

**Tied House Laws**  
**Clare Buckley, Vermont Wholesale Beverage Association**  
**House General, Housing & Military Affairs Committee**  
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Good afternoon Chair Stevens and members of the committee. My name is Clare Buckley and I am here today on behalf the Vermont Wholesale Beverage Association whose members include many of Vermont's independent beer and wine wholesalers. Thank you for inviting me to speak in support of Vermont's tied house laws.

**What is a tied house?**

At its core a tied house is a bar or restaurant that is bound to, owned by or indebted to a particular manufacturer. Historically, tied houses were common in the United Kingdom and in the US before prohibition. Unlike "free houses," tied houses tended to only sell beer from the brewery that owned the bar and could do so at uncompetitive prices. Breweries pushed their alcohol at these tied houses often offering a free lunch to entice customers to drink more. In fact some claim this is the origin of the saying "there is no such thing as a free lunch."

After prohibition ended in the US, states adopted three tier alcohol regulation laws that prevented the vertical integration of ownership by requiring each tier – manufacturer, distributor and retailer – to be separate. Tied house laws were also enacted to minimize the potential for unfair business practices, ensure a competitive alcohol market and prevent overconsumption.

Attached is a document from the National Beer Wholesaler Association with information about the benefits of the three-tier system and distributors role in it.

**What are tied house laws?**

This brief description of tied-house laws is from an article titled ALCOHOL BEVERAGE CONTROL: *The Basics for New State Alcohol Regulators*, by Roger Johnson. [https://www.centerforalcoholpolicy.org/wp-content/uploads/2015/06/Alcohol Beverage Control Basics.pdf](https://www.centerforalcoholpolicy.org/wp-content/uploads/2015/06/Alcohol_Beverage_Control_Basics.pdf)

TIED-HOUSE LAWS: "Tied-house" is a term that describes the control exercised by one person or company over the business activity of another, generally influenced by one tier of the industry over another separate tier (i.e., suppliers controlling outlets at the retail level – tying retail "house" to supplier).

"Tied-house" also could be termed "commercial bribery," because through this means, wholesalers, by offering "special" deals, prices, equipment, advertising or other "bribes," serve as an inducement by the brewer/wholesaler to gain

control of the retailer's sales, to the exclusion in whole or in part of a competitor's similar product.

Related issues are "exclusive outlet" and "consignment sale," both of which relate to the illegal providing of benefits between the tiers to harm fair competition. Federal law in the Federal Alcohol Administration Act has similar provisions. Those provisions are enforced by the Treasury Department's Alcohol Tax and Trade Bureau (TTB).

One result of such control by supplier and wholesalers would be the creation of a monopoly for certain brands as well as dictating prices. The various state laws are generally designed to separate the tiers and to stop manufacturers and wholesalers from owning and controlling businesses at the retail level.

### **Limited Exceptions in Vermont's Tied House Laws**

There are some limited statutory exemptions to Vermont's tied house laws. For example, in 2003, Act 24 was passed to address a situation where the owners of a restaurant had made a significant investment in brewing equipment and then found out they could not get a manufacturer's license to brew beer because they owned a number of Vermont restaurants. Vermont's tied house law prohibited the manufacturer from having a financial interest in the other restaurants. A law was passed to provide a narrow exception to the tied house law to allow the owners of a brewery to have a financial interest in a first or second class licensee (and visa versa) provided the first or second class licensee does not purchase, possess, or sell the malt beverages produced by the manufacturer in which they have a financial interest. Below is a link to the text of Act 24. The law is now codified as 7 VSA §203(2) as the section number changed during the recodification of Title 7 a few years ago.

<http://www.leg.state.vt.us/docs/legdoc.cfm?URL=/docs/2004/acts/ACT024.HTM>

### **Conclusion**

VWBA supports Vermont's tied house laws, which are a key component of the three tier system, as these laws ensure healthy competition in the marketplace while providing a large selection of brands for consumers to choose from.

Thank you for considering this information.

## What Is the Independent **Three-Tier System** of Alcohol Distribution?



America's independent beer distributors are a critical link in a three-tier distribution system. Distributors are regulated by the states and provide a tremendous variety of beer brands and styles to licensed retailers at a great value while protecting the public. The three-tier system is made up of brewers and importers, distributors and retailers.

## Benefits of the Three-Tier System and Beer Distributors

### Generating Healthy Competition and a Robust Marketplace

Beer distributors source beer from a wide variety of importers and manufacturers. By working with numerous brewers, distributors provide a vehicle to market for the largest multinational beer brands to start-up craft brewers. Because of this system, you can order a California craft beer off a menu in Illinois; enjoy a Vermont brew in a Tennessee restaurant; and see a tap handle from Pennsylvania in a Texas bar.

The three-tier system provides the infrastructure, capital and personnel small brewers need to reach a wide network of retailers. Distributors' infrastructure includes state-of-the-art warehouses and fleets of temperature-controlled trucks and vehicles that preserve these perishable products. Distributor personnel include not only employees that handle warehousing,

transporting and delivering all types of beer to local retailers, but also sales and merchandising professionals who help promote each label of beer they sell. Distributors deliver customized inventory based on the requirements of each individual retailer in their local market.

### Providing Tremendous Variety to Consumers

Because beer distributors help get new brands to market, consumers benefit by having the choice between the largest international brands and the smallest local brews all on the same store shelf, restaurant list and bar tap. Today, American consumers





can choose from more than 13,000 labels of beer ranging from lambics and lagers to porters and pale ales. There is a flavor and style for every palate!

### Protecting Consumers

Beer distributors provide a clear chain of custody in the sale of beer. America's beer distributors are licensed by both the state and federal governments. Distributors source fresh beer only from federally-registered brewers and importers and sell it only to state-licensed retailers

The American distribution system helps protect consumers from counterfeit and poisonous alcohol.

including restaurants and convenience stores.

This system helps to ensure that retailers hold the appropriate license, do not sell to those under the legal drinking age and comply with local alcohol beverage laws. The

system also ensures that beer is traceable; so if there were a suspected problem with a product, distributors could act swiftly to track the identified product and pull it from the marketplace.

This regulated distribution system also helps protect American consumers from

counterfeit and poisonous alcohol that is prevalent in many other countries that lack an effective regulatory structure. American consumers enjoy unequaled safety thanks to the three-tier alcohol distribution system.

### Collecting Taxes

The same controls that provide accountability in beer sales also ensure states can efficiently collect taxes on alcohol products. Because distributors are able to monitor the beer from the time it leaves the brewery until it arrives at a licensed retail outlet, they are often best equipped to collect state taxes and help the state enforce alcohol laws. For this reason, many states find it more efficient to collect taxes from a limited number of federally- and state-licensed beer distributors than from the hundreds or thousands of retail establishments that sell alcohol products.

### Providing Value and Efficiency for Retailers

By storing perishable products, providing access to a diverse selection of brands at various price points, and hiring local citizens dedicated to helping sell beer and promote local businesses, America's 3,300 licensed beer distributors provide tremendous value and efficiency to America's 576,000 licensed

alcohol retailers. Distributor services—like monitoring retailer shelves, taps and keg lines to ensure consumers are receiving the freshest product—reduce retailer operating costs and translate into dramatic annual savings for retail outlets across the country. Distributors also assist retailers through point-of-sale advertising, merchandising and stocking.



Additionally, beer distributors help ensure that bars, restaurants and stores that sell beer do so responsibly and only to those of legal drinking age by routinely providing materials that discourage underage sales. These materials—like signs, posters or stickers—are often seen on cooler doors and at cash registers when consumers purchase licensed beverages.

### The American Beer Industry at a Glance

- 3,300 independent beer distributors
- 130,000 beer distribution jobs
- 13,000 labels of beer available to consumers
- 2,400 breweries across the country
- 576,000 licensed retailers

A photograph of three tall, clear glasses filled with beer of different colors: a dark brown/black beer, a golden beer, and a reddish-orange beer. The glasses are arranged in a row, and the background is a warm, yellowish-orange color.

The National Beer Wholesalers Association (NBWA) is a trade association that represents the interests of America's 3,300 licensed, independent beer distributors – with operations located in every state and congressional district across the United States. NBWA works to strengthen the state-based system of alcohol regulation that facilitates an orderly marketplace; creates a transparent and accountable system of alcohol distribution that protects American consumers; and promotes responsibility in the manufacture, distribution, sale and consumption of alcohol.