

Approved: 3-17-93
Date

MINUTES OF THE SENATE COMMITTEE ON AGRICULTURE

The meeting was called to order by Chairperson David Corbin at 10:12 a.m. on March 16, 1993 in Room 423-S of the Capitol.

All members were present except: all members were present

Committee staff present: Raney Gilliland, Legislative Research Department
Jill Wolters, Revisor of Statutes
Lila McClafin, Committee Secretary

Conferees appearing before the committee: Steve Jennings, Grape and Wine Growers Association
Kim Fair, Owner of Fields of Fair Winery
Rebecca Rice, Kansas Retail Liquor Dealers Association
Tuck Duncan, Kansas Wine and Spirit Wholesale Association
Eldon Fastrup, Department of Agriculture

Others attending: See attached list

The Chairman said he had distributed to the members a copy of information from the Kraft Food Company regarding SB 72 (Attachment 1).

The Chair opened the hearing on SB 375 - relating to the development of the grape and wine industry in the state. He called on Steve Jennings.

Mr. Jennings spoke in support of SB 375. He said they need this legislation to help them develop their industry and to help them with marketing of their product (Attachment 2). Mr. Jennings responded to questions regarding their organization.

Ms. Fair said she and her husband are the owners of Fields of Fair Winery in Paxico. They are members of the Grape and Wine Growers Association. Their organization has 49 members they paid \$25.00 dues annually and they have an annual meeting. She further stated Kansas State University has been very helpful to them in supplying information concerning their vineyard. This bill would give them the needed funds for additional assistance in the development of the industry and in marketing their products.

Rebecca Rice spoke in opposition to SB 375. They are opposed to singling out specific alcohol products for a tax increase to benefit one small segment of an industry which has a very limited benefit to the Kansas liquor industry and, more importantly, to the Kansas economy. If the legislation is passed out favorable they would request an amendment stating a caveat that no such funds raised under this legislation shall be diverted, through grants or otherwise, to any trade association or other nongovernmental entity (Attachment 3).

Tuck Duncan appeared in opposition to SB 375. The proposed legislation would earmark tax revenues to fund a specific function and, they think this is inappropriate. State program priorities should be established and funding provided as appropriate (Attachment 4).

Eldon Fastrup explained the assistance they give the grape growers in marketing and producing grapes, and if funding was available they would be able to work with other states, especially Missouri, to develop programs. They are happy to help when they can.

A motion was made by Senator Frahm to adopt the minutes of the March 15 meeting. Seconded by Senator Sallee. Motion carried.

The next meeting is scheduled for March 17, 1993. The meeting adjourned at 10:55 a.m.

GUEST LIST

COMMITTEE: Senate Agriculture

DATE: 3-16-93

[illegible]

RE: State Dairy Legislation

I have just spoken by telephone with Gary Hanman, CEO of Mid-Am. This call was scheduled following the industry meeting of 3/9 in order to learn if Mid-Am would back off its state legislative efforts.

He stated Mid-Am is not going to push the over-order bill in Missouri. They are just going to let it sit. They had communicated this with the sponsor, Sen. Mike Lybauer. The senator is fine and interested in pushing another bill on unfair sales practices of fluid milk.

Concerning Kansas and Nebraska, Gary said they have to find out how much steam there is, how much membership activity. He intimated those bills might be a little harder to slow down. My take-away is that without Missouri, these bills will not go very far.

We talked about meetings between IDFA and NMPF to work on industry issues. It is his recommendation that MIF and NMPF rank their two or three most critical issues and then they begin to work on those. He wants the dialogue to start small and as problems are resolved move on to the next.

*Senate Ag
3-16-93
attachment 1*

SENATE BILL NUMBER 375
Testimony in Favor of Passage
by
Stephen L. Jennings
Legislative Director
Kansas Grape Growers and Winemakers Association

The Kansas Grape Growers and Winemakers Association wishes to express our appreciation of your consideration of this legislation. We especially wish to thank Senator Vidrickson for assisting in the preparation and introduction of this proposed legislation.

Our organization as well as our industry is in the initial stage of development in Kansas. The legislature has been of great assistance with passage of the Farm Winery Bill a few years ago. Our industry has grown to the point where we now need expert assistance in the following areas:

- * Viticultural research to identify and breed plant materials which will thrive in the prevalent Kansas climate and soils.
- * Enological Research to develop the optimum winemaking techniques to produce quality wines from Kansas grown fruit.
- * Extension services to make the information developed above available the grape growers and wine producers of the state and to assist them in developing the proper facilities and techniques to take advantage of the research.
- * Assistance in the marketing of Kansas grown grapes and Kansas produced wines.

Many economic benefits will result to the citizens of Kansas through the proposed grape and wine program. The current leading producers of grapes and wine are the states of California and New York. In these states, many jobs are created in the growing of grapes and making of wine. Grape growing is a form of agriculture which has been traditionally one performed by hand labor as opposed to machines. Conditions in Kansas are ideal for growing grapes having excellent quality. Our climate and soils have been utilized to produce many superior agricultural products. Given sufficient funding and research, the grapes and wines of Kansas will undoubtedly rank among those of the finest produced throughout the world.

A century ago, Kansas had at least one vineyard in each of its 105 counties and over 9,000 Kansas acres produced grapes of winemaking quality. (By contrast, the fabled Napa Valley wine country had only 4,000 acres of grapes during the same period.) In the last year before winemaking was prohibited in Kansas, production reached almost

Senate Ag.
3-16-93

attachment 2
2-1

a quarter of a million gallons.

Over the past century, viticultural and enological experience has been concentrated in California. Grape varieties and hybrids have been developed to take advantage of the specific climate and soils prevalent to this region of the country. These varieties do not grow well in our continental climate and alluvial soils. Varieties from similar continental climates of Europe are not well adapted to the soils of Kansas.

The technology exists to develop grape varieties which will thrive in our soils and climate and which will also make world class wines. Part of the proposed program will consist of a breeding program to develop the specific varieties which will establish Kansas as one of the preeminent grape growing and winemaking states.

In 1988 California produced 63 million gallons of premium quality wine from grapes grown in-state. This amounts to a 4 billion dollar industry utilizing 95,000 acres. Despite the difference in size and population, the potential exists to develop an industry capable of having a strong positive effect on the economy of Kansas.

In order for Kansas grape production to reach its potential, a market must be created. The marketing division of the state board of agriculture has had significant success with other Kansas grown and Kansas made products. It is anticipated that a program will be developed to take full advantage of the superior fruit which will be produced by Kansas grape growers.

Evidence for the growth potential can be found in the highly successful development of our neighboring Missouri grape and wine industry over the past 25 years. Missouri presently has more than 30 wineries and over 1,500 acres of grapes and is still expanding.

The development of the Missouri grape and wine industry is significant in itself, but their contribution to growth of the tourism industry has been even more dramatic. A case in point is the small town of Hermann, Missouri (pop. 2,700), which in the 1960's had few restaurants and no hotels. Following the opening of Stone Hill Winery in 1965, the town has steadily developed its tourism industry to the present status of annually entertaining a quarter of a million visitors to the 4 wineries, 25 bed and breakfast inns, 3 motels, 10 restaurants and numerous antique, craft and gift shops. Kansas communities could likewise develop significant tourist attractions around farm wineries. In addition to stimulating tourism and the growth of numerous associated industries, expansion of the Kansas grape and wine industry would strengthen the State's agricultural base by increasing the diversity of crops grown in Kansas.

The Kansas Grape Growers and Winemakers Association as well as the individuals present with us, and who are active practitioners in the industry, heartily endorses this proposed legislation and we strongly encourage your continued support of our fledgling industry by the passage of the proposed Senate Bill No. 375.



Rebecca Rice

Attorney at Law

913-234-9702 • Fax 913-234-3189

835 S.W. Topeka Ave., Suite B
P.O. Box 4842
Topeka, Kansas 66604-0842

TESTIMONY PRESENTED TO THE
SENATE AGRICULTURE COMMITTEE
re: SB 375

March 16, 1993

by Rebecca Rice, Legislative Counsel
to the Kansas Retail Liquor Dealers Association

Thank you, Mr. Chairman and members of the committee. My name is Rebecca Rice and I appear before you today on behalf of the Kansas Retail Liquor Dealers Association. We appear in opposition to Senate Bill 375 for many reasons.

The first and most important reason is a general opposition to tax increases on our products as the Kansas market can not withstand large tax increases. We are particularly opposed to singling out specific alcohol products for a tax increase to benefit one small segment of an industry which has a very limited benefit to the Kansas liquor industry and, more importantly, to the Kansas economy.

We are extremely concerned about the proposed use of these funds. We do not believe it is necessary to add an additional layer to the Board of Agriculture to produce another board for the grape and wine industry for the purpose of promoting research and experimentation for the production of grapes. We believe this information is readily available from other sources throughout the United States, and those resources should be exhausted before an attempt is made to tax Kansas consumers for the benefit of a very few.

The KRLDA has cooperated with the Kansas farm wineries in past sessions as they have attempted to establish a market for their product. We believe our industry has made sufficient sacrifice on their behalf by allowing the circumvention of the liquor distribution system in this state by the farm wineries. We do not believe our industry should be further singled out for greater sacrifice in this manner.

When the original farm winery legislation was passed, it was our understanding a certain percent of the wine produced must be produced from Kansas products. Several of my members have expressed concern that most of the wine being sold as a Kansas product is actually produced from imported grapes and grape juice. If such is the case, we would submit this industry should not receive any additional preferential treatment until an actual benefit to the state can be shown justifying the request.

And last, Mr. Chairman, we would request an amendment by the committee, should you choose to give this legislation favorable treatment, stating a caveat that no such funds raised under this legislation shall be diverted, through grants or otherwise, to any trade association or other nongovernmental entity.

Thank you, Mr. Chairman, for allowing me to appear.

Senate Ag
3-16-93
attachment 3

K • A • N • S • A • S
WINE & SPIRITS
WHOLESALERS ASSOCIATION, INC.

March 16, 1993

To: Senate Committee on Agriculture
From: R.E. "Tuck" Duncan
RE: Senate Bill 375

I appear today in opposition to SB 375. For many years the Kansas Wine and Spirits Wholesalers Association (K.W.S.W.A.) has favorably supported a variety of measures relating to the farm winery industry. Last year we worked with the industry on the bill to allow a farm winery additional retail outlets. The K.W.S.W.A. is pleased that Kansas has begun to show a renewed interest in an industry that once was very active in our state. Nevertheless, this proposal is unwarranted.

The sponsors ask that the legislature provide earmarked tax revenues to fund a specific function. Earmarking of taxes is inappropriate. State program priorities should be established and funding provided as appropriate. The extent to which alcoholic beverages, wine and beer contribute to the state general fund should be based upon the economic ability of the industry to contribute, not upon a desire to finance a particular activity. Consumers ultimately pay all taxes. Already beverage alcohol prices, like other commodities, are effected by state and federal income taxes, fees and other governmental assessments. In addition, unlike many other industries, the beverage alcohol industry pays federal excise taxes, state gallonage taxes and various license fees. We are not here today seeking a tax break, but we are asking for fair and equitable treatment. New taxes that

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Senate Ag Co
3-16-93
attachment 4
4-1

apply to a single industry are regressive for not only the industry, but the consumers as well.

The state's legislative research department has noted that: "Increases in taxes which lead to increases in prices of goods or services, may as a result of a decrease in the base, lead to less than proportional increases in receipts...thus, proposals to increase taxes by a substantial amount will probably result in significantly less revenue than might be projected on the assumption of zero elasticity of demand." In recent years the taxes levied on certain physical quantities, such as beverage alcohol and wine, have become inelastic due to the long term decline of these products. Spirits consumption is down 13.9% in the past decade and light wine consumption, based on gallonage shipments into Kansas, experienced over the previous year a -10.81% FY88 reduction, -16.74% FY89 reduction, -2.02% FY90 reduction, -.17 FY91 reduction, and a modest 2.90% increase in FY92 for a five year decline of 16.2%. Total gallons shipped into Kansas in FY88 were 2,290,187 as compared to FY92 shipments of 1,919,016. The action proposed by this bill would not net forecasted revenues, and would harm the existing industry.

In addition to the gallonage tax, consumers pay an "enforcement" tax of 8% on the shelf price, which would see an increase due to additional gallonage taxes. The taxes proposed in this bill represent a 20% increase over current tax levels.

Now let us look at the issue of the availability of research

information. It is my understanding that research information can be obtained from the Missouri Experimental Station, as well as through the respective grape growing departments at the Universities of California at Davis and Fresno, from the University of Washington and from educational institutions in New York. These programs support major grape growing industries. In California, for example, the types of efforts that would be funded by this bill are supported through growers associations, not tax revenues generated from consumer wine purchases.

Opportunities for exchanges of information already exist. Two annual examples include: the Wine Industry Technical Symposium in California, sponsored by the Wines and Vines magazine, and in our neighboring state of Missouri, the Midwest Regional Grape and Wine Conference. (Last January persons from 25 states and 3 foreign countries attended the Missouri conference). If it is market research that the industry desires, then efforts to utilize existing university programs and student projects should be explored, as opposed to devoting earmarked tax dollars.

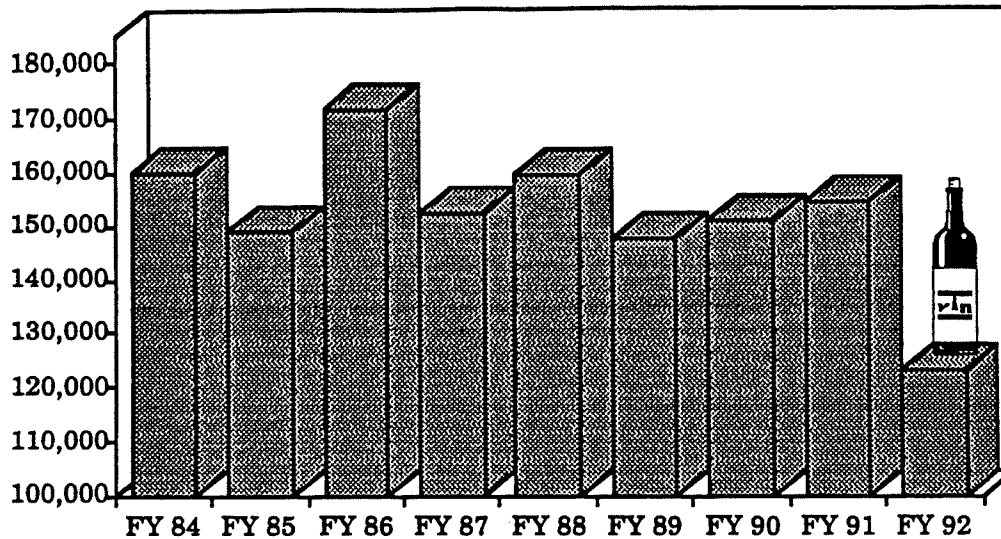
Again, we support this industry, and we are pleased to distribute Kansas products. However, for the economic reasons set forth, additional taxes are inadvisable; and due to the availability of research elsewhere proposed governmental expenditures in this area are unwarranted.

Thank you for your attention to and consideration of these matter.

SOURCE: Overview of the Kansas Liquor Industry
Kansas Department of Revenue,
Alcoholic Beverage Control, January 1993

Gallons of Wine Shipped into Kansas

Fortified Wine



Light Wine

