

Date of Hearing: August 3, 2020

ASSEMBLY COMMITTEE ON GOVERNMENTAL ORGANIZATION

Adam Gray, Chair

SB 918 (Committee on Governmental Organization) – As Amended May 7, 2020

SENATE VOTE: 39-0

SUBJECT: Alcoholic beverages: special nonprofit sales license: wine labels

SUMMARY: This bill would clarify a current provision in law that allows the Department of Alcoholic Beverage Control (ABC) the authority to issue a special nonprofit sales license to the University of California, Davis (UC Davis), as specified; and requires any wine bottled on or after January 1, 2023, and labeled with an American Viticultural Area (AVA) that is located entirely within the County of Mendocino to bear the designation “Mendocino County” on the label, as specified. Specifically, **this bill:**

- 1) Clarifies a current provision in law that grants ABC the authority to issue a special nonprofit sales license to a nonprofit mutual benefit corporation associated with the Department of Viticulture and Enology at UC Davis and permits the licensee to among other things, accept up to 20,000 gallons of wine produced by UC Davis and sell the wine to consumers or to other licenses authorized to sell wine.
- 2) Requires any wine bottled on or after January 1, 2023, and labeled with an AVA that is located entirely within the County of Mendocino to bear the designation “Mendocino County” on the label, as specified.

EXISTING LAW:

- 1) The enactment of the 21st Amendment to the United States (U.S.) Constitution in 1933 repealed the 18th Amendment and ended the era of Prohibition. Accordingly, states were granted the authority to establish alcoholic beverage laws and administrative structures to regulate the sale and distribution of alcoholic beverages.
- 2) Establishes ABC and grants it exclusive authority to administer the provisions of the Alcoholic Beverage Control (Act) in accordance with laws enacted by the Legislature. This involves licensing individuals and businesses associated with the manufacture, importation and sale of alcoholic beverages in this state and the collection of license fees for this purpose.
- 3) Grants ABC the authority to issue a special nonprofit sales license to a nonprofit mutual benefit corporation associated with the Department of Viticulture and Enology at UC Davis and permits the licensee to, among other things, accept up to 20,000 gallons of wine produced by UC Davis and sell the wine to consumers or to other licensees authorized to sell wine.
- 4) Allows students who are at least 18 years of age and enrolled in degree granting programs in enology or brewing at accredited public postsecondary educational institutions to taste, but not consume, an alcoholic beverage for educational purposes as part of the instruction in a course required for a degree.

- 5) Requires any wine bottled on or after January 1, 2014, and labeled with an AVA located entirely within a Sonoma County to bear the designation “Sonoma County” on the label, as specified.
- 6) Requires any wine bottled on or after January 1, 2019, and labeled with an AVA that is located entirely within the County of Monterey to bear the designation “Monterey County” on the label, as specified.
- 7) Requires that, when the word “Napa” (or any federally recognized viticultural region within Napa County) appears on a brand label, at least 75% of the grapes used to make that wine must be from Napa County.
- 8) Requires wines produced within the “Napa Valley” to be labeled as being derived from that valley, if the wine label indicates that they are produced within a separate viticultural area within the Napa Valley, in order to preserve consumer identification and understanding.
- 9) Prohibits the sale of wine produced, bottled, or labeled after December 31, 2008, in this state that identifies, in a brand name or otherwise, on any label, packaging material, or advertising, the name “Sonoma,” unless at least 75% of the grapes used to make the wine are from Sonoma County, as specified.
- 10) States that every person who, with intent to defraud, either falsely makes, alters, forges, or counterfeits the label for any wine or uses the label or bottle of any wine belonging to another, without his or her consent, is guilty of a misdemeanor.

FISCAL EFFECT: According to the Senate Appropriations Committee, pursuant to Senate Rule 28.8, negligible state costs.

COMMENTS:

Background

Previous authorization. In 2016, Governor Brown signed SB 683 (Wolk, Chapter 584, Statutes of 2016) which sought to authorize ABC to issue a special nonprofit license to UC Davis. Unfortunately, in order for the new nonprofit corporation in the bill to qualify to receive the special license, it must be a nonprofit mutual benefit corporation, as described in Section 23701a of the Revenue and Taxation Code. However this code section does not refer to a “mutual benefit corporation” but instead defines a labor, agricultural, or horticultural organization described in Section 501(c)(5) of the Internal Revenue Code of 1954. This requirement is not entirely appropriate to the corporation envisioned by SB 683 and is a difficult threshold to meet. Therefore, while the authorization currently exists in law, UC Davis does not qualify for the license. This bill fixes that drafting error.

California’s strong wine industry. California is a global leader in wine production – accounting for more than 90% of all U.S. wine produced. California is also the fourth largest producer in the world after France, Italy and Spain. When it comes to brewing, California is equally fortunate to have a robust array of beer makers – both large and small. In both instances, many of these products are made with the help of California college and university graduates who, in

many cases, diligently complete the bulk of their career training in beer or wine production prior to reaching the age of 21.

Conjunctive labeling. Conjunctive wine labeling is the practice of labeling wine to show both region and sub-regions of origin. Supporters of conjunctive labeling laws believe conjunctive labeling helps build brand equity, preserve, and strengthen a region's position as a recognized wine region. Supporters also believe conjunctive labeling increases sales of wines in the region.

In the U.S., Napa Valley was the first region to require conjunctive labeling in 1990, mandating that all Napa Valley wineries include the term "Napa Valley," on the front label. Some experts believe that Napa Valley's conjunctive labeling law, along with its high quality wine are some of the reasons the Napa Valley is such a world-recognized wine region.

Purpose of this bill. According to the author's office, "in 2016, Governor Brown signed SB 683 (Wolk) which granted ABC the ability to issue a special nonprofit alcohol license to UC Davis which would have allowed it to sell up to 20,000 gallons of wine. UC Davis, through its College of Agricultural and Environmental Sciences, offers undergraduate and graduate degrees in the areas of grape growing and wine making. Historically, UC Davis had destroyed all excess wine by pouring it down the drain.

Unfortunately, the bill was drafted incorrectly and UC Davis has been unable to obtain the license. This bill fixes that drafting error and would allow ABC to issue a special alcohol license to UC Davis. This bill will help prevent unnecessary and avoidable waste by allowing wine to be sold instead of discarded."

Additionally, the author's office states that, "California's wine industry is one of the largest economic drivers here in the Golden State. Our wine grape crop is a top tier agricultural fruit, worth a staggering \$3.6 billion. California wine's total state economic impact is worth an estimated \$58 billion. The wine industry is particularly important to several counties across the state, providing a critical boost to local businesses and economies. This bill would create a 'Mendocino' wine label designation for wine produced within the County of Mendocino after January 1, 2023."

Prior Legislation. SB 683 (Wolk, Chapter 584, Statutes of 2016). Granted ABC the authority to issue a special nonprofit sales license to a nonprofit mutual benefit corporation associated with the Department of Viticulture and Enology at UC Davis and permitted the licensee to, among other things, accept up to 20,000 gallons of wine produced by UC Davis and sell the wine to consumers or to other licensees authorized to sell wine.

AB 394 (Stone, Chapter 167, Statutes of 2015). Required any wine bottled on or after January 1, 2019, and labeled with an AVA that is located entirely within the County of Monterey to bear the designation "Monterey County" on the label.

AB 1989 (Chesbro), Chapter 162, Statutes of 2014. Allowed students between the ages of 18 to 21, enrolled in winemaking and brewery science programs at the University of California, the California State University, and the California Community Colleges, to receive an exemption from current state age restrictions in order to fully participate in bona fide classes and programs where tasting of wine or beer is a necessary aspect of the class or program.

REGISTERED SUPPORT / OPPOSITION:

Support

Mendocino County Farm Bureau
Mendocino Winegrowers Inc.
Visit Mendocino County

Opposition

None on file

Analysis Prepared by: Eric Johnson / G.O. / (916) 319-2531