



NATIONAL CONFERENCE  
*of* STATE LEGISLATURES

*The Forum for America's Ideas*



# Three-Tier System

Testimony to the  
Alcoholic Beverage Shipping and Distribution  
Interim Committee

*June 10, 2014*

**Heather Morton**  
**Fiscal Affairs Program**



# NCSL

“Our nation’s state legislatures serve as the forum where the ideas of America are crafted, debated and enacted.”

—William Pound, Executive Director, NCSL



# Three-Tier System

- Developed in response to pre-Prohibition practices and Prohibition practices
- Checks and balances system
- Designed to provide a tax collection system and ensure alcohol quality



# Three-Tier System

- Every state has a three-tiered distribution system of manufacturers and producers, distributors and retailers, including stores, bars and restaurants.
- Washington is the only state to open its three-tier system to allow retailers to purchase alcoholic beverages directly from producers.



# Control and License Systems

- In control states, the state operates the distribution tier and may participate in the retail tier through state-run liquor stores
- Seventeen states and Montgomery County, Md., are control jurisdictions



# Control and License Systems

- In license states, the state does not participate in distributing or selling alcoholic beverages
- The remaining jurisdictions are considered license states



# South Dakota and Its Neighbors

- Three control state neighbors:  
Iowa, Montana and Wyoming
- Three license state neighbors:  
Minnesota, Nebraska and North Dakota



# South Dakota - Beer

	South Dakota
Brewers	
Small Brewers	Not specified
Beer Relationships	Brewer may assume wholesaler for two years; be limited partner for up to 10 years
Self-Distribution Rights	No



# South Dakota - Wine

	South Dakota
Wineries	
Small Wineries	Farm Winery
Wine Relationships	



# South Dakota – Distillery & Direct

	South Dakota
Distillers	
Small Distillers	Artisan Distillery
Direct Shipment to Consumers	Require orders to be processed and shipped through licensed wholesalers



# License States - Beer

	Minnesota	Nebraska	North Dakota
Brewers			
Small Brewers	Small Brewer Brewer Taproom	Brewpub Microbrewery	Microbrew Pub Brewer Taproom
Beer Relationships	Brewer may be limited partner; Small Brewer may own wholesaler	Brewer may own wholesaler up to 2 years upon death, bankruptcy or license ineligibility of wholesaler	
Self-Distribution		No	To wholesalers & public Taproom to retailers



# License States - Wine

	Minnesota	Nebraska	North Dakota
Wineries			
Small Wineries	Farm Winery	Farm Winery	Domestic Winery
Wine Relationships			



# License States – Distill & Direct

	Minnesota	Nebraska	North Dakota
Distillers			
Small Distillers	Microdistillery Cocktail Room	Microdistillery	Domestic Distillery
Direct Shipment	Wine	Alcoholic liquor	Wine or beer



# Control States - Beer

	Iowa	Montana	Wyoming
Brewers			
Small Brewers	Not specified	Small Brewery	Microbrewery
Beer Relationships			Brewer may assume wholesaler for 1 year upon bankruptcy or license ineligibility of wholesaler
Self-Distribution		60,000 barrels or less can sell direct to retailers	Microbrewery can be licensed as wholesaler



# Control States - Wine

	Iowa	Montana	Wyoming
Wineries	Native winery		
Small Wineries	Not specified	Not specified	Not specified
Wine Relationships			



# Control States – Distill & Direct

	Iowa	Montana	Wyoming
Distillers			
Small Distillers	Microdistillery	Not specified	Not specified
Direct Shipment	Native wine/wine	Wine	Wine



# Legislative Trends

- Craft breweries, craft distilleries and craft wineries
- Growlers
- Efforts to privatize the control jurisdictions of Oregon and Pennsylvania



NATIONAL CONFERENCE  
of STATE LEGISLATURES

*The Forum for America's Ideas*



# Questions

## Resources

Financial Services and Commerce Homepage:

<http://www.ncsl.org/research/financial-services-and-commerce.aspx>

## Contact Information

303.856.1475

heather.morton@ncsl.org