

HOUSE BILL REPORT

ESB 6661

As Passed House - Amended:

March 1, 2006

Title: An act relating to establishing the Washington beer commission.

Brief Description: Establishing the Washington beer commission.

Sponsors: By Senators Rasmussen, Esser, Jacobsen, Schoesler and Kohl-Welles.

Brief History:

Committee Activity:

Economic Development, Agriculture & Trade: 2/17/06, 2/22/06 [DPA].

Floor Activity:

Passed House - Amended: 3/1/06, 95-3.

Brief Summary of Engrossed Bill (As Amended by House)

- Establishes the Washington Beer Commission (Commission), subject to referendum approval by affected producers, and prescribes its membership, responsibilities, authorities and obligations.
- Authorizes the Commission, with Department of Agriculture oversight, to speak on behalf of state government regarding the marketing and promotion of Washington-produced beer.
- Authorizes Commission funding to be provided through an annual assessment levied on producers and, beginning on July 1, 2007, through sponsorship of up to 12 beer festivals annually.
- Requires Department of Agriculture approval of the Commission's proposed budget and its advertising, promotional, educational, and marketing programs.

HOUSE COMMITTEE ON ECONOMIC DEVELOPMENT, AGRICULTURE & TRADE

Majority Report: Do pass as amended. Signed by 22 members: Representatives Linville, Chair; Pettigrew, Vice Chair; Kristiansen, Ranking Minority Member; Appleton, Bailey, Blake, Buri, Chase, Clibborn, Dunn, Grant, Haler, Holmquist, Kilmer, Kretz, McCoy, Morrell, Newhouse, Quall, Strow, P. Sullivan and Wallace.

Minority Report: Do not pass. Signed by 1 member: Representative Skinner, Assistant Ranking Minority Member.

Staff: Meg Van Schoorl (786-7105).

Background:

Agricultural commodity commissions and boards may be established in Washington law either under individual chapters or as part of enabling acts covering multiple commodities. Commodity commissions perform a variety of functions, including advertising, sales promotion, research, and education, related to a particular commodity.

Currently, 24 commodity commissions are established under Washington law. Six were created under their own individual chapters: apple; dairy products; fruit; beef; tree fruit research; and wine. Six were created under the 1955 Commodity Commission Enabling Act and have their own chapters under the Washington Administrative Code (WAC): potato; seed potato; bulb; wheat; fryer; and barley. The remaining 12 were created under the 1961 Commodity Commission Enabling Act and have their own chapters under the WAC: hop; dry pea and lentil; mint; blueberry; alfalfa seed; red raspberry; cranberry; strawberry; asparagus; Puget Sound salmon; canola and rapeseed; and turfgrass seed.

Depending upon industry priorities, some commissions perform primarily marketing programs; some perform only research programs; some commissions perform both. The majority of the commissions' funding derives from mandatory producer assessments. Their annual budgets range from \$12,000 to \$6.1 million.

In recent years, there have been numerous court challenges nationwide objecting to commodity commissions' use of mandatory assessments for advertising and market promotion programs. The lawsuits have centered on allegations that such programs infringe upon First Amendment rights to free speech by mandating that producers pay assessments to fund generic advertising with which they may disagree.

In 2003, a court challenge brought against the Washington Apple Commission resulted in legislation to restructure commodity commission statutes in terms of governance, speech, and oversight of commission activities, budget and programs.

Summary of Amended Bill:

Public Interest

The production and proper promotion of Washington beer is in the public interest and is vital to the state's economic well-being because it provides jobs, tax revenues and other benefits to the state and local communities. This chapter is only one part of a comprehensive scheme to regulate production and marketing of Washington beer. This chapter is enacted in the exercise of the police powers of the state to protect the health, peace, safety and general welfare of its citizens.

Speaking on Behalf of the Washington State Government

The Legislature charges the Washington Beer Commission (Commission), with oversight by the Director of the Department of Agriculture (Department), to speak on behalf of the Washington government with regard to the marketing and promotion of Washington-produced beer.

Establishing the Beer Commission

Creation of the Commission requires that a referendum be conducted by the Department and approved by a specified number of affected producers. A "producer" is any person or other entity licensed under Title 66 RCW to produce beer within the state and who produces less than 100,000 barrels of beer annually per location. An "affected producer" is any producer subject to this chapter. The referendum procedure is initiated when the Director of the Department (Director) is petitioned to implement the chapter and determine producer participation and the assessment. Procedural requirements for the petition and for the referendum are specified in section 5 of the bill. If the Director determines that the referendum has been approved, he or she will appoint Commission members within 60 days and will direct the Commission to initiate the producers' assessment. If the Director determines that the referendum has not been approved, he or she will take no further action to implement or enforce the chapter.

Commission Members

The Commission will have seven voting members, including six producers and the Director. The Director will appoint the producer members of the Commission, taking into consideration recommendations made by a statewide craft brewing association or other affected producers. The Director will seek balanced representation on the Commission on the basis of beer produced and geographic location. Qualifications for Commission membership, procedures relating to transacting Commission business, terms, appointments, and reimbursement of expenses are described in sections 4 and 6 of the bill.

Commission Responsibilities

Among the Commission's responsibilities detailed in Section 8 are:

- to receive donations of beer from producers for promotion or fund-raising purposes;
- to promote Washington beer through special events such as unique tastings for agricultural development or trade promotion, in which case beer must be disseminated without charge;
- to fund the Beer Commission, beginning July 1, 2007, through sponsorship of up to 12 beer festivals annually at which beer may be sold under a Special Occasions license, provided the Commission complies with Liquor Control Board laws and rules;
- to participate in international, federal, state, local hearings, meetings and other proceedings related to the production, regulation, distribution, sale or use of beer;
- to create and maintain producer lists and solicit producer opinions;

- to develop a reporting system to document that affected producers are reporting beer production quantities and are paying the assessment;
- to employ, contract or act together with any person or entity to promote the general welfare of the industry and to assist in Washington beer sales and distribution in domestic and foreign commerce; and
- to serve as liaison with the Liquor Control Board on behalf of itself, not on behalf of any producer.

The Commission must submit to the Director for approval any plans, programs, and projects concerning advertising, promotion and education, market research and development. The Director must review the advertising or promotion program to ensure that no false claims are made. The Commission must also submit for the Director's approval its proposed research plan, its commodity-related education and training plan, and budget.

The Commission must reimburse the Department for all costs incurred to carry out the chapter.

Research, Promotional, Educational Program

The Commission may create and conduct a comprehensive and extensive research, promotional and education campaign. The campaign must take into account the needs of producers, market conditions, and public awareness. Research goals may include efforts to:

- establish Washington beer as a major market factor everywhere;
- promote breweries as tourist attractions;
- encourage favorable press reporting worldwide;
- establish Washington beer as a major premium source;
- encourage favorable legislative and regulatory treatment of Washington beer in all markets;
- encourage promotion of Washington agricultural commodities related to beer, specifically hops, malting barley and wheat; and
- foster economic conditions favorable to investment in beer production.

Donations and Promotional Hosting

The Commission may purchase or receive donations of beer or malt beverages from any brewery worldwide and use them for promotional purposes. Beer and malt beverages furnished and used in-state are subject to beer and wine taxes. No liquor license, permit or bond is required of the Commission for authorized promotional activities. Commission expenditures for agricultural development, trade promotion, and promotional hosting must be approved by the Commission as specific line items at its annual public budget hearings.

Obligations of the Commission

Obligations incurred by the Commission and other liabilities or claims against the Commission will be enforced only against the assets of the Commission. No liability for the

debts or actions of the Commission will exist against the state, its subdivisions and instrumentalities, or individual members, employees or agents of the Commission or the state.

Assessments

An annual assessment of 10 cents per barrel of beer produced, up to 10,000 barrels per location, is levied upon beer produced by an affected producer. The assessment is a personal debt of each producer assessed. The consequences for lack of payment are described in section 16 of the bill. The Commission must adopt rules for payment and collection of the assessment. The assessment of an individual affected producer may be reduced based upon in-kind contributions to the Commission. Moneys collected will be deposited into a separate account in a state depository. Expenditures from the account may be made without specific legislative appropriation.

Disclosure

Certain agricultural business records, Commission records, and Department records relating to the Commission and producers are exempt from public disclosure. These are further identified in sections 25 and 26 of the bill. Some records may be shared between the Department and the Commission, or used in a suit or administrative hearing involving this chapter.

Enforcement

County and state law enforcement officers, the Liquor Control Board and its enforcement agents, and Department employees will enforce the chapter.

Beer Festivals

The Tied House law (Chapter 66.28.010 RCW) is amended to allow the Brewers Guild to hold a special occasion license and conduct up to six beer festivals until July 1, 2007.

Appropriation: None.

Fiscal Note: Not requested.

Effective Date of Amended Bill: The bill takes effect 90 days after adjournment of session in which bill is passed, except section 26 which reinstates prior law related to exemptions from public disclosure for agriculture and livestock information, after a scheduled expiration and takes effect July 1, 2006.

Testimony For: (In support) Having a Beer Commission will enable us to raise awareness about the Washington beer industry within and outside our state. We have a premiere hop-growing region that supplies hops to beer manufacturers worldwide. Our state was the cradle of micro-breweries, and we continue to be innovators of new beer styles and designs. We want to parallel what the Wine Commission has done. Because a Senate bill died at cut-off that would have allowed the Brewers Guild to hold up to six festivals before July 1, 2007, we would like to amend the House supplemental budget with the same language. The Liquor

Control Board and bill proponents have agreed to the language so that the Beer Commission and Brewers Guild are not holding beer festivals at the same time.

(With technical amendments) We need two technical amendments adding definitions of "department" and "director."

Testimony Against: None.

Persons Testifying: (In support) T.K. Bentler, Janelle Pritchard, and Roger Bialous, Washington Brewers Guild.

(With technical amendments) Mary Beth Lang, Washington Department of Agriculture.

Persons Signed In To Testify But Not Testifying: None.