



DIRECT WINE SHIPPING

South Dakota Legislative Study Committee Meeting

June 10, 2014

Wine Institute has worked with states and stakeholders for years in advocating limited direct shipping to consumers

- ▶ **Serves as a resource on state direct shipping requirements**
- ▶ **Encourages the use of 3rd party age verification programs that verify the legal drinking age of purchases of wine at the point of sale**
- ▶ **Encourages licensees to contract only with shippers who conduct ID checks at the time of delivery**

Overview



- **Why DTC Shipping Solves a Problem of Which There is No Other Solution**
- **Elements of Direct Shipping Programs**
- **Impacts of DTC**
- **Other State Activity**

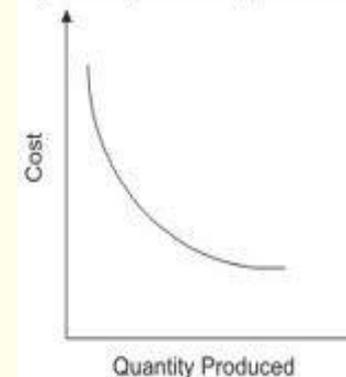
Positives Aspects of 3-Tier System



- *Moves large quantities of wine efficiently*
- *Provides single-source interface with retailers and state regulators*
- *Economies of scale*



Figure 1: Typical Average Cost Curve



Impacts of DTC Wine Shipment



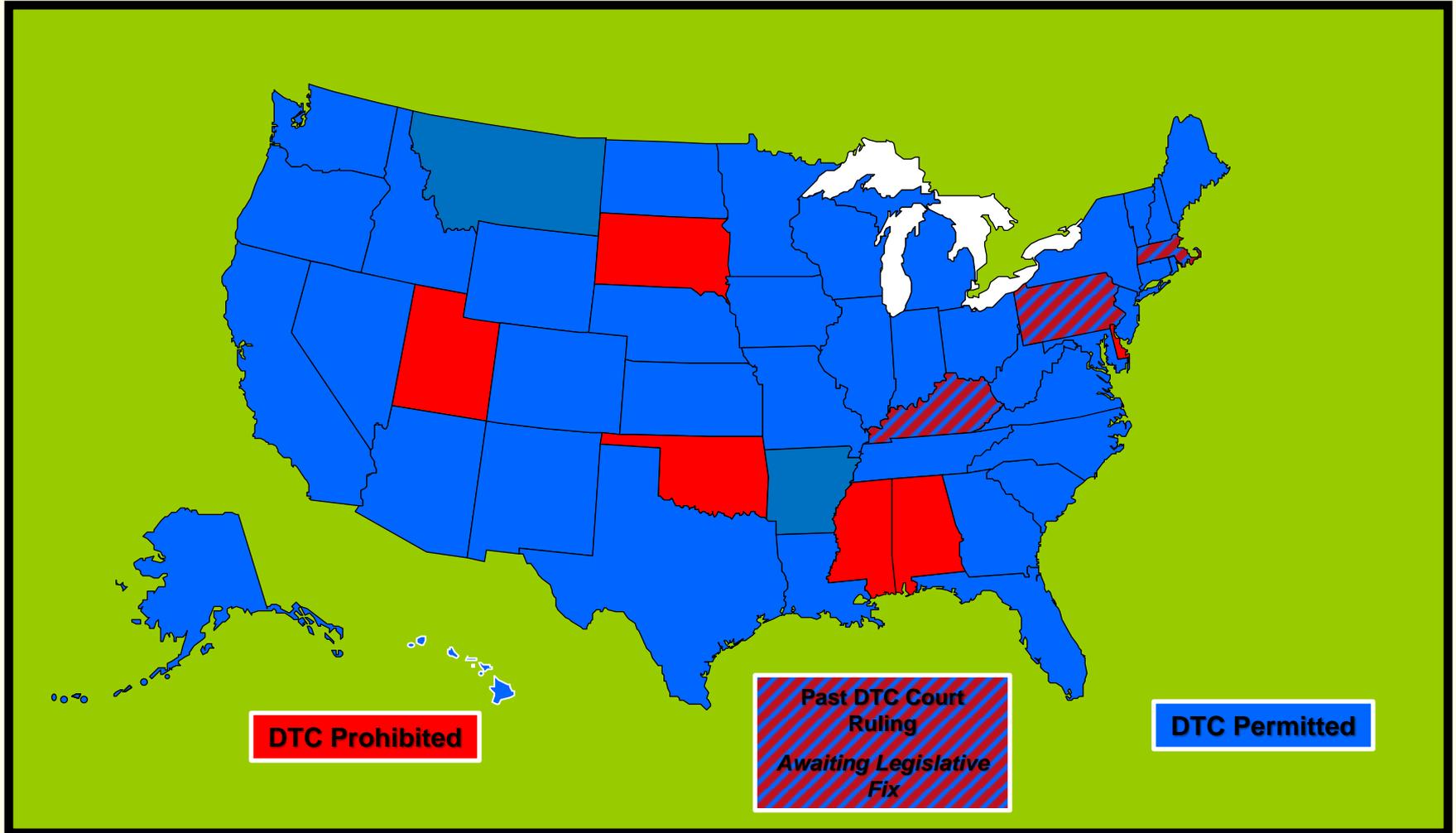
Responds to Challenges to the 3-Tier System

- ***8,000+ U.S. wineries producing over 60,000 labels (500+% growth in 30 years) plus over 65,000 additional imports are available***
- ***50% less wholesalers in last decade alone***
- ***More wine retailers***
- ***Direct sales are critical for small wineries, which account for 51% of direct shipments***

DTC Shipping as of 6/6/14



89 % of US Adult population has access to DTC





Primary Elements:

- Permits
- Reporting
- Age Verification
- Submit to State Jurisdiction
- Tax Payments
- Quantity Limits
- Shipment Labeling
- Penalties

Elements of DTC Statutes



- **Direct Shipper permits**
- **Payment of state taxes on shipments**



Revenues offset, if not cover, the costs of the program's operation.

- ▶ **ND collected approximately \$199,174 in fees and taxes from out of state direct shippers alone in 2012-2013.**
- ▶ **MD reports revenues of \$5 to \$1 over costs of implementation, even in the 1st year.**

Elements of DTC Statutes



- **Quantity limits**
 - ▶ **Most states impose limits.**

- **Reporting of wine shipments**
 - ▶ **Helps regulators in checking compliance with quantity limits.**

Elements of DTC Statutes



- **Require permit holders to verify age**
 - ▶ **Use age verification service;**
 - **As a standard business practice, many wineries use these services**
 - **MI, KS and GA require use of an on-line age verification service**

Elements of DTC Statutes

- Require Shipments be Labeled Containing Alcohol
- Require Signature of Person 21 years or Older to Receive Delivery.



FedEx and UPS have wine shipping programs that embed these requirements into their automated systems

Elements of DTC Statutes



- **Stiff penalties for not assuring delivery to an adult recipient**
- **Require reporting by common carriers**

Reporting helps with easily tracking shipments to ensure that only licensed direct shippers are doing them.

Elements of DTC Statutes



- **Require permit applicants to agree to audits & jurisdiction of the licensing state government and state courts.**



Another key enforcement mechanism --

Wineries risk serious consequences for violating a direct shipping statute.

From the Tax and Trade Bureau



“Direct Shipping of Alcoholic Beverages: ...industry members are reminded that compliance with state laws and regulations is a condition of maintaining a Federal Basic Permit.”

TTB.Gov Website: DTC shipping Info...



We want to remind industry members who engage in direct shipping that they are responsible for remaining in compliance with current State rules. Furthermore, **industry members should remember that their Federal basic permits could be at risk if they fail to comply with State rules.**

DTC Permit Systems Prevent Under Age Access



Granholm v Heald

SCOTUS affirmed that permit systems provide adequate regulatory controls against minors' access.

Federal Trade Commission

No evidence suggesting that direct shipping increases underage drinking beyond the levels attributable to sales by brick and mortar stores.

MD Comptroller's Report

There have been no incidents of access to underage persons reported.

DTC Augments the 3-Tier System



DTC wine shipping is reported to have no negative impact on the 3-Tier system

- ▶ MD reports that the first year after implementation of direct shipping that wine sales through the 3-tier system increased
- ▶ According to the NY Farm Bureau, statistical trends demonstrate that growth of the wine industry fostered by direct shipping led to more usage of the existing distribution chain.*

** USDA's National Statistical Services Agency (NASS) data shows 4 years after NY permitted DTC 55% of the average sales were conducted through a distributor or wholesaler. A 24.5% increase from the previous survey in 2000.*

What's Next?



Other Anticipated State DTC Activity

2014

Pennsylvania



**Huge momentum supporting
DTC wine shipping.**



Massachusetts



Fix-it bill to establish quantity limits and shipping licenses is awaiting final legislative action.

