

**VERMONT BREWERS ASSOCIATION
TESTIMONY ON TIED HOUSE
February 27, 2019**

VBA SUPPORTS PROHIBITION ON TIED HOUSES AS IN CURRENT LAW, 7 VSA §271 and §203

- The VBA supports the commonly-held interpretation of Vermont law that allows a manufacturer to be granted a first-class license or a first- and a third-class license permitting the manufacturer to sell alcoholic beverages to the public **ONLY** at an establishment located **“on the manufacturer's premises.” 7 VSA §271(d)**
- The VBA supports the commonly-held interpretation of Vermont law in which **“on the manufacturer’s premises”** means on the premises of the licensed manufacturing operation or on the contiguous real estate of the licensed manufacturer, provided the manufacturer owns or has direct control over the premises and the contiguous real estate. **7 VSA §271(d)**
- The VBA supports current law that prohibits, with some exceptions, a manufacturer licensed in Vermont from having any financial interest in the business of a first-, second-, or third-class licensee unless they are **on the manufacturer’s premises. 7 VSA §203**

WHY?

What is a “tied house?” In simple terms, a tied-house is any retail outlet that is owned by or otherwise beholden to a particular alcohol manufacturer for any reason. Prior to Prohibition large alcohol manufacturers often would provide retailers with low-interest loans, free draft systems, and even direct payments in exchange for favorable or monopolistic treatment from that retailer. In some cases, a manufacturer might own a number of retail outlets in a town and those outlets would then sell only that manufacturer’s product. The result of tied houses is a decrease in competition and consumer choice, while providing retailers with every incentive to oversell alcoholic beverages (particularly those made by the retailer’s owner or benefactor). After Congress repealed Prohibition in 1933 through the Twenty-First Amendment, every state in the union enacted some version of laws designed to prohibit and minimize tied-houses.

The most fundamental purpose of tied house laws was and remains the **preservation of the three-tier system**. This system is the marketing structure in which alcoholic beverages are sold by suppliers to wholesalers, and by wholesalers to retailers. Supplier, wholesaler, and retailer are the three tiers.

Why does the VBA care? Without these laws, the market could turn into a free-for-all for those with the deepest pockets. International and national monoliths could take every advantage to squeeze out independent brewers who keep taking market share. Are there problems with the three-tier system and tied house laws? Yes, and the problems vary depending on who you ask. Do the benefits outweigh the problems? The VBA believe that the three-tier system and tied house laws ultimately favor consumer choice, an even playing field, and an independently alcohol manufacturing sector.

By most measures, all VBA members are small brewers. And, as most of you know, the craft beverage industry is thriving in Vermont – creating jobs, generating tax revenue and bringing tourist into the state. The industry has been able to grow and thrive with the support of the legislature and nimble and targeted changes to alcohol laws. Over the years, the legislature has intentionally created opportunities for manufacturers to establish their own distribution companies, open tasting rooms, open tap rooms on their premises, sell at farmers' markets...Our three tier and tied house statutes have evolved, but holding the line between the three tiers and the prohibition on tied houses has remained constant and has served our industry well.

The VBA believes that any changes to these policies must be thoroughly considered, vetted and the process must be transparent. Changes should not be made by interpretation, on a case by case basis, and in a way that slowly weakens the law without conscious and transparent policy deliberation by the legislature.