

SENATE BILL REPORT

SB 6496

As Reported By Senate Committee On:
Labor, Commerce, Research & Development, February 05, 2008

Title: An act relating to craft distilleries.

Brief Description: Concerning craft distilleries.

Sponsors: Senators Marr, Honeyford, Kohl-Welles, Hewitt and Haugen.

Brief History:

Committee Activity: Labor, Commerce, Research & Development: 1/24/08, 2/05/08 [DPS].

SENATE COMMITTEE ON LABOR, COMMERCE, RESEARCH & DEVELOPMENT

Majority Report: That Substitute Senate Bill No. 6496 be substituted therefor, and the substitute bill do pass.

Signed by Senators Kohl-Welles, Chair; Keiser, Vice Chair; Holmquist, Ranking Minority Member; Franklin, Hewitt, King, Murray and Prentice.

Staff: Mac Nicholson (786-7445)

Background: The Liquor Control Board (LCB) is responsible for issuing licenses for the in-state production of liquor. An individual interested in producing liquor must obtain the proper license and pay the associated fee. Common non-retail liquor licenses, and the corresponding fee, include:

Microbrewery (less than 60,000 barrels per year) \$100
Domestic Brewery (60,000 barrels or more per year) \$2,000
Domestic Winery (less than 250,000 liters per year) \$100
Domestic Winery (more than 250,000 liters per year) \$400
Distiller/Rectifier \$2,000

Liquor licensees are subject to a number of statutory and administrative restrictions and regulations, including tied house restrictions and restrictions on giving samples and conducting educational activities.

Distillers in Washington are prohibited from selling spirits in the state to any person or entity other than the LCB. Distillers are also prohibited from serving spirits without charge on the distillery premises.

Summary of Bill (Recommended Substitute): The current distiller licensing fee of \$2,000 is reduced to \$100 for certain distillers. In order to qualify for the reduced fee, the distillery

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must produce no more than 20,000 gallons of spirits per year with at least half of the raw materials used in the production grown in Washington. Distilleries paying the reduced licensing fee are called "craft distilleries."

A licensed craft distillery may sell spirits of its own production for consumption off the premises, up to two liters per person per day. A craft distillery may provide one-half ounce samples of spirits, limited to two ounces per person per day. Any person serving samples must obtain an alcohol server permit. Spirits sold on the premises or given away as samples must be purchased from the LCB and sold at the retail price established by the LCB.

The LCB is granted rule making authority to implement the craft distillery license. Distilling is defined in the legislation as an agricultural practice.

Craft distilleries must make monthly reports to the LCB, and are subject to the same restrictions and regulations as other liquor licensees.

EFFECT OF CHANGES MADE BY LABOR, COMMERCE, RESEARCH & DEVELOPMENT COMMITTEE (Recommended Substitute): The substitute changes the reduced distillery fee licensing requirements by eliminating the pot still language. The provision prohibiting the use of out of state neutral grain spirits by a craft distillery is removed. The 9 liter limit per person for retail sales of its own product is changed to a 2 liter per person limit.

Appropriation: None.

Fiscal Note: Available.

Committee/Commission/Task Force Created: No.

Effective Date: Ninety days after adjournment of session in which bill is passed.

Staff Summary of Public Testimony on Original Bill: PRO: There has been a revival of craft distilleries over last five years, but not in Washington because of antiquated laws going back to prohibition. The bill levels the playing field between wineries, micro-breweries, and micro-distilleries. The bill promotes Washington products and encourages economic development. Bill is a great way to celebrate entrepreneurship and agriculture in the state. The bill will provide new revenues for local farms and utilize crops not suitable for retail. The bill offers some benefits to traditional craft distillers to create a unique Washington product. The bill allows limited sampling and retailing for craft distilleries.

CON: The intention of the bill is good; however, it is overly restrictive of the small distiller. The requirement to use Washington neutral grain spirits is unworkable, since nobody in the state distills neutral grain spirits. Distillers should have the freedom to select who and what sorts of spirits they buy. The requirement that 51 percent of the raw materials come from Washington is also restrictive, since lots of herbs used in spirit making aren't even produced in Washington. The bill is shortsighted, unfairly restrictive of trade, and anti-competitive. Craft distillers will move to Oregon, since Oregon's laws aren't as restrictive as what's proposed in the bill.

Persons Testifying: PRO: Arlen Harris, Don Poffenroth, Dry Fly Distilling; Berle Figgins, Dynamic Alembic Artisan Distillers, The Ellensburg Distillery; Carrie Tellefson, Distillery Representatives Association of Washington.

CON: Marc Bernhard, Pacific Distillery; Gwydion Stone, Gnostalgic Spirits; Matt McSweyn; Steven Stone, Stone Spirits.