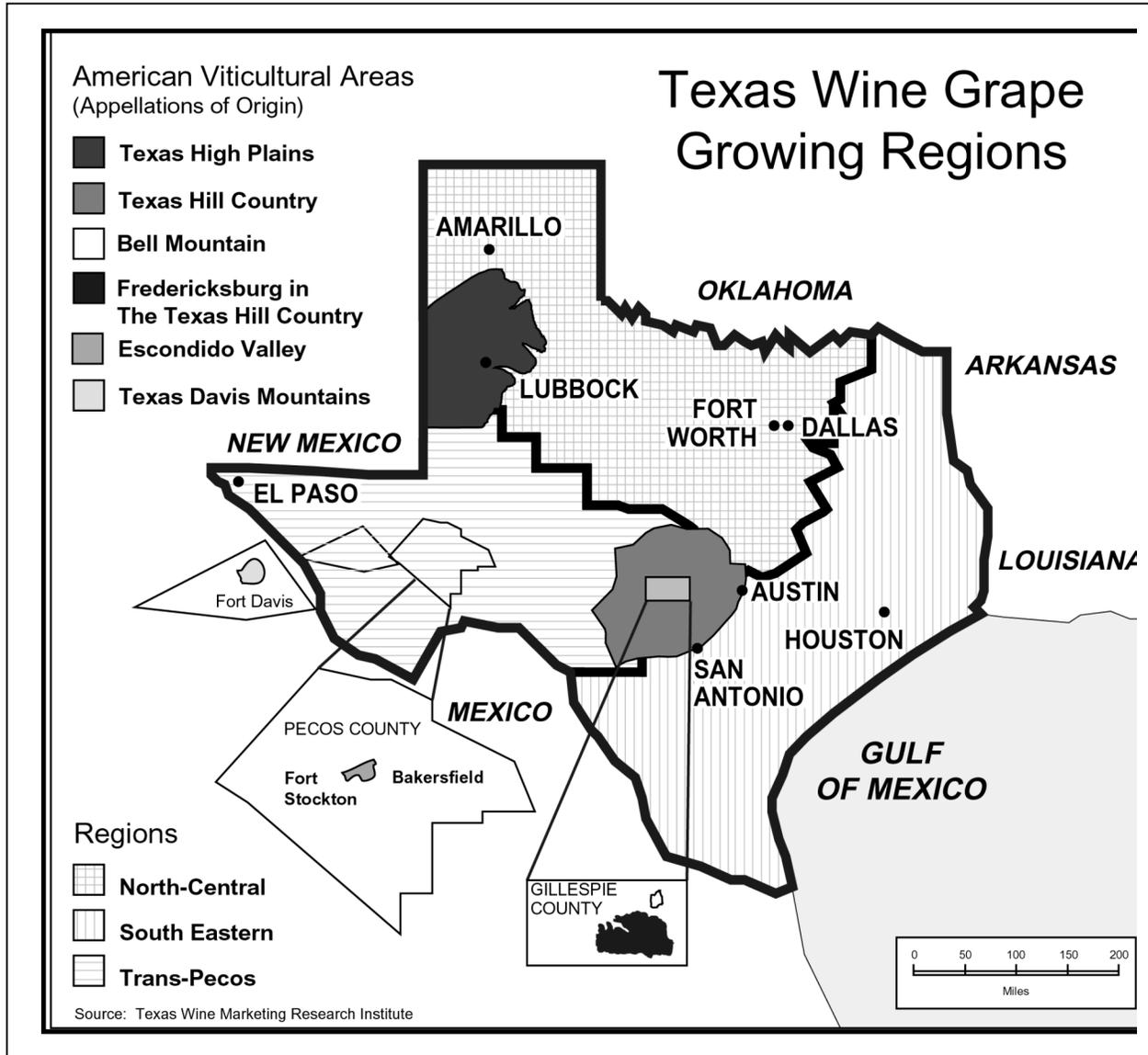
Source: Texas Wine Marketing Research Institute

Table 18

Percent Bottled Gallons Produced by Color and Type, 2003

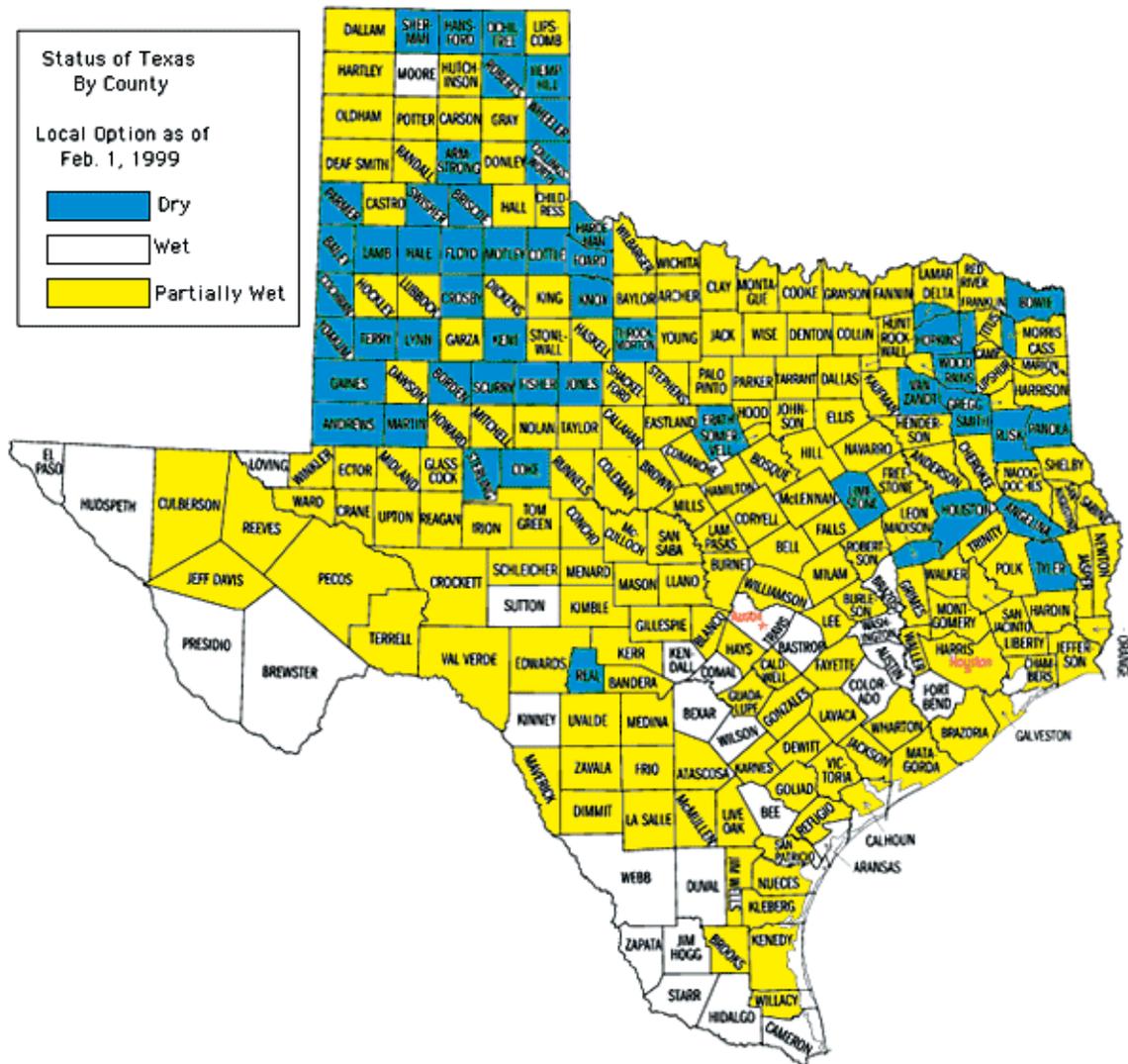
	Red	White	Blush	Total
Varietal	30.0%	26.3%	4.9%	61.2%
Non - Varietal	20.0%	10.3%	8.2%	38.5%
Sparkling	0.0%	0.0%	0.0%	0.0%
Fortified	0.3%	0.0%	0.0%	0.3%
Total	50.3%	36.6%	13.1%	100.0%

Figure 3



Appendix 3

Wet/Dry Status of Texas Counties



Texas Alcoholic Beverage Commission (458) - Addendum E

Wet-Dry Status of Texas Counties

As of August 31, 2001

+Indicates sale of mixed beverages is legal in all or part of county (97)

*Indicates counties totally wet for distilled spirits (37); All others dry in part (80)

COUNTIES IN WHICH DISTILLED SPIRITS ARE LEGAL: 186

Anderson	Ector+	Kinney+*	San Jacinto
Aransas+*	Edwards	Kleberg+	San Patricio+
Archer	El Paso+*	Lampasas	San Saba
Atascosa	Ellis	La Salle+	Schleicher*
Austin+*	Falls+	Lavaca+	Shackelford
Bandera+	Fannin	Lamar+	Shelby
Bastrop+*	Fayette	Lee+	Starr+*
Bee+*	Fort Bend+*	Leon	Stonewall
Bell+	Freestone	Liberty	Sutton+*
Bexar+*	Frio+	Lipscomb	Tarrant+
Blanco+	Galveston+	Live Oak	Taylor+
Bosque	Garza+	Llano+	Terrell*
Brazoria+	Gillespie+	Loving+*	Titus++
Brazos+*	Goliad+	Lubbock+	Tom Green+
Brewster+*	Gonzales	Marion	Travis+*
Brooks	Gray	Matagorda+	Trinity*
Brown	Grayson	Maverick+	Upshur
Burleson	Gregg	McCulloch+	Upton*
Burnet+	Grimes+	McLennan+	Uvalde
Calhoun+	Guadalupe+	Medina+	Val Verde+
Callahan	Hall	Menard	Victoria+
Cameron+*	Hamilton	Midland+	Walker+
Camp+	Hardin	Milam	Waller+
Carson	Harris+	Mills	Ward
Cass	Harrison	Mitchell	Washington+*
Castro	Haskell	Montague	Webb+*
Chambers	Hays+	Montgomery+	Wharton+
Childress	Henderson+	Moore+*	Wichita+
Clay	Hidalgo+*	Nacogdoches	Wilbarger
Coleman	Hill+	Navarro+	Willacy+
Collin	Hockley+	Newton	Williamson+
Colorado+*	Hood	Nolan	Wilson+*
Comal+*	Howard+	Nueces+	Winkler*
Comanche	Hudspeth+*	Orange+	Young
Cooke	Hunt	Palo Pinto	Zapata+*
Coryell	Hutchinson	Parker	Zavala+
Crockett*	Jack	Pecos	
Crane	Jackson+	Polk+	
Culberson*	Jasper+	Potter+	
Dallam	Jeff Davis	Presidio+*	
Dallas+	Jefferson+	Rains	
Dawson+	Jim Hogg+*	Randall+	
Deaf Smith	Jim Wells+	Reagan*	
Denton+	Karnes*	Red River	
DeWitt+	Kaufman	Reeves+	
Dickens	Kendall+*	Refugio	
Dimmitt+	Kenedy	Robertson	
Donley+	Kerr+	Rockwall+	
Duval+*	Kimble	Runnels	
Eastland	King	San Augustine	

COUNTIES IN WHICH ONLY 4% BEER IS LEGAL: 11

Baylor	Hartley	McMullen
Caldwell	Iron	Sabine
Cherokee	Oldham	Stephens
Concho	Mason	

COUNTIES IN WHICH 14% OR LESS ALCOHOLIC BEVERAGES ARE LEGAL: 5

Glasscock	Limestone	Wise
Johnson	Somervell	

COUNTIES ENTIRELY DRY: 52

Andrews	Gaines	Parmer
Angelina	Hale	Real
Armstrong	Hansford	Roberts
Bailey	Hardeman	Rusk
Borden	Hemphill	Scurry
Bowie	Hopkins	Sherman
Briscoe	Houston	Smith
Cochran	Jones	Sterling
Coke	Kent	Swisher
Collingsworth	Knox	Terry
Cottle	Lamb	Throckmorton
Crosby	Lynn	Tyler
Delta	Madison	Van Zandt
Erath	Martin	Wheeler
Fisher	Morris	Woods
Floyd	Motley	Yoakum
Foard	Ochiltree	
Franklin	Panola	

CAUTION/DISCLAIMER: Please do not rely on this list for accuracy. Many zip codes crisscross wet/dry precincts and county lines. Additionally, wine, beer or spirits may or may not be permissibly sold in a wet area, depending upon the type of permits authorized by local election. Further, the status of wet/dry areas change over time and the latest changes may not be reflected in this list. Those seeking to verify the wet/dry status of a particular address should contact the appropriate county clerk. The Texas Safety Network, its members, volunteers and affiliated and related entities disclaim any responsibility for the accuracy of this list or the information on this Web site, and make no representations or warranties whatsoever regarding the quality, content, completeness or adequacy of such information and data. Such parties disclaim liability to any person or entity whatsoever for any loss or injury whatsoever based upon or resulting from any data or material included in or omitted from this web site. The information in this web site is intended as general information only, and is not intended to serve as legal advice or as a substitute for legal counsel. If you have a question about a specific factual situation, you should contact the Texas Alcoholic Beverage Commission or your city, county or personal attorney.

Appendix 4

From: SusanCombs [Susan.Combs@agr.state.tx.us]
Sent: Thursday, August 19, 2004 1:36 PM
To: David Scotch
Cc: Records
Subject: RE: Texas Wine Marketing Assistance Program
Dear David:

Thank you for your questions. Its always a pleasure to hear from individuals interested in the Texas wine industry. I am glad to offer you the information you requested.

I have indeed been experimenting with several grape varieties on my ranch in Brewster County. It is an exciting and challenging endeavor that has reinforced my deep appreciation and respect for the many talented grape growers and wine makers throughout the state. The availability of quality Texas wines being produced and sold is a testament to their hard work and dedication.

The Texas wine industry has grown tremendously in the past two decades. The Lone Star State is now home to more than 60 great wineries, employs more than 2,000 people and brings in an estimated \$133 million annually to the state's economy. Through this growth, the Texas Wine Marketing Assistance Program (TWMAP) was established at the Texas Department of Agriculture (TDA) in 2001, primarily to assist Texas wineries in marketing and promoting the Texas wine industry. Over the last three years, TWMAP has been very successful and has proven to be a wonderful marketing catalyst for the Texas wine industry. According to a survey of Texas winery owners, every \$1 in TWMAP funds led to \$9.44 in economic impact to the state through increased awareness and sale of Texas wines. We were pleased to have the Legislature's support for these efforts through the approval in 2003 of a permanent funding mechanism for the program.

As you may know, two important legislative mandates of House Bill 892 call for TDA to actively recruit Texas package stores to participate in TWMAP and to use market research to enhance our program's effectiveness. Currently 475 package stores in 121 "wet" Texas counties actively participate in TWMAP, providing a good range of geographic coverage. Another 78 counties are designated as "dry" counties.

We continue to actively recruit new package stores across the state and in the remaining 55 counties to increase our numbers. In the past year, 22 new stores have signed up. The ability to ship Texas wines to a package store remains an important option for Texas wine consumers. The numbers vary, but it is typical for several cases total to be shipped per month statewide. If you would like a complete breakdown of how many cases and bottles of wine are being shipped each month, you can contact Robert Champion Jr., our State Coordinator for Wine Marketing, at (512) 475-3303 or robert.champion@agr.state.tx.us. To increase and expand the sale and shipment of more Texas wines, TDA has created beautiful marketing and promotional materials such as winery guides, posters, wine bags and shelf strips to highlight Texas wines specifically for

participating member package stores. The goal is to increase sales for both the wineries and the stores.

We also work closely with Texas universities, extension agents, educators and industry partners such as the Wine Society of Texas, Texas Wine and Grape Growers Association, Texas Chef's Association and the Texas Restaurant Association to share and utilize the latest market research regarding wine production, consumption, trends and so on. Entities such as these provide TWMAP with the additional resources, information and tools we need to be more effective.

TWMAP allocates its funds very carefully so that every sector of the Texas wine industry benefits. Through this program, TDA has been able to launch print and broadcast advertisements, create cutting edge marketing and promotional pieces, attend and support the industry at various statewide events and functions and assist all the wineries and grape growers through educational opportunities. TWMAP is also mindful of our relationship with various associations, university and extension systems and wine consumers. TWMAP funds are dispersed broadly but used specifically to assist the Texas wine industry in promoting and marketing Texas wines and educating the public about the Texas wine industry. Attached is a breakdown of the budget.

TDA and TWMAP will continue to work hard so that this program always remains on the forefront of the Texas wine industry and of Texas agriculture. To find out more about the Texas wineries and package stores participating in TWMAP, I invite you to visit our Texas wine Web site at www.gotexanwine.org. You can also contact Robert Champion Jr., State Coordinator for Wine Marketing, at the number and e-mail listed above.

Again, thank you for your interest in Texas wines and the Texas wine industry.

Sincerely,

Susan Combs
Commissioner

Texas Wine Marketing Assistance Program

Budget Breakdown FY'04

Professional Fees - \$4,000.00

(University studies and research to analyze the Texas Wine Marketing Assistance Program)

Consumables - \$13,200.00

(Marketing and promotional materials, office supplies)

Training - \$1,000.00

(Registration fees for different wine events)

Publications / Advertising – \$55,004.00

(Funds used for Texas wine promotional ads in Texas Monthly, Southwest Airlines and other publications)

Other Operating - \$118,488.44

(Festival contracts, trade shows, photography, educational and marketing opportunities, printing of wine guides, infoletters, banners, phone service and mail outs including letters, promotional materials and bulk shipments)

Travel - \$5,000.00

(Travel fund used to visit Texas wineries and attend wine activities and functions around the state)

Rents - \$11,000.00

(Rental fees and booth space for statewide Texas wine events along with items within the actual event such as tables, chairs, electricity)

Salary - \$42,307.56

Total - \$250,000.00

Appendix 5

Size Distribution of Wineries in the United States (Fiscal Year 2002)

	# of wineries	Winery %	Gallons	Gallons %
> 370 K cases	49	2.41%	452,426,154	87.18%
105 K - 370 K cs	38	1.87%	17,314,945	3.34%
42 K - 105 K cs	192	9.44%	26,117,099	5.03%
25 K - 42 K cs	96	4.72%	7,270,304	1.40%
10 K - 25 K cs	210	10.32%	7,783,783	1.50%
4 K - 10 K cs	307	15.09%	4,671,649	0.90%
1 K to 4 K cs	562	27.63%	2,858,047	0.55%
< 1 K cs	580	28.52%	539,894	0.10%
Totals	2034	100.00%	518,981,873	100.00%

Source: WA analysis of winery tax payments

Appendix 6

Varietals

Section 2 question 6

Chart Label	Total Acreage	Avg Acreage Per Vineyard	2003 Prod/Tons	2004 Est. Prod/tons	2005 Est. Prod/tons
63.4-Other	63.40	2.19	80.50	107.90	155.70
242.7-Cabernet Sauvignon	242.65	8.37	677.55	939.00	870.00
213.5-Chardonnay	213.50	7.36	575.00	838.00	810.00
162.0-Sauvignon Blanc	162.00	5.59	702.00	704.00	700.00
126.0-Chenin blanc	126.00	4.34	975.00	1100.00	1100.00
50.1-Merlot	50.10	1.73	59.50	149.00	81.40
29.0-Riesling	29.00	1.00	75.00	88.00	28.00
24.5-Zinfandel	24.50	0.84	52.00	22.00	30.00
13.0-Viognier	13.00	0.45	5.00	38.00	21.00
12.0-Cabernet Franc	12.00	0.41	20.00	30.00	0.00
10.4-Sangiovese	10.40	0.36	3.00	19.00	33.00
9.5-Syrah	9.50	0.33	9.00	28.00	44.50
7.0-Pinot Noir	7.00	0.24	21.00	11.00	12.00
6.5-Ruby Cabernet	6.50	0.22	15.00	6.00	10.00
5.4-Pinot Grigio	5.40	0.19	2.00	7.00	8.00
4.5-Blanc du Bois	4.50	0.16	3.00	3.40	4.20
4.2-Malbec	4.20	0.14	0.00	7.00	15.00
3.6-Muscat Canelli	3.60	0.12	13.00	10.00	0.00
3.0-Tempranillo	3.00	0.10	1.00	10.00	10.00
3.0-Primitivo	3.00	0.10	6.00	1.00	5.00
3.0-Orange Muscat	3.00	0.10	0.00	8.00	10.00
2.5-Mourvedre	2.50	0.09	3.00	3.50	8.00
2.0-Pinot Blanc	2.00	0.07	0.00	0.00	0.00
1.2-Semillion	1.20	0.04	0.00	3.00	6.00
1.0-Muscat	1.00	0.03	0.00	2.00	0.00
1.0-Malvasik	1.00	0.03	1.00	1.00	1.00
1.0-Gewurztraminer	1.00	0.03	1.00	1.00	1.00
1.0-Favorite	1.00	0.03	4.00	4.00	4.00
1.0-Blanc Du Vuo	1.00	0.03	0.00	0.00	5.00
1.0-Grenache	1.00	0.03	0.00	0.00	5.00
1.0-Cynthiana	1.00	0.03	1.50	2.00	2.00
1.0-Albarino	1.00	0.03	0.00	0.00	5.00
.0-Other	0.00	0.00	0.00	0.00	0.00
.0-NA	0.00	0.00	0.00	0.00	0.00
.0-Carnelian	0.00	0.00	0.00	0.00	0.00
	946.55	32.64	3224.55	4034.90	3829.10