



RHODE ISLAND LIQUOR OPERATORS COLLABORATIVE

REPRESENTING RHODE ISLAND'S INDEPENDENT LIQUOR RETAILERS

H7843 - Against

14 March 2024

Dear Chairwoman McEntee and Committee Members:

The Rhode Island Liquor Operators Collaborative opposes House Bill 7843.

Over the past decade, Rhode Island has been a very brewer-friendly state. Currently, Rhode Island Brewers have the following rights:

1. Do not pay excise taxes on beers produced up to 100,000 barrels per year
 - a. Whalers Brewing produced around 30,000 barrels last year and is considered amongst Rhode Island's largest breweries
 - b. No other neighboring state has an excise tax exemption for breweries
2. Allow to-go sales of 48-16 oz Cans per customer per day
3. Allow on-site consumption of product in the taproom
4. Can host events, music, and concerts

The desire of breweries to have satellite taprooms is a blatant disregard for the three-tier system and an acute desire to not participate in that system entirely. Everything this bill is asking for is already allowed for within taprooms. Breweries pushing for this legislation are trying, simply, to sell their products direct-to-consumer outside of the taproom experience. In essence, they wish to become bars and eventual retail outlets. The laws currently in place already erode the three-tier system and asking for this piece of legislation is simply an overreach.

The Three-Tier System exists primarily to:

1. **Ensure product is authentic and not counterfeit**
2. **Ensure product gets to the public in a safe manner**
3. **Ensure taxes are collected**

With the establishment of satellite taprooms, breweries can transfer product between their brewery and taproom without the use of a wholesaler. While this seems innocent on the surface, out of the gate, it creates a competitive pricing disadvantage with surrounding bars and restaurants. Furthermore, if I'm a bar owner in a municipality such as Newport, which has capped on-premise licenses, and a new taproom opened up next to me, I'm upset because a new competitor with a low barrier to entry has entered the marketplace in an already oversaturated environment. That is not even taking into account that said bar owner most likely paid in excess of \$100,000 for their liquor license transfer because there are a finite amount of licenses in said municipality. The passage of this legislation is simply unfair to existing licensees.

Breweries have not been transparent about the things they actually want. On the surface, this legislation should be inoffensive to Class A Licensees. However, if this legislation were to pass and brewers were given the right to open satellite taprooms, the next thing they will ask for is to-go sales out of these taprooms.

Brewers across the country operate with varying business models. Some brewers exclusively brew brands that they do not own. These breweries are called "Contract Breweries". The passage of this legislation would allow for a Contract



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Brewery to open a taproom across the state and feature beers from all the different brands they brew. If a Contract Brewer brews 15 different brands and 6 styles of beer of each brand, that would give them 90 different beers to choose from at their taproom. If said brewery was then allowed to sell these brands to-go, they would have no reason to sell these beers through traditional distribution and retail channels. Furthermore, every brewery in the state has the ability to be a contract brewer. Brewers can brew micro batches of beer with other people's recipes, thus making it extremely easy for any brewery to become a contract brewer. The breweries engaging in these practices would have no intention of being a player in the three tier system. Inevitably, the satellite taproom limit would be requested to be increased exponentially over time, cutting severely into the business that is already serviced by Class A Liquor Retailers.

There is not unanimous consent from Rhode Island's brewer community regarding this legislation. I have spoken with brewers who disagree with this legislation vehemently. They grew their businesses within the three-tier system and within the current framework of what the rules allow. They have taken advantage of taproom sales in a way that promotes tourism and improves the industry as a whole. They made investments in labor, both within their breweries and out in the trade, making relationships with wholesalers and retailers. Also, they grew their business organically through the current legal channels set in place by the State of Rhode Island.

This legislation is designed to benefit a small segment of the Rhode Island alcohol beverage community while disregarding the needs of the rest.

If you have any questions, please don't hesitate to contact us at RILiquorOperatorsCollaborative@gmail.com.

Sincerely,

Nicholas A. Fede, Jr.

Director

Rhode Island Liquor Operators Collaborative