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Wine Market Research *Report*

Prepared for the Consulate of Brazil in Houston

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TABLE OF CONTENTS

1. Executive Summary	3
2. Introduction.....	4
3. Research methodology.....	5
4. Market Analysis	6
4.1 Market Size	6
4.2 Domestic / Import Market Split	8
4.3 Competitive Analysis.....	11
4.5 Wine Consumption by Demographics	17
4.6 Market Trends	19
4.7 Key Market Challenges	24
4.8 Market Drivers and Restraints.....	25
5. Regulations	29
5.1 Labelling Requirements	30
5.2 Certificate of Label.....	30
5.3 Natural Wine Certificate.....	31
5.4 Importing samples for trade shows	31
5.5 Packaging	32
6. Logistics and Distribution	33
6.1 Distribution Channels	33
6.2 Sales Channels	36
6.3 Ports of entrance to the United States	37
7. Packaging types and Preferences	38
8. Appendix.....	39



1. Executive Summary

This report examines the wine market in the United States. As part of this study, we examine the size of the wine market, forecast the market's growth for the next five years, and discuss key market drivers, challenges, and restraints. We also examine market trends and discuss regulation and logistics issues that wine companies need to be aware of to operate in the United States.

Summary of key findings:

- The wine market is steadily increasing by value but staying stagnant by volume. Most of the growth in the market is in the premium wine segment.
- The West Coast of the U.S. is dominated by the domestic market, while the markets for imported wine is larger on the East coast.
- The biggest barrier to entry is finding the right distributors. The market is very competitive, and distributors have their pick from numerous brands, both foreign and domestic.

This report was commissioned by the Consulate of Brazil in Houston and carried out by the Oteri Consulting Group.



2. Introduction

The United States is the largest retail wine market in the world, and it remains one of the fastest growing markets in terms of both consumption and production. In 2019, there were 10,472 wineries in the U.S. The market has expanded rapidly in the past few years due to increased consumption, government support, online wine purchasing, and a growing younger population.

Wine makes up around 14% of the U.S. alcoholic beverage market and is a \$72 billion industry. According to the Wine Institute, US shipments in 2019 were 409.1 million cases, a modest increase of 1.1% compared to the previous year. Of these, 277.8 million cases were domestic wine, with 131.3 million cases of imported wine. This means that 68% of the wines sold are domestically produced wines and 32% are imported. Champagnes and sparkling wines make up around 5% of the wine volume and around 12% of market value.

The three largest wine corporations in the world, E&J Gallo, Constellation and The Wine Group, are headquartered in the US and account for nearly half of the wine sold in the US. Other major players include Treasury Wine, Chateau Ste. Michelle, Jackson Family, Deutsch Family, Palm Bay and Bronco Wine Co. Wine consumption in the US is concentrated in big metropolitan areas and in the main wine-making states. The top 11 states (California, Florida, New York, New Jersey, Texas, Illinois, Massachusetts, Washington, Virginia, Ohio, Pennsylvania) accounts for 64% of the market volume. 6 states (California, Florida, New York, New Jersey, Texas, and Illinois) account for 50% of the market volume.



3. Research methodology

This research was completed using primary and secondary research methods. As part of the secondary research, we analyzed data from multiple sources such as Nielsen, IRI, Statista, Silicon Valley Bank, Wine Institute, among others. We also analyzed earnings reports, production and sales data, news reports, and other publicly available data on the top wineries and distributors in the U.S.

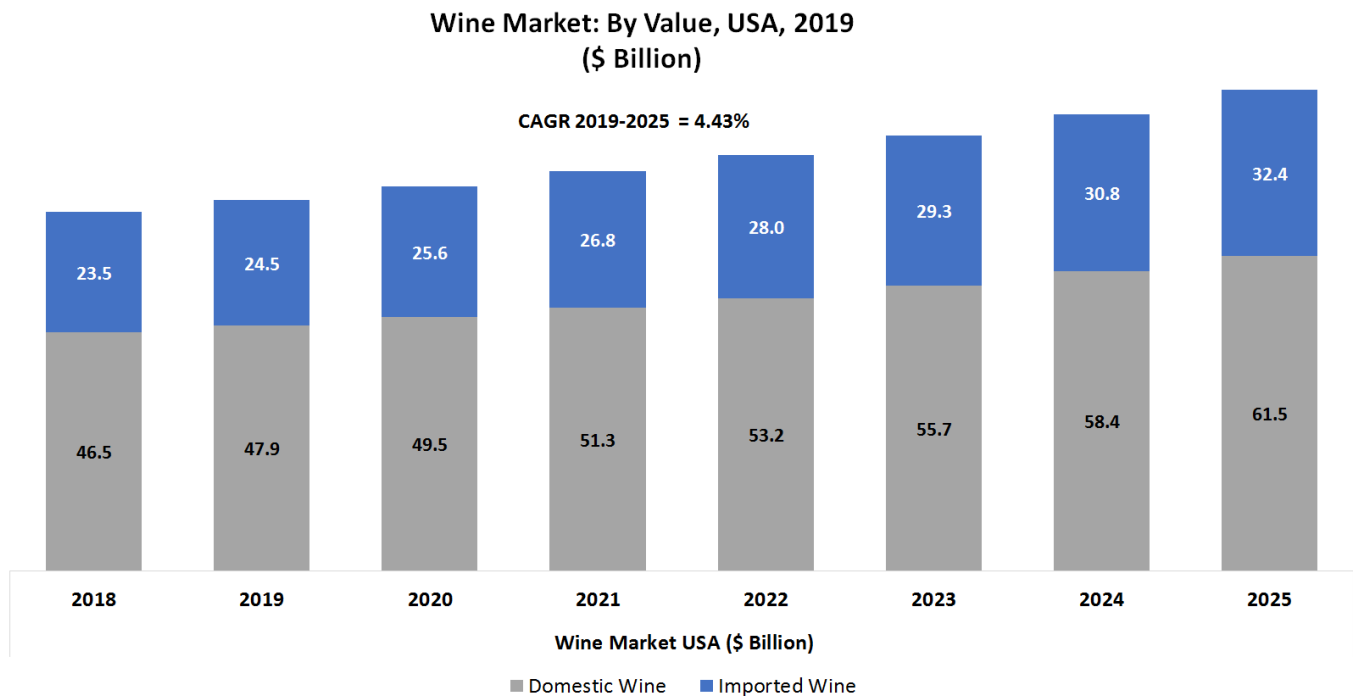
For the primary research, we conducted interviews with executives of some of the top wine producers and distributors in the U.S. The interviews were done largely to corroborate the data we gathered in our secondary research, and to ensure that there were no blind spots in our analysis.



4. Market Analysis

4.1 Market Size

The United States is the largest wine market in the world by both volume and value. In 2019, the wine market in the U.S was valued at about \$72.2 billion. With a compound annual growth rate (CAGR) of 4.43%, the market is estimated to grow to about \$93.9 billion by 2025.



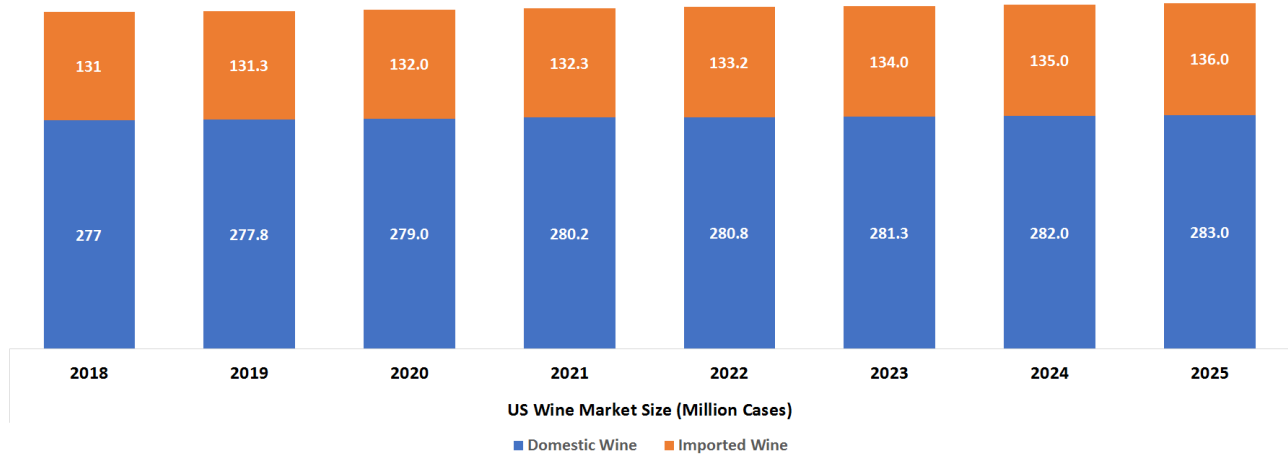
Source: Dr. Liz Thach, WBM, bw166, Gomberg Fredrikson & Associates, Oteri Consulting

In terms of volume, there was an estimated 409.1 million cases of wine sold in the United States in 2019. At a CAGR 0.4%, the wine market is estimated to grow to 417 million cases by 2025. The growth rate of the wine market by volume is much smaller than the rate by value because most of the growth in the market is due largely to the premium wine segments. American consumers are not consuming wine at the rate that many in the industry would like to see. However, when they do purchase wine, they are increasingly purchasing in the premium categories (i.e. in the \$10 and over segments).



Wine Market: By Volume, USA, 2019
(Million Cases)

CAGR 2019-2025 = 0.40%



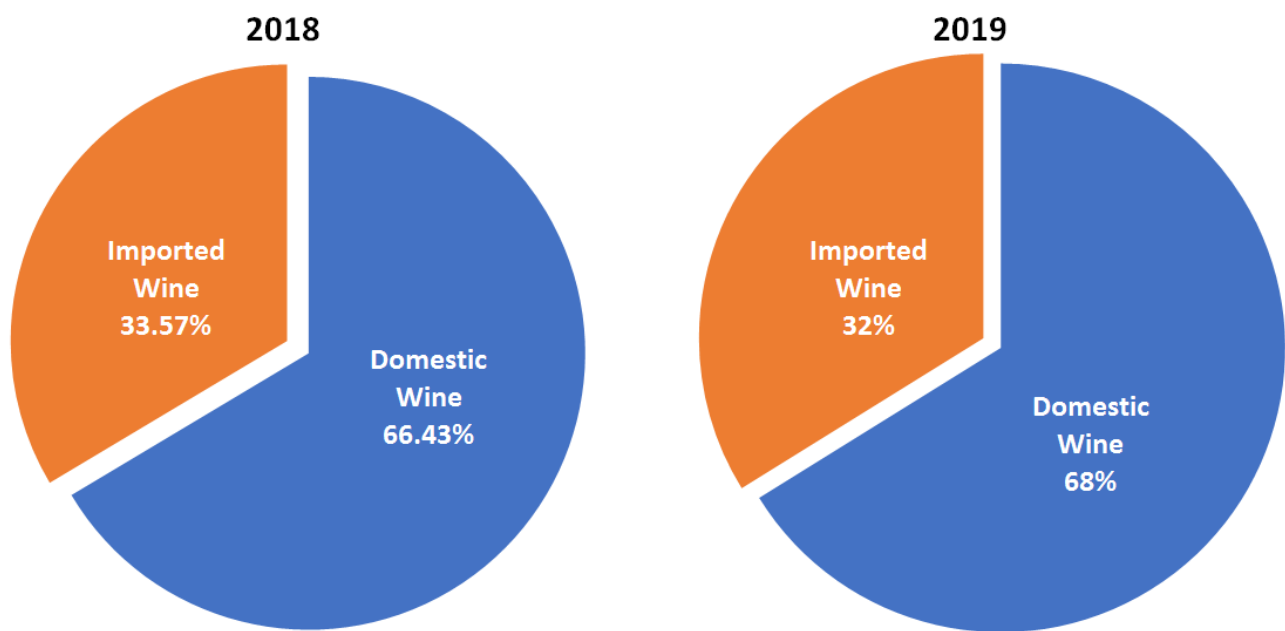
Source: Dr. Liz Thach, WBM, bw166, Gomberg Fredrikson & Associates, Oteri Consulting



4.2 Domestic / Import Market Split

Some of the largest wine producing companies in the world are located in the United States. As such, the wine market in the United States is largely dominated by domestic producers. The domestic wine market is dominated by the California wineries. Over 86% of domestic wine production is from California. As a result, the west coast of the United States is dominated by the domestic wine producers. The imported wine market is much larger on the United States east coast, and in large population centers like Texas and Illinois.

Percentage of Domestic Wine and Imported Wine, By Value, USA



Source: Dr. Liz Thach, WBM, bw166, Gomberg Fredrikson & Associates, Oteri Consulting

While the domestic wine producers continue to have a significant market share of the U.S. wine market, the market share for imported wines is growing at a significant rate. This growth is due largely to millennial drinkers who tend to be adventurous in their tastes and are increasingly seeking out wines from various parts of the world.

In 2019, Australia was the top supplier of import wines by volume to the United States, while Italy provided the most wines by value. The average price of a bottle of Italian wine is twice that of Australian wine, therefore



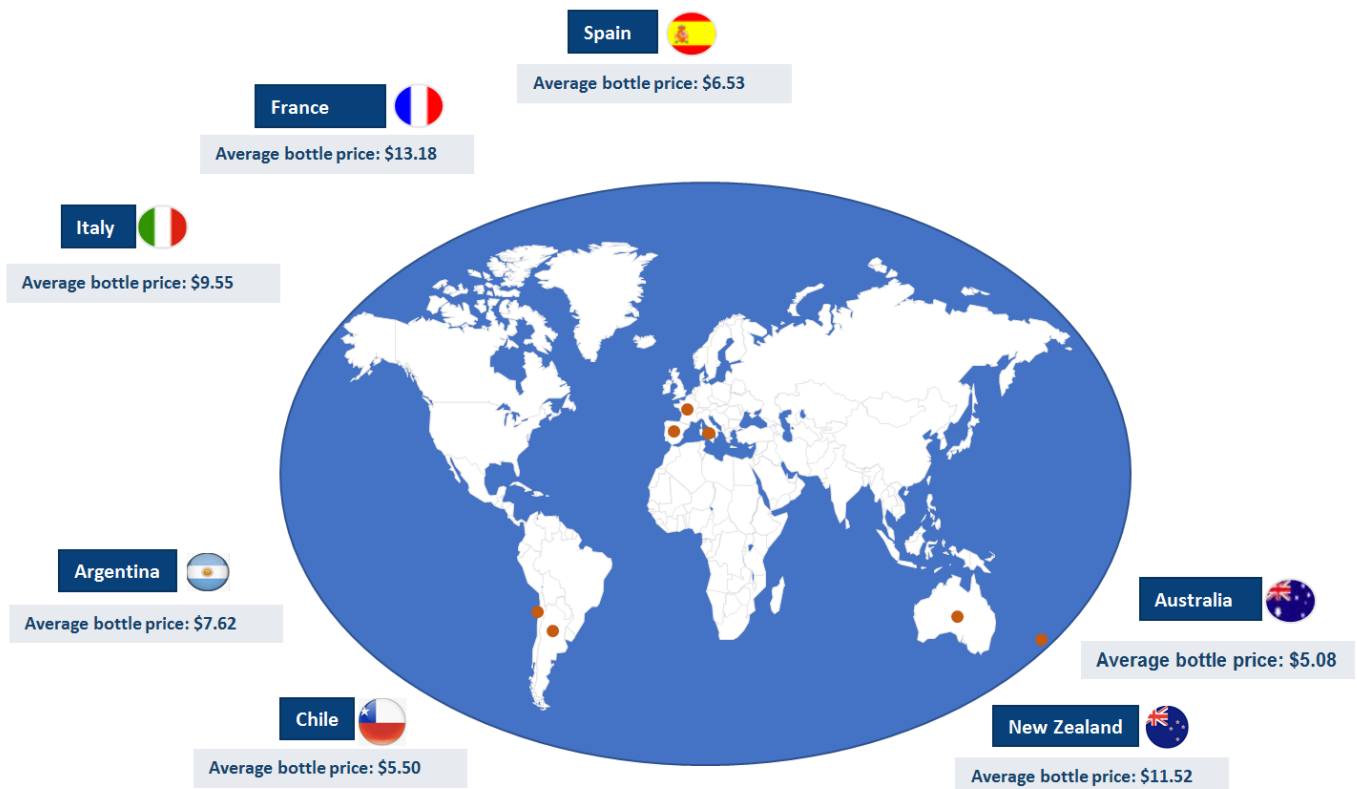
Italian wine provided a greater market value share than Australian wine, even though Australian wine contributed more volume to the import market in the United States.

	Country	Sales \$Million (2019)
1	Italy	1204.9
2	Australia	721.4
3	New Zealand	498.2
4	France	463.1
5	Argentina	330.2
6	Chile	255.7
7	Spain	160.0

Top Import Countries By Value

	Country	Volume 9-liter case In Millions (2019)
1	Australia	11.8
2	Italy	10.5
3	Chile	3.9
4	New Zealand	3.6
5	Argentina	3.6
6	France	2.9
7	Spain	2.0

Top Import Countries By Volume



Average Price per Bottle from Import Countries

Source: Dr. Liz Thach, WBM, bw166, Gomberg Fredrikson & Associates, Oteri Consulting



In 2019, there were 10,472 wineries in the United States, with most of them located in California. Over 86% of the domestic wine production is out of California.

State	Wineries Count	Percentage
California	4613	44.05%
Washington	812	7.75%
Oregon	809	7.73%
New York	411	3.92%
Texas	406	3.88%
Pennsylvania	308	2.94%
Virginia	307	2.93%
Ohio	280	2.67%
Michigan	211	2.01%
North Carolina	175	1.67%
Missouri	154	1.47%
Colorado	150	1.43%
All other States	1836	17.53%
Total	10472	100.00%

USA Wineries by Count

State	Annual Production (Cases)	Percentage
California	287,000,000	86.47%
Washington	15,400,000	4.64%
Oregon	4,600,000	1.39%
New York	12,000,000	3.62%
Texas	1,800,000	0.54%
Pennsylvania	950,000	0.29%
Virginia	950,000	0.29%
Ohio	900,000	0.27%
Michigan	1,300,000	0.39%
North Carolina	1,000,000	0.30%
Illinois	1,000,000	0.30%
All other States	5,000,000	1.51%
Total	331,900,000	100.00%

USA Wineries by Volume

Source: WBM, Wines Vines Analytics, Oteri Consulting



4.3 Competitive Analysis

The US wine market is dominated by large wine producing companies. These companies also happen to be some of the largest wine producers in the world. The top three producers are E & J Gallo Winery, The Wine Group, and Constellation Brands.

In recent years, a number of smaller “private label” brands have emerged. These private label brands thrive mainly by building their own following and using direct-to-consumer channels to reach their customers. Direct-to-consumer sales channels have grown in recent years, but it is still relatively small compared to the traditional sales channels, which go through alcohol distributors. Private label brands face an uphill challenge in capturing more of the market because most of the wine sold in the US to consumers passes through distributors.

Below is a list of the top wine producing companies in the U.S.



	Company	US Cases Sold
1	E & J Gallo Winery	70 million
2	The Wine Group	53 million
3	Constellation Brands	35 million
4	Trinchero Family Estates	20 million
5	Treasury Wine Estates	14 million
6	Delicato Family Wines	13 million
7	Bronco Wine Company	10 million
8	Ste. Michelle Wine Estates	8.2 million
9	Jackson Family Wines	6 million
10	Deutsch Family Wine & Spirits	4.34 million
11	Viña Concha Y Toro (Fetzer Vineyards)	2.75 million
12	Precept Wine	2.7 million
13	Bogle Vineyards	2.5 million
14	Vintage Wine Estates	2.1 million
15	WX Brands	1.8 million
16	The Family Coppola	1.7 million
17	C. Mondavi & Family	1.7 million
18	Foley Family Wines	1.5 million
19	J. Lohr Vineyards & Wines	1.6 million
20	Korbel Champagne Cellars	1.5 million
21	Duckhorn Vineyards	1.1 million
22	Don Sebastiani & Sons	1.1 million
23	Rodney Strong Estates	950,000
24	O'Neill Vintners & Distillers	950,000
25	Boisset Collection	925,000
26	Pernod Ricard USA	900,000
27	NakedWines.com	821,000
28	Hess Family Wine Estates	750,000
29	Cooper's Hawk Winery	675,000
30	Wente Vineyards	660,000
31	Terlato Wine Group	650,000
32	K Vintners	650,000
33	Riboli Family Wines	625,000
34	Domaine Chandon Estates & Wines	625,000
35	JaM Cellars	600,000
36	Mesa Vineyards	550,000
37	Scheid Family Wines	500,000
38	Michael David Winery	500,000
39	Ferrari-Carano Vineyards and Winery	480,000
40	Oliver Winery & Vineyards	480,000

Source: WBM, Oteri Consulting

Note: Companies are listed in order of cases sold domestically. This list does not include private labeling or custom crush wineries that make wine for others



4.4 Market Segmentation

The wine market can be segmented in various ways. The two most common ways that it is segmented in the U.S. are -- by wine type, and by the color/style of the wine. The wine types are further segmented into still wine, sparkling wine, and fortified wine.

Still wine is a type of table wine that does not contain any carbon dioxide, which is what makes them still, not bubbly, sparkling, or fizzy. Carbon dioxide (CO₂) is a part of the fermentation process and is released when yeast and sugar mix, so all wines at one point in their development have bubbles present. Still wines, however, are treated to have their CO₂ removed.

Sparkling wine is a type of wine with significant levels of carbon dioxide in it, making it fizzy. Champagne is a popular type of sparkling wine. In the European Union, champagne legally refers to sparkling wine products that come out of the Champagne region of France.

Fortified wines are wines that have alcohol added to them, usually fortified spirits, like brandy. Some examples of fortified wines are port, sherry, madeira, marsala, commandaria wine, and vermouth.



Source: Dr.Liz Thach, WBM, bw166, Gomberg Fredrikson & Associates, wines vines analytics, SVB 2020, Oteri Consulting

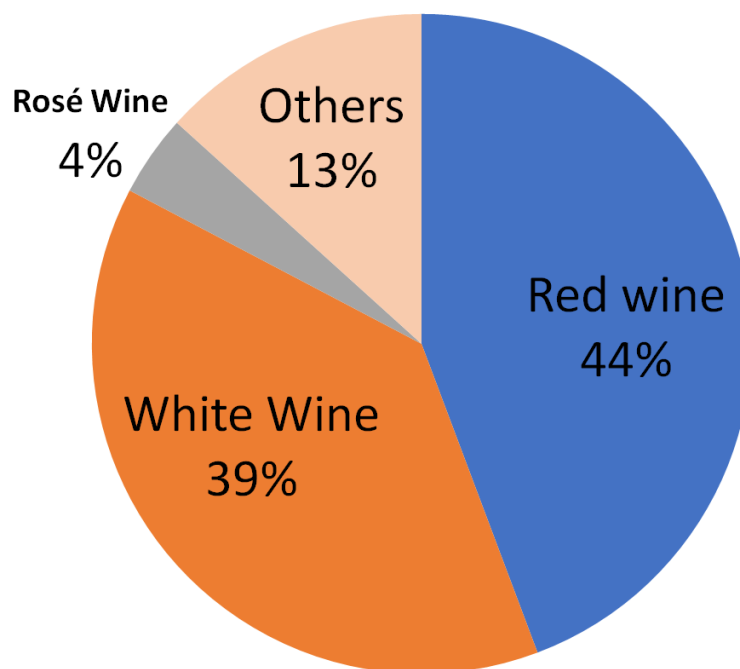


Red wine is a type of wine made from dark-colored grape varieties. The actual color of the wine ranges from intense violet, typical of young wines, through to brick red for mature wines and brown for older red wines.

White wine is a type of wine that is fermented without skin contact. The color can be straw-yellow, yellow-green, or yellow-gold. It is produced by the alcoholic fermentation of the non-colored pulp of grapes, which may have a skin of any color.

Rosé is a type of wine that incorporates some of the color from the grape skins, but not enough to qualify it as either a red or white wine.

Wine Type by Market Share, 2019



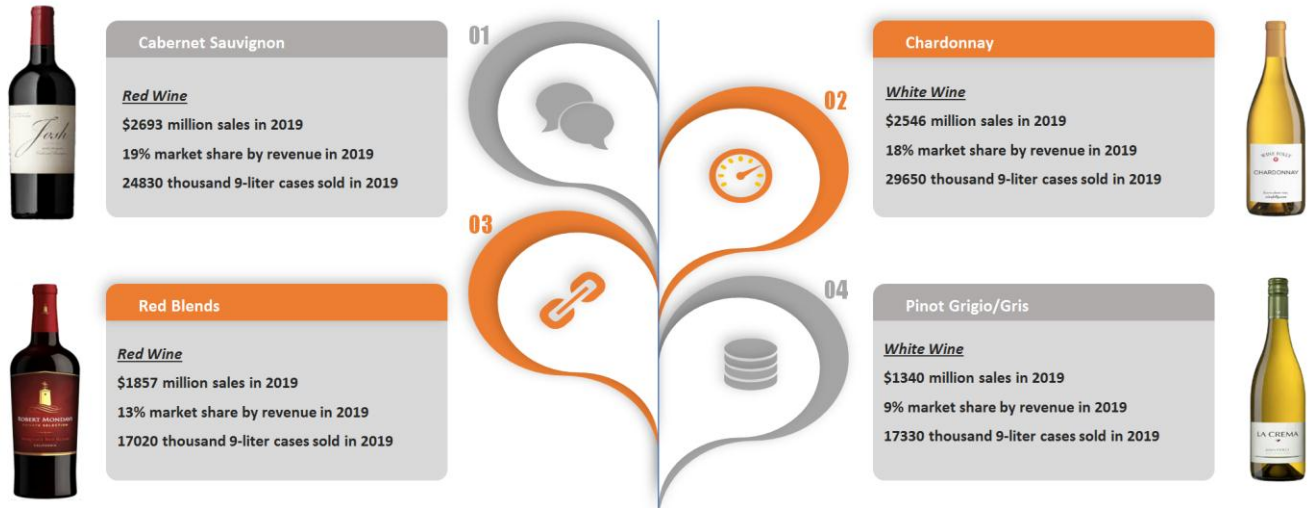
Source: Dr. Liz Thach, WBM, Oteri Consulting

Note: Market Share is calculated by calculating the value of top 15 Varietals

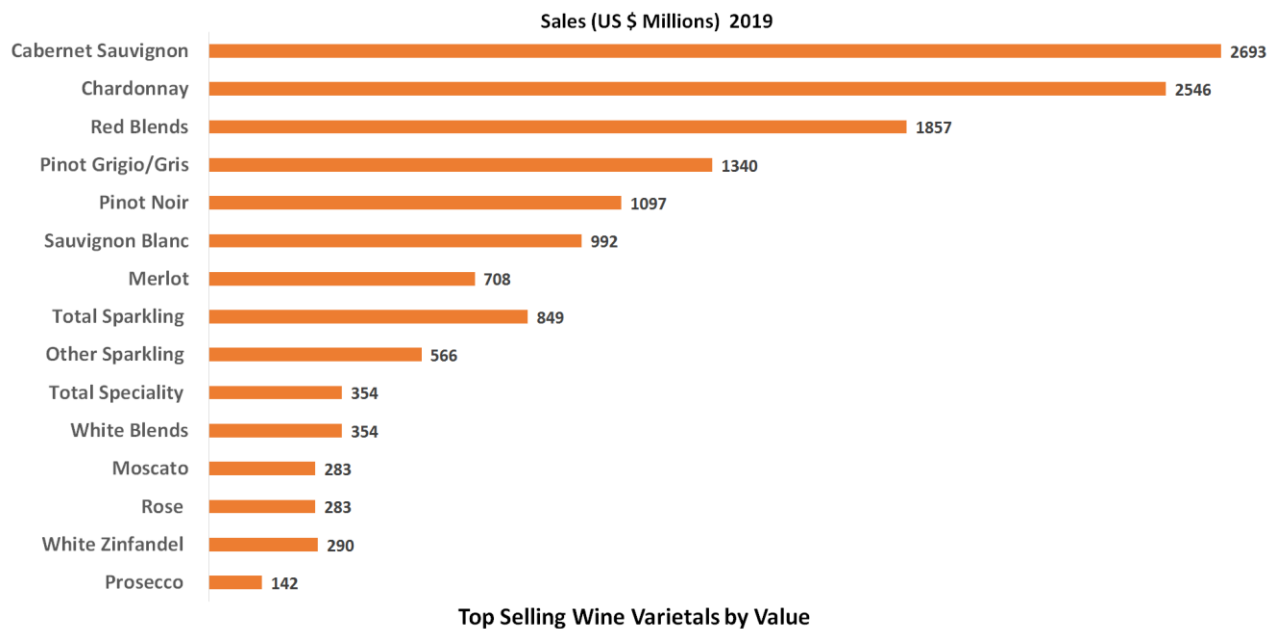


4.4.1 Top Selling Wine Varietals

The top selling wine varietals in the U.S. are Cabernet Sauvignon and Chardonnay.



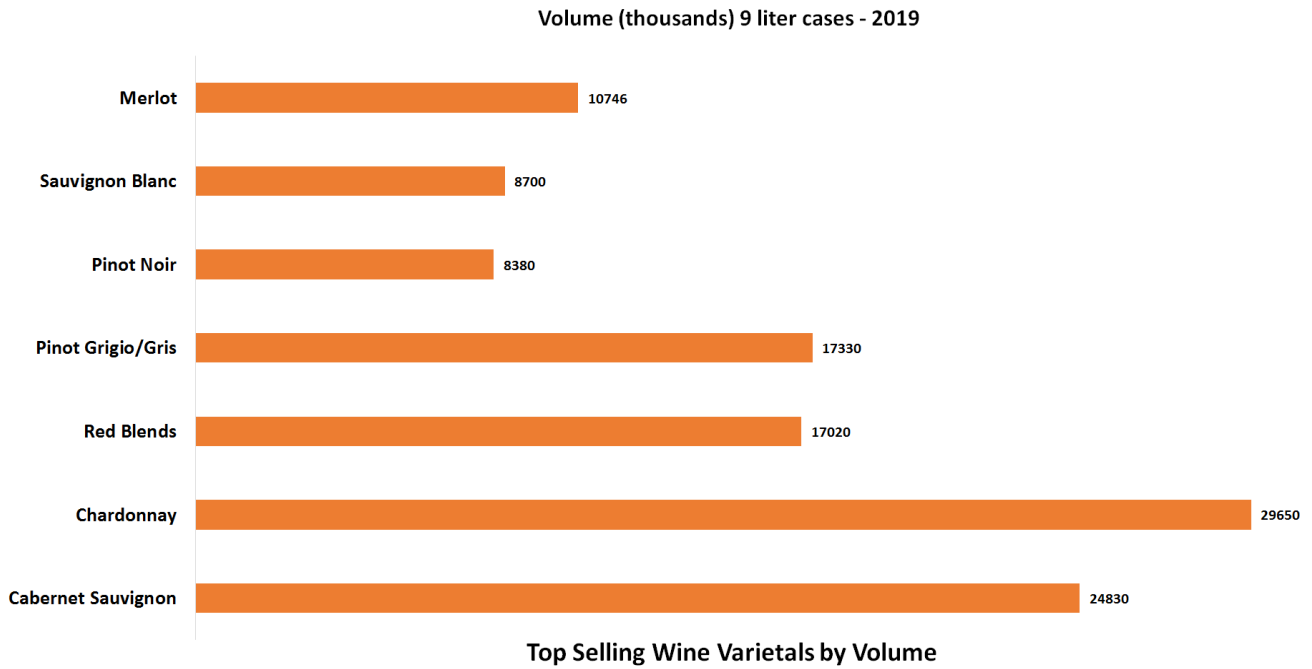
Source: Dr.Liz Thach, WBM, Oteri Consulting



Source: Dr.Liz Thach, WBM, bw166, Gomberg Fredrikson & Associates, wines vines analytics, SVB 2020, Oteri Consulting



While a larger volume of Chardonnay is sold in the U.S., the average price per volume of Cabernet Sauvignon is more than that of Chardonnay. As such, Chardonnay is the top selling varietal per volume in the U.S., while Cabernet Sauvignon is the top selling varietal per value.

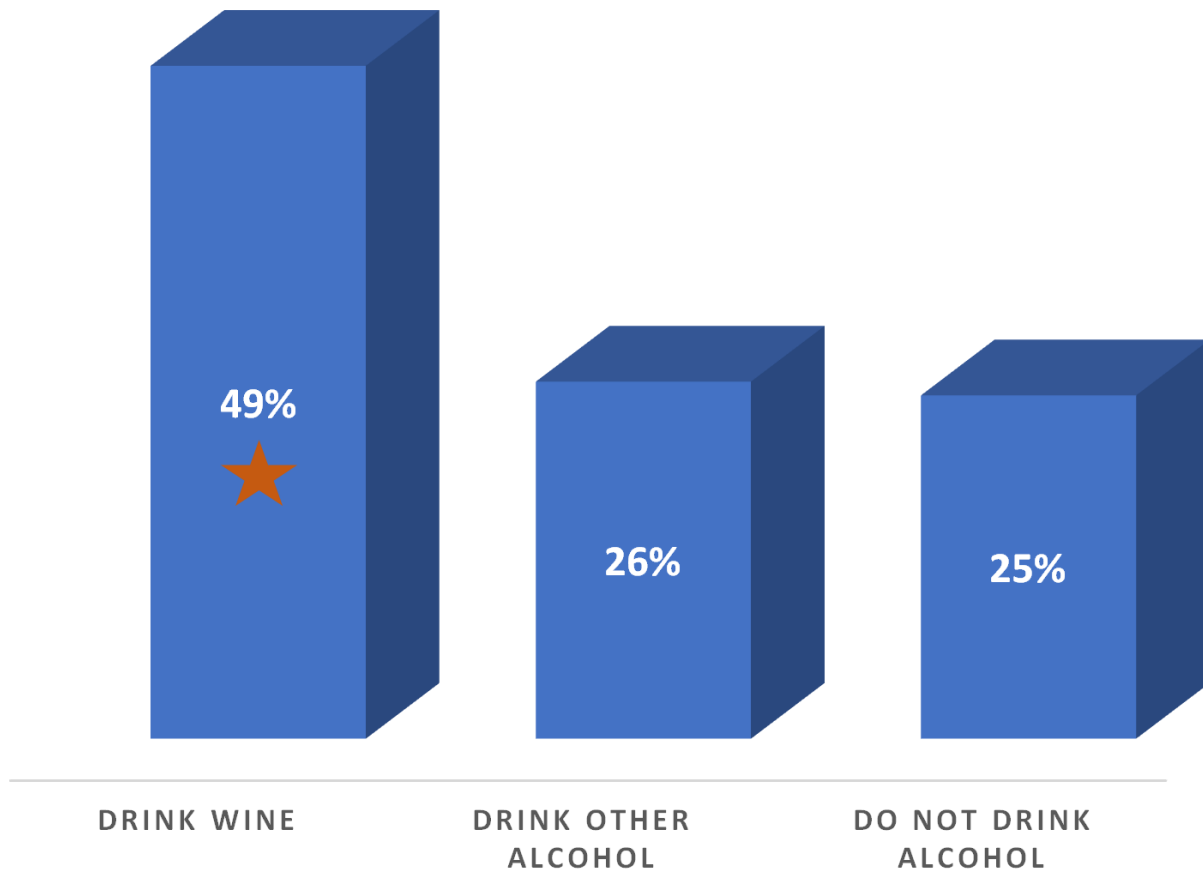


Source: Dr. Liz Thach, WBM, bw166, Gomberg Fredrikson & Associates, wines vines analytics, SVB 2020, Oteri Consulting

4.5 Wine Consumption by Demographics

According to a 2019 study by the Wine Market Council, 49% of American adults consume wine and wine related products.

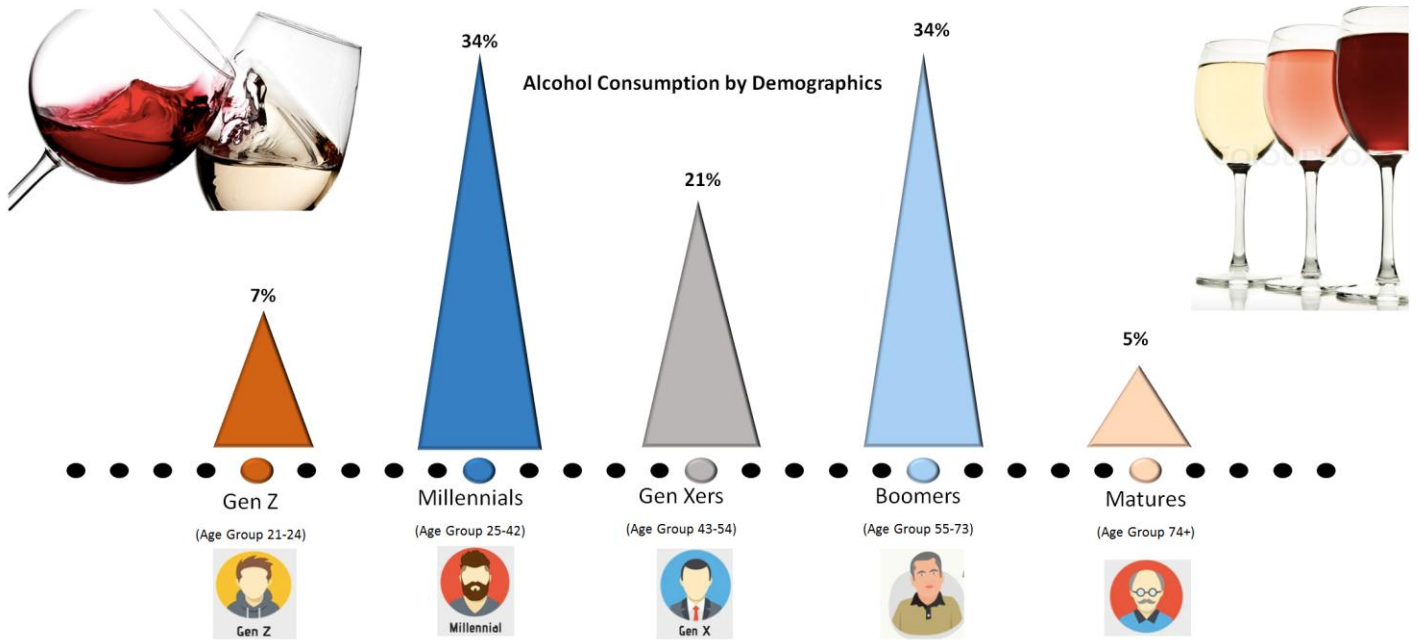
Alcohol Consumption by American Adults



Source: Dr. Liz Thach, WBM, WMC, Oteri Consulting

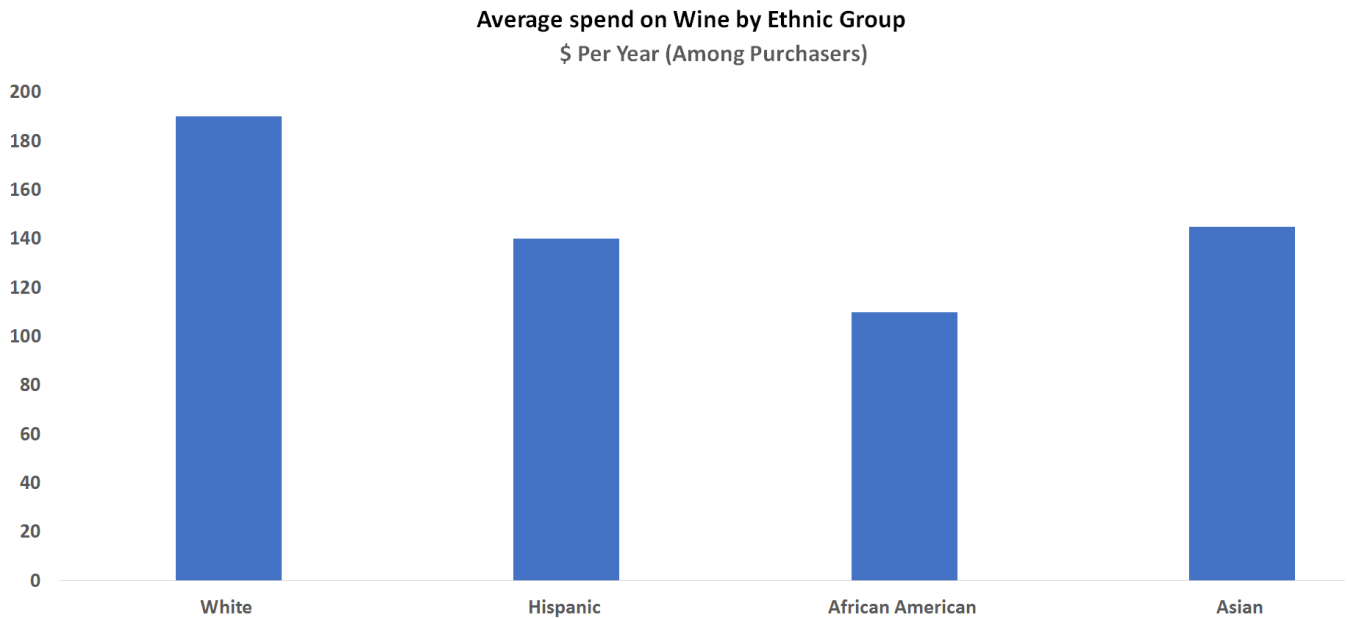
The two age groups that consume the most wine are millennials (defined as those between the age of 25 to 42), and boomers (defined as those between the age of 55 to 73)





Source: Dr. Liz Thach, WBM, WMC, Oteri Consulting

Another study by Nielsen found that white Americans on average spend the most on wine each year compared to other major ethnic groups in the U.S. This finding is unsurprising given that most economic data that indicates that they are the highest income earning ethnic group in the U.S.

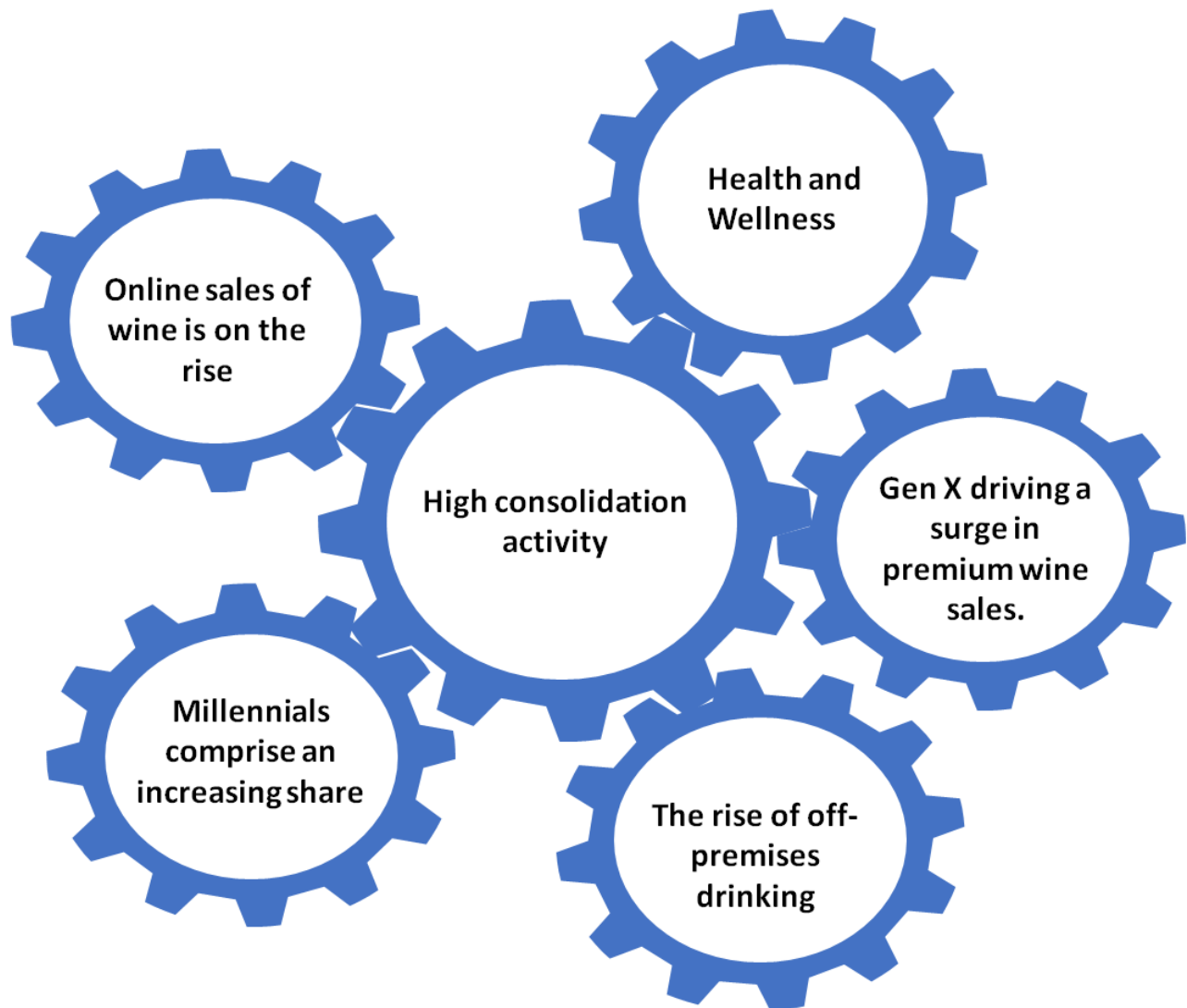


Source: Distilled Sprints council of USA, Unified Symposium, Nielsen, WBM, Oteri Consulting



4.6 Market Trends

Key Trends in the Wine Market, USA



Source: Dr.Liz Thach, WBM, Nielsen, wines vines analytics, SVB 2020, Oteri Consulting



4.6.1 Premium wine will continue to drive market growth

A significant amount of the market growth over the last few years was as a result of sales in the premium category. That trend is expected to grow over the next few years. The premium category is the category of wines over \$10 a bottle. The segment ended 2017 at around \$17 billion, growing approximately 7% a year since 2012. This trajectory is expected to continue, with the segment reaching around \$25 billion by 2022. About 80% of the growth in the next few years will be as a result of sales from this segment.

Even the current state of the economy does not seem to have any effect on slowing this trend. According to one of the top executives at the top distributing company in the U.S., people seem willing to continue to spend money on better quality wine.

“Premiumization is increasing. People are willing to spend more on wine and spirits”

Stu Ratner, Vice President at Southern Glazer’s Wine and Spirits



4.6.2 Millennials are making their mark

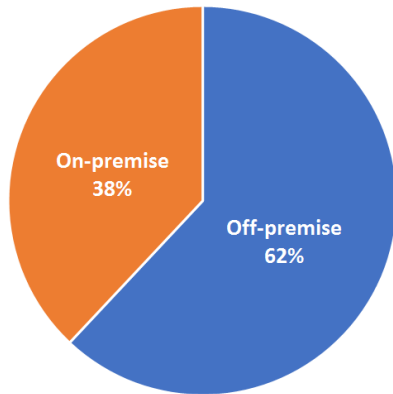
Millennials comprise an increasing share of U.S. wine consumers. Between 2012 and 2018, Gen Xers and millennials drove overall wine market growth, increasing their share of consumption by about 8%. It is expected that they will completely edge out baby boomers as the biggest consumer segment in the next few years.

4.6.3 “Drinking in” is on the rise

Millennials are also having an impact on another trend – the rise of off-premises drinking. Unwilling to pay restaurant wine markups, consumers in general, led by millennials, are increasingly drinking their wine at home. Off-premises consumption now represents more than 80% of overall wine consumption — higher than off-premises consumption of beer or distilled spirits.

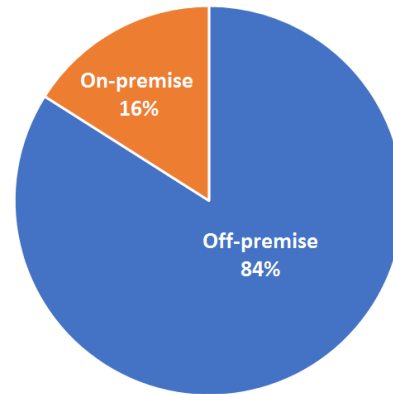


**WINE MARKET
OFF-PREMISE AND ON-PREMISE VALUE, 2019**



Sales By Value

**WINE MARKET
OFF-PREMISE AND ON-PREMISE VOLUME, 2019**



Sales By Volume

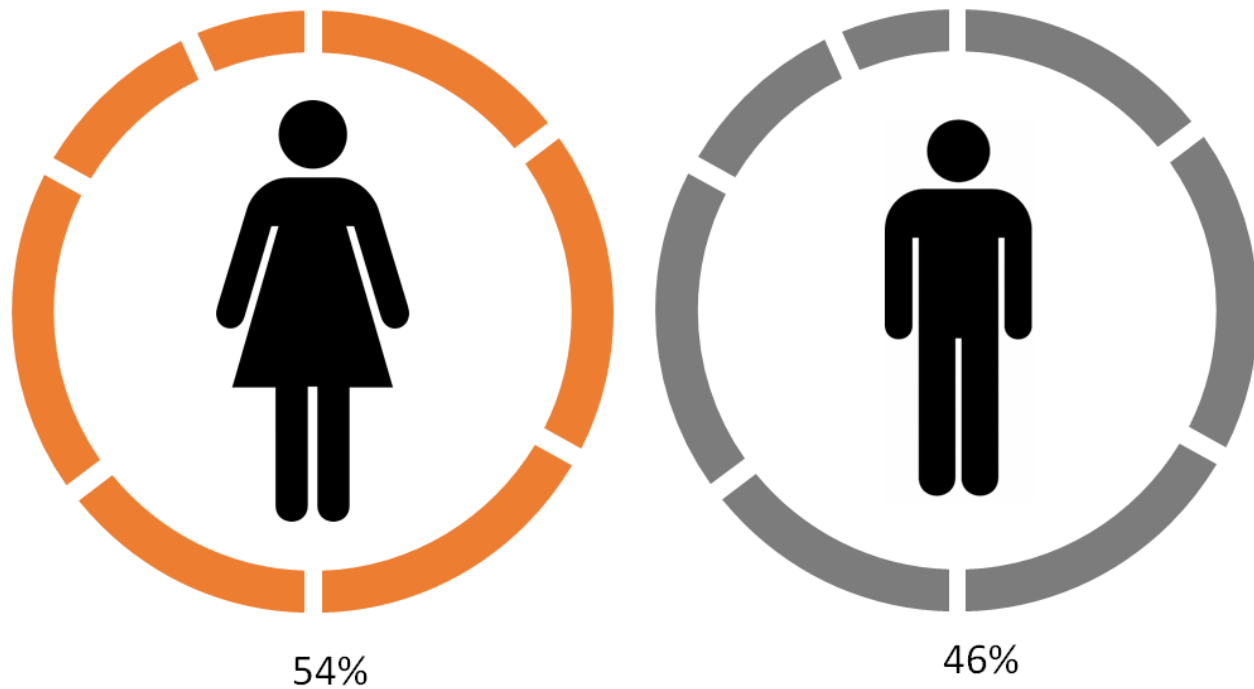
Source: Dr.Liz Thach, WBM, bw166, Gomberg Fredrikson & Associates, Oteri Consulting

4.6.4 Women are driving a surge in wine consumption

Women in particular are driving a surge in US wine consumption, accounting for 54% of wine volume in the US. A survey by the Wine market council found that “highly involved” female wine drinkers are mostly older millennials who tend to be urban educated professionals and are generally more “ethnically diverse than the typical female wine drinker.” These highly involved female drinkers tend to favor segments such as the sweet red wine, blended wine, and the fragrant white wine segments. Their consumption rate is expected to drive up sales within those segments over the next few years.



Wine Drinkers by Gender



Source: Dr. Liz Thach, WBM, WMC, Oteri Consulting

4.6.5 Gen X driving a surge in premium wine sales

This generation are usually at their mid-career levels and have more access to disposable cash than both millennials who may be in the earlier parts of their career, or baby boomers who are generally closer to retirement and are more conscious of their spend as a result. This group is the biggest spender on the premium wine segments.



4.6.6 Geographic split of import and domestic wines

The east coast is dominated by import wines, while the west coast led by California is dominated by the domestic wine producers. In general, the market for imported wine is far bigger on the east coast than it is on the west coast.

4.6.7 Very high consolidation activity

There has been a huge amount of consolidation among U.S wineries and wine distributors in the last few years. This consolidation activity is expected to continue as smaller wineries may look for exit opportunities due to increasing competition and reduced margins.

4.6.8 Online sales of wine is on the rise

The increase in online sales of wine was well underway, but the trend has been accelerated lately by the ongoing corona virus pandemic. More than 80% of Americans now shop online, according to Pew Research, and that increasingly includes shopping for wine. In fact, most luxury wines are sold online. The two largest online destinations for purchasing wine in the United States are Amazon.com and Drizly.com

While online wine sales have shown strong growth, it is from a relatively small place. According to Rich Bergsund of Wine.com, only 5% of wine was sold online as of 2018. There are regulatory and logistical issues that have hampered the growth of online wine sales. However, there is still plenty of opportunity in this channel for innovation and expansion.

4.6.9 The Sweet Spot for Wine Pricing

The sweet spot for wine pricing in US off-premise sales continues to be \$11 to \$14.99 and \$15 – \$19.99, with both growing 5% to 6% in value and volume. Wine priced at under \$10.99 continues to be negative in both value and volume, but still comprises 74% of all wine sold in the US. Wine priced at \$20 – \$24.99 showed around 6% value and volume increase, but at smaller quantities.

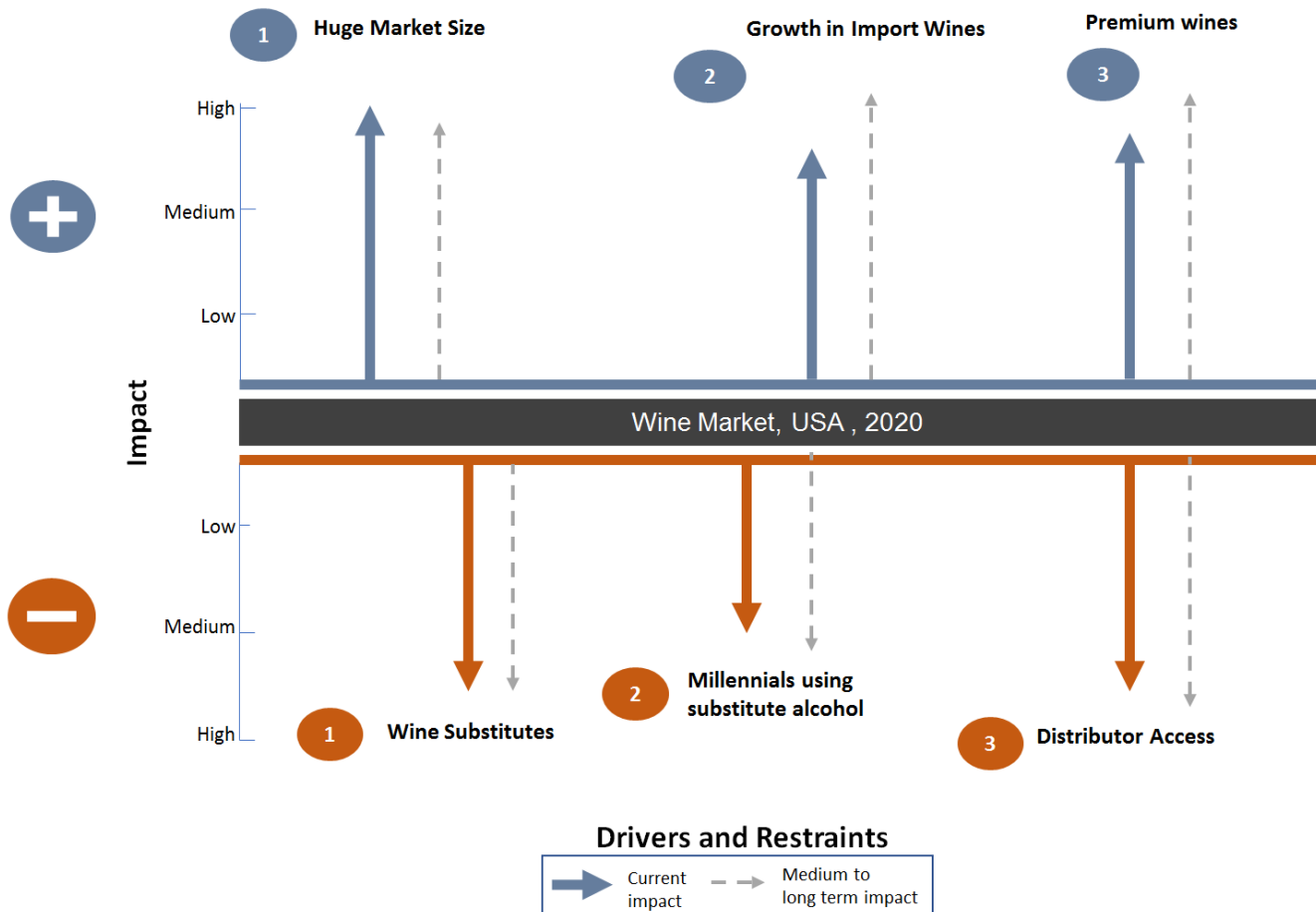


4.7 Key Market Challenges

Labor shortages have begun to take their toll Labor is a primary concern for the U.S. wine industry, and right now there is not enough of it. Producers rely heavily on migrant labor, and recent immigration policy reforms appear to be exacerbating the shortage. Seasonal workers, many of whom come from Mexico, are finding that crossing the border has become too expensive and too dangerous. In addition, producers are facing increased competition from alternative crops, including newly legalized marijuana, where the pay is better and the work less physically taxing. A shortage of available temporary housing in areas affected by recent fires may further reduce the labor supply. The recent California fires displaced nearly 200,000 people, including both documented and undocumented migrant farm workers. The resulting rise in the cost of accommodation may force workers to leave the area, especially undocumented farm workers who have no access to federal assistance. With no one to harvest their grapes, wineries may be forced to scale back production.



4.8 Market Drivers and Restraints



Source: Oteri Consulting



4.8.1 Market Drivers

The size of the market: The United States consumes the largest volume of wine of any country in the world. It is also the biggest wine market in the world by value. The market will continue to grow, albeit at a modest single digit annual growth rate. Millennials and Gen Z will be the largest consumers of wine, and their ranks are set to increase even more in the coming years. These cohorts do not exhibit any brand loyalty when it comes to selecting wines. Therefore, there is an opportunity for new brands to quickly establish themselves with this group.

A market this huge is bound to attract a fair amount of competition, and the US wine market does just that. Regardless of that, many wineries seem to not be too bothered by the competition. As Caroline Helper put it, “there is more competition than there ever has been, but there are also more consumers than there has ever been.”

Growing market for import wine: The market for imports is growing at a faster pace than the overall market. Our analysis indicates that the market for imported wines is growing 12% faster than that of domestic wines, and 7.6% faster than the growth of the wine market in total in the United States.

This growth is largely attributed to younger drinkers who tend to be more adventurous in their choices and are usually open to trying new brands, which increasingly includes imports.

Health & Wellness Trends: American consumers are becoming increasingly concerned with health and wellness. A joint survey by Nielsen and the Harris Poll shows that almost 50% of American alcohol drinkers say they are trying to reduce alcohol consumption. This number escalates to 67% with younger drinkers aged 21 to 34. Beer and spirits companies have responded by introducing new lower alcohol and lower calorie drinks, such as the widely popular White Claw at 5% alcohol and 90 calories, but the US wine industry has been slow in responding to this trend. There appears to be an opportunity to create more “low or no alcohol” wines for the US market, as is being done in Europe and New Zealand.



4.8.2 Market Restraints

Wine Substitutes: Young consumers are adopting substitutes in the form of spirits, craft beer, spiked seltzers and to some extent cannabis. Wine is more expensive than beer or spirits per serving, and frugal young consumers are voting with their wallets.

Millennials not sticking with wine: Millennials are not sticking with wine as much as many had predicted or hoped. The per capita consumption among millennials and gen z is much lower than that of baby boomers.

Baby boomers, who control 70 percent of US discretionary income and half of the net worth in the US, are moving into retirement and declining in both their numbers and per capita consumption. Many analysts had hoped that millennials would embrace wine consumption more to close up the demand deficit. That has yet to happen so far for a couple of reasons; first, they lack the financial capacity of baby boomers, having been slow to get into their careers after the financial crisis. Secondly, they have a greater preference for premium spirits and craft beers, according to research by Gallup.

Health and Wellness Trends Impact on Wine Sales: The downside of the current health trends in the United States is that a lot of health-conscious young people are reducing their alcohol consumption altogether. The cumulative negative messaging about alcohol and health is impacting demand from young, health-conscious consumers.

Distributor Access: Getting access to the right distributors with key retail accounts is perhaps the most difficult hurdle any new brand faces in getting established in the US market. Distributors play a very critical role in determining which wine brands make it to retail shelves. Due to the presence of numerous brands in the market, the top distributors are able to be selective with brands that they sell.

Distributor consolidation is limiting market access for all but the biggest brands. The top 10 U.S. wine wholesalers now hold a full 73% of the market. The largest distributors are reportedly streamlining supplier relationships and seeking partnerships with strong, well-known brands with consistent and predictable sales.

“There are over a hundred brands out there that no one will ever hear about because they don’t have the clout to get access to the key people in distribution networks”

Stu Ratner, Vice President at Southern Glazer’s Wine and Spirits



The top 10 wine distributors in the United States are listed below.

Company	Wineries Represented
Southern Glazer's Wine & Spirits	1108
Republic National Distributing Co./ Young's Market Co.	1027
Breakthru Beverage Group	688
Johnson Brothers Liquor Co.	420
Winebow Group	642
Empire Distributors	608
Martignetti Companies	270
Opici Family Distributing	205
Heidelberg Distributing Co.	87
Wine Warehouse	76

Source: WBM, Wines Vines Analytics, Oteri Consulting

Note: Companies are listed in order of cases sold domestically. This list does not include private labeling or custom crush wineries that make wine for others.



5. Regulations

In the United States, a beverage is considered an alcohol beverage if it contains 0.5% or more alcohol per volume. The Alcohol and Tobacco Tax and Trade Bureau (<http://www.ttb.gov/>) and the Food and Drug Administration (<http://www.fda.gov/>) are the alcohol beverage federal regulatory agencies.

The Alcohol and Tobacco Tax and Trade Bureau (TTB) was created in 2003. The TTB controls distilled spirits, wines and ciders containing 7% or more alcohol, as well as malt-based products and distilled spirit-based products. The TTB enforces the provisions of the Federal Alcohol Administration Act (FAA Act) to ensure that only qualified persons engage in the alcohol beverage industry. The TTB is responsible for enforcing the laws regulating alcohol production, importation, and wholesale businesses; tobacco manufacturing and importing businesses; and alcohol labeling and advertising. The TTB issues importer/wholesaler permits, performs pre-import product evaluation, approves labels, and collects excise taxes.

The Food and Drug Administration (FDA) regulates wines and ciders containing less than 7% alcohol, as well as beers not made from malted barley and hops (such as sorghum beer). In addition to that, the Bioterrorism Act directs the Food and Drug Administration (FDA), as the food regulatory agency of the Department of Health and Human Services, to take steps to protect the public from a threatened or actual terrorist attack on the U.S. food supply and other food-related emergencies. Foreign producers must register with the FDA and appoint a U.S. Agent for FDA purposes.

The TTB does not regulate the sale of alcohol or tobacco products at the retail level, including sales to minors. State and local authorities regulate those sales. The Alcohol Beverage Control Board in each state has the authority to regulate the production, sale, and distribution of alcohol within its borders. This means state and local jurisdictions may have their own requirements in addition to federal requirements. State laws and regulations vary widely from state to state and may be more restrictive than federal regulations.



5.1 Labelling Requirements

Federal Law requires that all alcoholic beverages must have the following mandatory government warning on all labels:

GOVERNMENT WARNING: (1) ACCORDING TO THE SURGEON GENERAL, WOMEN SHOULD NOT DRINK ALCOHOLIC BEVERAGES DURING PREGNANCY BECAUSE OF THE RISK OF BIRTH DEFECTS. (2) CONSUMPTION OF ALCOHOLIC BEVERAGES IMPAIRS YOUR ABILITY TO DRIVE A CAR OR OPERATE MACHINERY, AND MAY CAUSE HEALTH PROBLEMS.”

For imported wine and spirits, the name and address of the importer must appear on the label preceded by an appropriate explanatory phrase such as “IMPORTED BY,” “SOLE AGENT” or “SOLE U.S. AGENT”

5.2 Certificate of Label

No alcoholic beverage product may be imported into or sold in the United States unless the TTB has issued a Certificate of Label Approval (often known by its abbreviation “COLA”) for the bottle label. In addition, the states in which the products will be sold at wholesale may mandate brand or label registration under their state laws depending on the type of product being sold. For example, New York law requires beer and liquor brands to be registered but not for most types of wine products, provided they have received Federal Certificate of Label Approval. Every US importer must obtain a COLA for each product.

For wines, spirits, and malt beverages, the TTB requires a Pre-COLA product evaluation to determine whether a proposed label identifies the product in an adequate and non-misleading way. Pre-COLA product evaluation entails a review of a product’s ingredients and formulation and may also include a laboratory analysis of the product. Lab analysis involves a chemical analysis of a product.

For alcohol beverages that fall in the FDA spectrum, there is no certificate of label approval procedure.



5.3 Natural Wine Certificate

The federal government requires Importers of wine made from sound ripe grapes or other sound, ripe fruit produced after December 31, 2004, to comply with certification requirements set forth under the Miscellaneous Trade and Technical Corrections Act of 2004. The purpose of this is to ensure that the practices and procedures used to produce the imported wine constitute proper cellar treatment.

Certification may consist of:

A statement from the producing country's government or government-approved entity having oversight or control of enological practices. This form of certification includes the results of a laboratory analysis of the wine performed by either a government laboratory or a laboratory certified by the government of the producing country.

or

A statement from the importer, that is, a "self-certification." See "Who may self-certify?" in our Certification Requirements Q&As for more information on this certification method and who may self-certify. (Source: Alcohol and Tobacco Tax and Trade Bureau)

5.4 Importing samples for trade shows

Samples of alcoholic beverages imported strictly for use at trade shows and/or for soliciting orders may, under certain conditions, be imported without a certificate of label approval (COLA). Importers of such samples may apply for a waiver from the COLA requirements from the TTB in the form of a letter request (available at http://www.ttb.gov/itd/importing_samples.shtml).



5.5 Packaging

The FDA is responsible for making sure that the packaging components are safe. The TTB regulates the bottle sizes and focuses its attention on whether the packaging affects the alcohol proof and taxation of the product (although the TTB does concern itself with making sure alcohol packaging is safe).

Packaging materials are considered food additives. Food additives included in alcoholic beverages are subject to FDA's food additive regulations and Generally Recognized as Safe (GRAS) standards. Adding ingredients (such as amino acids, flavorants, and other functional food ingredients or additives) to alcoholic beverages is only permitted according to the Federal Food, Drug and Cosmetics Act (FFDCA) and the FDA regulations. The Bureau of Alcohol Tobacco and Firearms (BATF) and the Tax and Trade Bureau (TTB) will defer to the FDA with respect to food additives in alcoholic beverage formulations.

For new packaging, the TTB requires producers to obtain an "opinion" from FDA stating that the uncleared material is not expected to become a component of the alcoholic beverage or is otherwise acceptable for use.

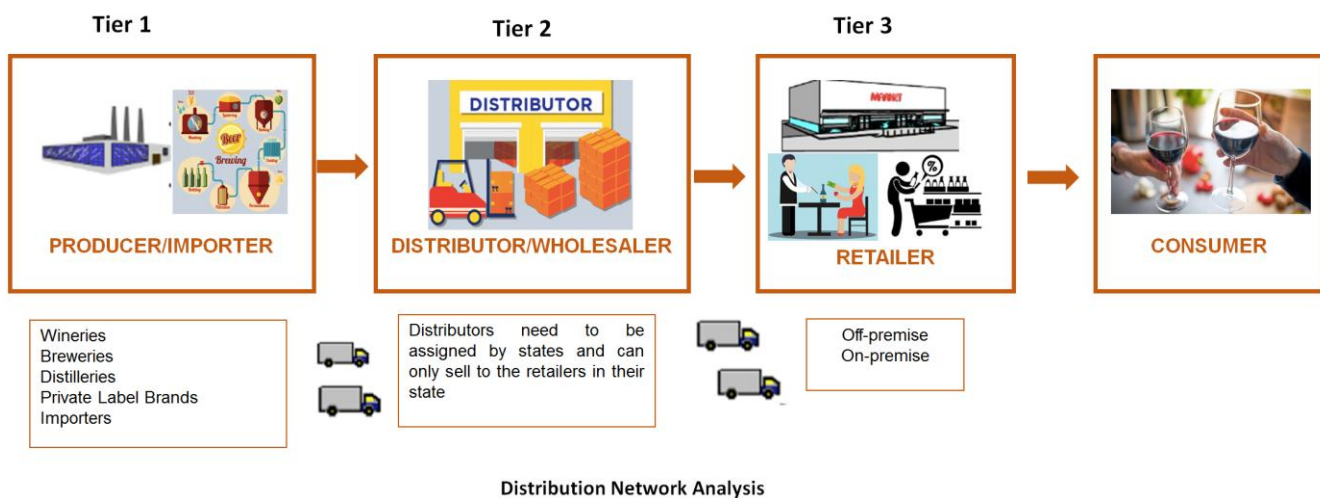


6. Logistics and Distribution

6.1 Distribution Channels

The United States has what is referred to as a three-tier system for the distribution of alcohol. This system was established in 1933 by the 21st amendment to the United States Constitution after the repeal of prohibition. The three tiers are importers or producers, distributors, and retailers. The basic structure of the system is that producers can sell their products only to wholesale distributors who then sell to retailers, and only retailers may sell to consumers. Producers include brewers, wine makers, distillers, and importers.

The federal government (through the TTB) is the only body that approves licenses for the importation of alcohol into the United States. The licenses are issued by the Alcohol and Tobacco Tax and Trade Bureau at the Treasury Department (<https://www.ttb.gov/wholesaler>)



Source: UK Trade Investment, Beverage Trade Network, Oteri Consulting

The 21st amendment leaves the implementation of this three-tier system largely up to the states. As a result, state laws and regulations on the distribution of alcohol vary widely from state to state.



There are some exceptions to the three-tier system. For example, in some states beer and wine producers are allowed to have a restaurant co-located with the production facility (e.g. winery, brew house). For spirits, the regulations are stricter. In addition to federal regulations, individual states have the authority to regulate the manufacture, import, transport, sales, promotion and serving of alcohol beverages. These regulations can extend down to the municipality level. As a result, what is considered acceptable practice in one state can be a violation in another. Additionally, some states may reject a company's registration in their state based upon the company's licenses in another state. These fractured set of laws are generally referred to as Tied House law, representing a loose collection of federal, state and local regulations rather than a cohesive body of law.

Primarily, states are classified as either Open States or Control States based upon the distributor and the retail sales channels. Open States have privatized retail sale of alcohol, while Control States have state government owned and operated distribution and retail systems within their boundaries.

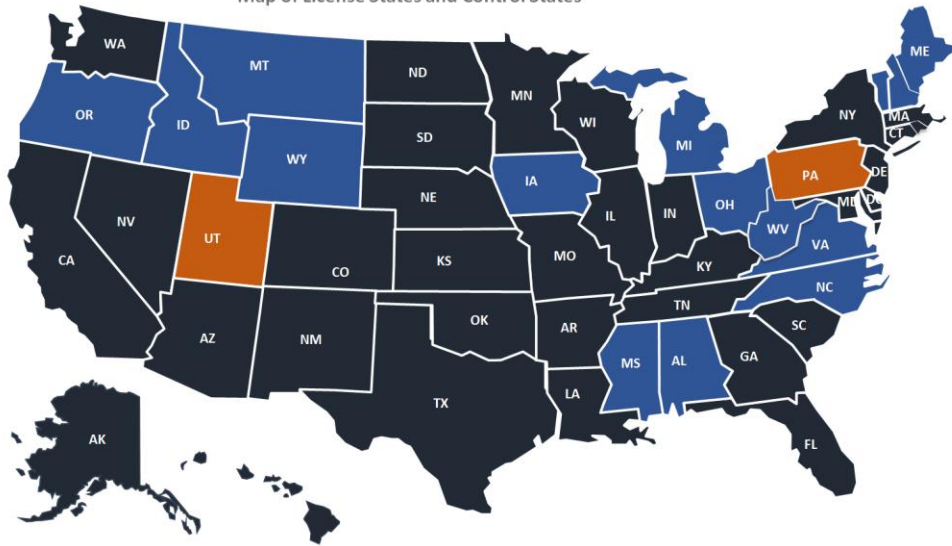
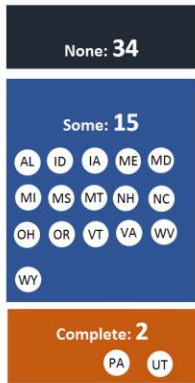
According to the Census Bureau, control jurisdictions represent approximately 24.8% of the nation's population and account for roughly 23% (2017 Handbook Advance, Beverage Information Group) of distilled spirit sales and a significantly smaller percentage of beer and wine sales.

34 states adopted the "License" Model. They regulate alcohol distribution using a hierarchical licensing system through which these states approve and sell different licenses to businesses in each tier.

Around 80% of the volume in the US is sold into open states (34) while around 20% are sold into control/monopoly states (13). The largest markets for wine and spirits are California, Florida, and New York.



Map of License States and Control States



*Liquor sales are tightly controlled in Montgomery County and Worcester County, but not at the state level

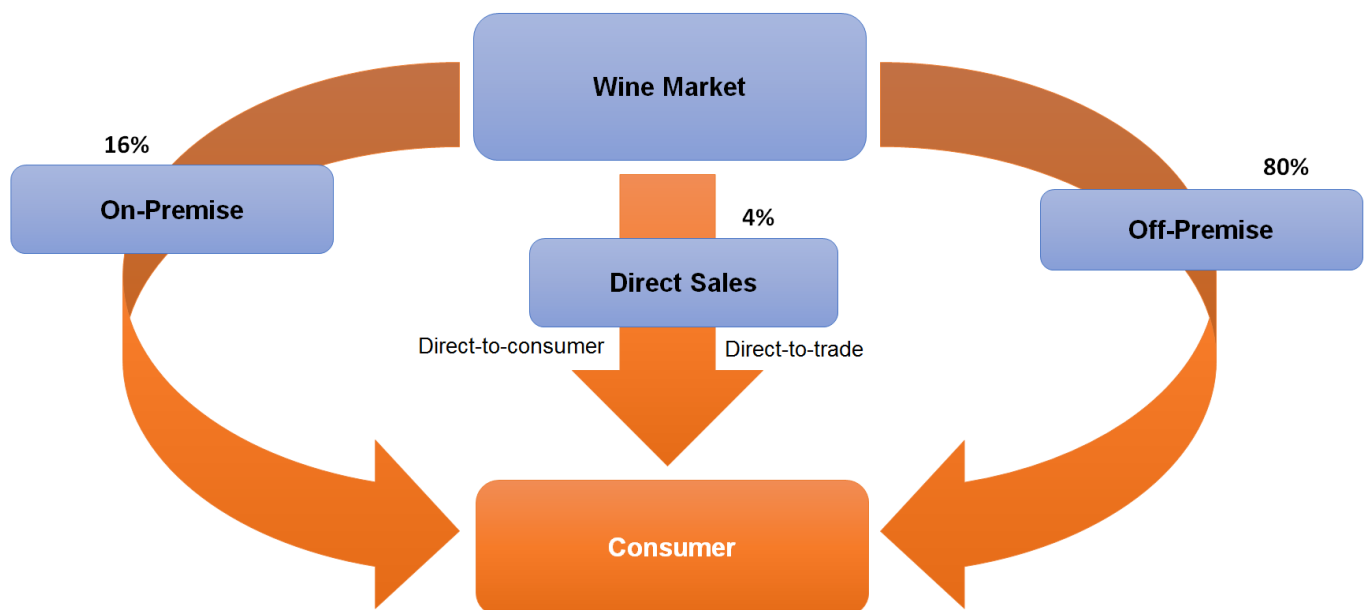
Source: UK Trade Investment, Beverage Trade Network, Oteri Consulting



6.2 Sales Channels

There are two main ways in which alcohol is sold in the United States - **on-premise**, and **off-premise**. These sales channels are basically differentiated by how the alcohol is consumed after purchase. On-premise refers to all alcohol that is purchased and consumed on site, such as in bars, restaurants, or night clubs. Off-premise refers to all alcohol sales that is purchased and consumed off site, such as retail stores and online retail.

Off-premise wine sales accounts for about 80% of all wine sales volume, while on-premise accounts for about 16% of all wine sales volume in the United States.



Wine Market: Sales Channel Analysis, USA , 2019

Source: Oteri Consulting

There are two other sales channels that make up the remainder of the sales volume – **Direct-to-trade** and **Direct-to-consumer**. Direct-to-trade is the sale of wine directly from a winery to a wine merchant or restaurant. Direct-to-consumer is the sale of wine directly from the wineries/producers to the consumers. Sales through wine clubs, tasting rooms, and e-commerce channels are examples of direct-to-consumer sales channels. International producers are exempt from all direct-to-trade and direct-to-consumers sales as they are required to go through an importer/distributor.



6.3 Ports of entrance to the United States

According to the *Wine Economist*, most of the wine imported to the United States comes through ports in New York, Florida, Texas, and Illinois. These states also have some of the largest markets for imported wines.

These ports are all federally operated, so the requirements are universal across the board. Most of the requirements to import wine to the United States are detailed in the **Regulation Requirements** section of this report. A full list of all the requirements is contained on the Alcohol and Tobacco Tax and Trade Bureau website here <https://www.ttb.gov/itd/importing-bottled-alcohol-beverages-into-the-united-states>.

The United States government does not require wine products be imported through any specific ports. The final ports of entry that wine products ultimately come in through depends on arrangements made with the distributor who will be receiving the products. Most of the imported wine in the United States happens to come in through ports on the east coast for a couple of reasons – I) the large market for foreign wine on the east coast, and II) the high concentration of entry ports on the east coast.



7. Packaging types and Preferences

Glass bottles remain the most popular way in which wine is packaged and sold in the United States. Over 95% of all wine sold in the United States is sold in glass bottles, and that trend does not appear to be slowing down anytime soon. According to Caroline Helper, many companies are making a transition to lighter glass and domestically produced glass in order to reduce their carbon footprint and be more sustainable.

There is also a growing market for “bag-in-box” and aluminum can packaged wine. According to *Stu Ratner*, these packaging methods have gained significant industry acceptance over the last 3 to 5 years, and it is expected that they will see particularly high growth, given the low cost of production for suppliers. Another reason for their increased popularity and growth is that they provide single-serve options for cost conscious consumers who may be less inclined to buy a whole bottle of wine.

Despite the increased acceptance of these alternate packaging formats, they are likely to remain limited due to reasons like consumer perceptions, shorter product shelf life and an ongoing shortage of aluminum cans in the beverage industry.



8. Appendix

Sources

- Rob Wilson – LEK Consulting
- UK Trade Investment Group
- Wine Economist
- Winefrog.com
- Wine Market Council
- Nielsen
- IRI
- Interviews with Stu Ratner, Vice President at Southern Glazer’s Wine and Spirits
- Interview with Caroline Helper, Senior Brand Manager at Crimson Wine Group
- Dr. Liz Thatch
- Wines Vines Analytics
- Silicon Valley Bank
- BW166
- Gomberg Fredrikson & Associates
- Wine Business Monthly (WBM)
- Alcohol, Tobacco, Tax and Trade Bureau at the United States Dept. of the Treasury
- Distilled Spirits Council of the U.S.A
- Beverage Trade Network

