

Southern Glazer's Wine & Spirits and Republic National Distributing Company Testimony
Opposing
LD 1754, An Act to Provide for the Direct Shipment of Spirits to Consumers

Joint Standing Committee on Veterans and Legal Affairs

April 23, 2025

Senator Hickman, Representative Supica, and Members of the Veterans and Legal Affairs Committee,

My name is Daniel Walker with Preti Flaherty, and I testify in opposition to LD 1754 on behalf of Southern Glazer's Wine & Spirits (SGWS) and Republic National Distributing Company (RNDC).

SGWS is a national beverage distributor operating in 44 states, the District of Colombia, and Canada. RNDC is a national beverage distributor operating in 39 states and the District of Colombia. Both companies employ managers and salespeople in Maine who interact with the Maine Bureau of Alcoholic Beverages and Lottery Operations (BABLO) on behalf of distilled spirit manufacturers, providing local marketing support, pricing input, as well as working with licensed on and off premise accounts in Maine.

SGWS and RNDC oppose LD 1754 for a number of reasons.

First, LD 1754 weakens Maine's public health and safety. Direct to consumer sales of liquor (DTC) undermine Maine's current regulatory system and bypass the safeguards that have kept Maine residents safe, ensure taxes are collected, and maintain the greatest consumer access of products in the world for over 80 years.

The shipment of liquor directly to consumers' homes increases the likelihood of underage access as there is little to no oversight of the final delivery of the product by a common carrier on a consumer's doorstep. In fact, in April of 2021, this committee heard testimony proving this very point from a Maine retailer, David Makson of Damon's Beverage in Bangor, stating that a bottle of whiskey was shipped illegally to his house via a common carrier that not only did not obtain a signature but handed it to his 5-year-old.

In 2022, the Legislature passed LD 1358, a resolve directing BABLO to evaluate DTC wine and spirits law, which included consulting with relevant stakeholders, reviewing and evaluating current DTC law in Maine regarding wine, and analyzing DTC data from around the country. ("DTC Study Report"). This DTC Study Report stated "Maine does not require carriers to be licensed, which means BABLO does not have administrative authority to enforce violations." (p. 22).

Experiences in other states demonstrate the difficulty of oversight of common carriers delivering liquor. Last year, a DTC sting operation (report attached) conducted by the Vermont Department of Liquor and Lottery (DLL) found that:

1. No purchase was delivered completely lawfully.
2. Two deliveries were made to a minor without the age verification.
3. Recipients were only carded 20 percent of the time upon delivery by a common carrier.

In Massachusetts, compliance checks performed by the Alcoholic Beverages Control Commission (ABCC) found the following:

1. 96 percent of DTC licensees investigated accepted orders and payment from a 15-year-old.
2. 43 percent of shipments did not obtain an adult signature upon delivery to the consumer.
3. 26 percent of shipments were left at the consumer's front door despite being labeled as containing alcohol.

Second, BABLO is not equipped to audit DTC licenses or enforce compliance. According to the DTC Study Report, in 2022, there were 649 licensed wine DTC shippers in Maine, in addition to 11,418 on-premise and off-premise licenses. The ratio of licenses to enforcement staff is already 1,631 to 1.7.” (p.26) Maine’s seven enforcement agents would be overwhelmed if they become responsible for thousands of additional out-of-state spirits DTC licenses. And while these out of state producers would need to obtain a Maine license, holding any out-of-state entity accountable is an enormous labor drain and largely ineffective. Michigan’s Attorney General has sent multiple cease and desist letters to at least 18 separate out-of-state shippers, and one winery in California was sent 8 cease and desist letters.

In LD 1754, the only transparency and compliance of the law would be through a thorough and complete line by line review of not just the licensed shipper reports but also the common carrier reports, sometimes 100 pages of data.

However, Maine’s DTC Study Report found that “[w]hile Maine BABLO investigates complaints and suspicious situations, it does not routinely conduct compliance operations to identify illegal shippers or assess delivery procedures without a complaint.” (p. 22). Additionally, while wine shippers are currently required to submit reports to BABLO, the DTC Report admitted that “[s]ystematic assessment and review of shipping reports is not possible.” (p. 23).

BABLO does not have the capacity to enforce the current wine shipping law, but the additional enforcement burden on BABLO agents envisioned by this bill would cost an estimated \$474,704, an increase of \$395,447 from the estimated current expenditure on DTC enforcement according to a model by John Dunham & Associates (attached).

For these reasons, SGWS and RNDC oppose LD 1754. Thank you for the opportunity to provide this testimony.

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Vermont Direct-to-Consumer Shipping Sting Reveals Significant Risks to Residents

The Vermont Department of Liquor and Lottery (DLL) has released a groundbreaking compliance report, shedding light on significant hazards and regulatory shortcomings within direct-to-consumer (DTC) alcohol shipping channels in the Green Mountain state.

The report, a result of thorough and calculated investigations by the Vermont DLL, uncovers alarming findings that stress the urgent necessity for strengthened regulation, rigorous oversight, and a bolstered enforcement budget to supervise DTC shipments and shield consumers from associated public health and safety risks.

80% of recipients were not carded at time of delivery.

ONLY 50% of deliveries were shipped through licensed entities.

ONLY 20% of shipments were reported to the DLL.

34% of all attempted purchases were completed.

ZERO purchases were completed lawfully.

2 deliveries were handed to minors by common carriers without ID checks.

The Vermont DLL report concluded by emphasizing the **significant regulatory challenges posed by DTC shipping, particularly highlighting the hurdles in effective oversight and enforcement.** These findings underscore a critical lack of compliance in DTC shipping in the state, indicating a pressing need for substantial investments to ensure adequate regulation and to uphold public safety standards. **With proper DTC enforcement estimated to cost as much as \$446,105 for Vermont,** these findings underline the fact that enacting DTC shipping is an unfunded mandate and that states will continue to struggle to properly regulate and enforce the practice.¹

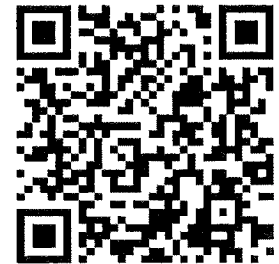
This report by the DLL echoes the results of a recent Morning Consult survey conducted in collaboration with WSWA, with a staggering 76% of American adults expressing concerns regarding the age verification process when using online vendors or delivery platforms for alcohol purchases – and for good reason. The survey also revealed that **one in four adults purchasing alcohol through DTC vendors do not undergo ID checks upon receiving their purchases.**² With evidence showcasing the proliferation of illegal alcohol shipments finding their way into the hands of minors, DTC shipping remains a paramount concern for lawmakers and families nationwide who prioritize public health and safety. WSWA applauds Vermont for its proactive approach in evaluating lapses in regulation in DTC alcohol sales. This sting could, and should, serve as a model for other states to emulate.



**The Sobering Truth
About Alcohol Shipping
Survey Data**



**Learn More about
Common Carrier
Reporting**



**DTC: Know the
Whole Story**

¹<https://www.wswa.org/DTC-Economic-Impact-State-By-State>

²<https://www.wswa.org/news/1-4-adults-who-purchase-alcohol-through-online-vendors-or-directly-manufacturers-do-not-get>

VERMONT DEPARTMENT OF LIQUOR AND LOTTERY

DTC SHIPPING PILOT COMPLIANCE PROGRAM

PROJECT RESULTS

INTRODUCTION

The Vermont Department of Liquor and Lottery's (DLL) Direct to Consumer (DTC) Shipping Pilot Compliance Program established a baseline survey of identified shippers of beverage alcohol in Vermont. This program was designed specifically in response to the increases in illegal DTC Shipping activities in the state and to better understand what a regulatory framework for DTC shipping might be needed if DTC shipping of spirits was permitted in Vermont. We collected data related to beverage alcohol DTC Shipping sales and deliveries to quantify how often the delivery of the product occurs lawfully, and identify non-licensed entities engaged in these illegal sales. The project utilized established protocols employed successfully by DLL to address DTC tobacco and tobacco substitutes. This report is designed to be shared with common carriers (FedEx, UPS, DHL, etc.), the Scott Administration, and the Vermont Legislature relaying the data obtained during the pilot. Finally, this report is intended to justify the continuance of DTC Shipping compliance efforts in the State of Vermont, with possible injunctive relief for violations of [27 U.S.C. § 122a](#) via a partnership with the Vermont Attorney General's Office and tax assessments by Vermont Tax Department for entities engaging in online retail.

SUMMARY

Since the onset of the global pandemic, the beverage alcohol marketplace has changed rapidly. Vermont underwent both emergency executive orders, and then follow-on legislation which provided for increased to-go and delivery beverage alcohol sales. Further, the general retail marketplace has evolved tremendously during the first quarter of the 21st Century. Demand for direct-to-home shipping of consumer goods is now a standard expectation of the American consumer. All of this has led to a demand for increased options around DTC shipping of beverage alcohol. Vermont has been issuing DTC Shipping licenses to vinous and malt producers for nearly a decade. However, little to no regulatory compliance audits have been conducted due to the logistical and resource costs involved with such undertakings. Additionally, during the 2022 legislative session, bills have been introduced to expand licensed DTC shipping activity to include spirits. Prior to this pilot program, DLL had insufficient data to articulate whether this poses a public safety issue within the state. Now, we have the data.

Using established techniques deployed between 2019 and 2022 for the illegal direct-to-consumer (DTC) sales of tobacco products, the Vermont Department of Liquor and Lottery (DLL) engaged in a pilot compliance program addressing both licensed and unlicensed DTC shipping of beverage alcohol activity in Vermont. This pilot program involved detailed online market-place surveillance to identify retailers purporting to ship beverage alcohol products into Vermont. Further, DLL utilized its own licensing database to determine malt and vinous retailers that were permitted to engage in this activity.

Once the retailers were identified, VT DLL organized and executed controlled purchases from them. This involved using dedicated electronic payment and arranging shipping of the beverage alcohol products to a residential location reserved by DLL for the purpose of controlled and recorded delivery. This residential location was either a short-term rental or a DLL Investigators residence. DLL Investigators were present at the short-term rental location to both observe and document the delivery of the products. Employed minors were used for a portion of the controlled purchases to determine likelihood of youth access.

All relative data points were collected using existing DLL infrastructure to force the data into an electronic database that is easily able to analyze and report from. The goal would be to use the data derived from this program to paint the picture for any interested parties how the DTC shipping of beverage alcohol is carried out across the state. The data elements included: percentage of lawful shipments versus unlawful shipments; percentage of unlawful deliveries to minors regardless of legality of sale; and compliance rates for common-carriers (FedEx, UPS, DHL, etc.).

The requirements that would constitute a lawful DTC shipment of beverage alcohol is found in Vermont law, Title 7 V.S.A. [§ 277](#), [§ 279](#), and [§ 280](#). Those requirements are separated by requirements for manufacturers and those for common carriers.

Currently, lawful shipping of beverage alcohol in Vermont is limited to only malt, vinous, and ready-to-drink spirits beverage manufacturers located both in and out of state. Those entities must apply for, and be granted by DLL, a Direct to Consumer shipping license. Once licensed each shipper must do the following:

- ensure that all containers of alcoholic beverages are shipped in a container that is clearly labeled: “contains alcohol; signature of individual 21 years of age or older required for delivery.”
- not ship more than 12 cases of malt beverages containing not more than 36 gallons of malt beverages or not more than 12 cases of vinous beverages or ready-to-drink spirits beverages containing not more than 29 gallons of vinous beverages or ready-to-drink spirits beverages to any one Vermont resident in any calendar year.
- ship their malt and vinous products by common carrier certified by DLL.
- Not ship to any address in a municipality that the Division of Liquor Control identifies as having voted to be “dry.”
- Retain a copy of each record of sale for a minimum of five years from the date of shipping.
- Report at least twice per year to DLL the total amount of malt beverages, vinous beverages, or ready-to-drink spirits beverages shipped into or within the State during the preceding six months, the names and addresses of the purchasers to whom the beverages were shipped, the date purchased, the quantity and value of each shipment, and the name of the common carrier used to make each delivery.
- pay to the Commissioner of Taxes the tax required pursuant to 7 V.S.A. § 421 on the malt beverages, vinous beverages, or ready-to-drink spirits beverages shipped.
- comply with all rules and regulations of the Board of Liquor and Lottery.

Each common carrier must do the following:

- deliver beverages pursuant to an invoice that includes the name of the licensee and the name and address of the purchaser.
- require upon delivery a valid authorized form of identification, as defined in section 7 V.S.A. § 589, from a recipient who appears to be under 30 years of age.
- require the recipient to sign an electronic or paper form or other acknowledgment of receipt.
- comply with the training provisions established in 7 V.S.A. § 213.

In total, baseline metrics regarding the volume and type of entities and products that we subjected to the compliance testing were:

	What type of beverage was purchased?	Count of Type
<div>116</div> <div>Number of Attempted Purchases</div>	Vinous Beverage	60
	Spirits	23
	Malt Beverage	20
	Hard Cider	9
	Spirits/Vinous	3
	N/A	1
<div>40</div> <div>Number of Received Shipments</div>	Total	116

Annex A of this Report will include a list of all attempted purchases by Product Type and Website.

Annex B of this Report will include a list of all deliveries by State of Origin and Website.

RESULTS

The project sought to collect statistically significant data relevant to the following:

- Total Number of Attempted vs. Successful Online Purchases of Beverage Alcohol (by type: Malt/Vinous/Spiritous)
- Total Number of Lawfully Conducted Deliveries of Beverage Alcohol (by Business Entity and Common Carrier)
- Reason Why Delivery Deemed Unlawful (Lack of License, Lack of Reporting, Lack of Age Verification, Lack of Signature Requirement, Lack of Training Certification for Common Carrier, Lack of Package Marking, Delivery to a Minor)
- Total Number of Deliveries to Minors
- Cost Per Single Compliance Check

Requirements NOT checked for compliance, but would otherwise further indicate lawfulness include:

- Total shipment gallonage limitations
- Shipment to any address in a municipality that identifies as having voted to be "dry."
- Shipper record retention
- Tax remission required pursuant to 7 V.S.A. § 421

TOTAL NUMBER OF LAWFULLY CONDUCTED DELIVERIES OF BEVERAGE ALCOHOL

Of the 116 attempted online purchases of beverage alcohol, 40 shipments in total were received. Of the 40 shipments received, no purchase was delivered completely lawfully.

NUMBER OF ATTEMPTED & DELIVERED ONLINE PURCHASES OF BEVERAGE ALCOHOL BY TYPE

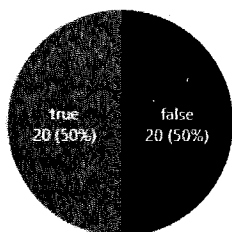
What type of beverage was purchased?	Count of Type
Vinous Beverage	60
Spirits	23
Malt Beverage	20
Hard Cider	9
Spirits/Vinous	3
N/A	1
Total	116

Type of Beverage Alcohol Delivered	Count of Type:
Vinous Beverage	23
Malt Beverage	9
Hard Cider	4
Spirits	4
Total	40

UNLAWFULLY CONDUCTED DELIVERIES / REASON WHY DELIVERY DEEMED UNLAWFUL

Below is a visual representation of the reasons why all 40 deliveries did not comply with Vermont state laws.

Delivered by a Licensed Entity?

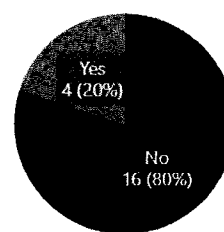


Licensed?

● false

● true

Shipment Reported by Licensee?

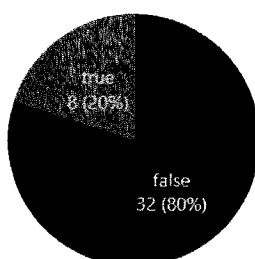


Reported?

● No

● Yes

ID Requested?

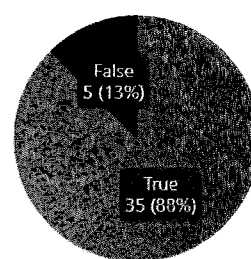


ID Requested?

● false

● true

Signature Required?

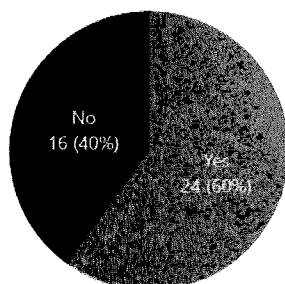


Signature?

● True

● False

Carrier Trained?

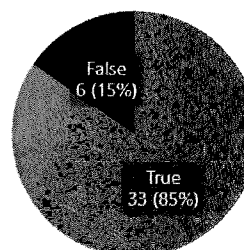


Trained?

● Yes

● No

Packaged Properly Marked?



Package Marked?

● True

● False

TOTAL NUMBER OF DELIVERIES TO MINORS

Two deliveries were made while an employed minor of the department was present and, both times, the product was handed to the minor without the common carrier asking the minor for identification.

COST PER SINGLE COMPLIANCE CHECK

DLL received grant funding from the National Alcohol Beverage Control Association (NABCA) to conduct this pilot. In total, DLL spent \$16,381.90 on the pilot program. That averages out to cost \$141.22 per attempted purchase.

CHALLENGES FACED DURING THE DTC SHIPPING PILOT COMPLIANCE PROGRAM

While successfully revealing important data, the Direct to Consumer (DTC) shipping compliance program had some challenges. The first challenge was to determine the method of payment to be utilized during the program. A lesson learned from our DTC sales of tobacco products program was that many retail sales websites will not take prepaid credit cards. Therefore, we would need a credit card to make purchases online. Special permission had to be obtained from the State of Vermont Purchasing Card program to use a state purchasing card to purchase alcoholic beverages. The process to obtain that permission was time consuming and caused a delay in the program implementation. An additional challenge in using the state purchasing card we had to overcome was that State purchasing policy doesn't allow us to rent an Air BNB in state. Our grant proposal included renting an Air BNB to staff with investigators and a minor to receive delivery of beverage alcohol. The special permission needed to rent an in-state Air BNB took several months to obtain and caused further delays.

Another challenge was determining which websites to check. We had a large list of businesses that were licensed in the State of Vermont but after checking those websites we found that many simply did not participate in shipping. As part of this program, we also wanted to conduct checks of businesses that were unlicensed in Vermont. To find those businesses, we performed a broad internet search and then queried the websites to determine if they would ship to Vermont. This process was time consuming, and we learned that collaborating with other states to obtain lists of manufacturers to check may be beneficial in future endeavors. Challenges also persisted with numerous third-party vendors selling alcoholic beverages. These websites create a level of complexity and nuance that takes additional personnel time to properly investigate and vet.

The investigators also encountered problems during the delivery cycle of this process. Vermont is a small state with very few common carriers. The carriers routinely have the same route for delivery drivers' daily. While at the Air BNB we used the same minor for most of the week we had the establishment rented. The procedures were established that the minor would answer the door when the common carrier attempted the delivery. If the common carrier asked for the minor's ID and then asked if there was someone over the age of 21 at the establishment, the minor would get the investigator to sign for the package. After the first day of delivery the common carrier driver knew to ask for an adult when the minor answered the door. By day 3 and 4 the common carrier left the package at the door. We also had a difficult time in post-delivery investigations receiving information from common carriers. While Vermont has a common carrier training requirement, DLL does not have any regulatory authority over the common carriers, and there is no mandated common carrier reporting as in some other states. This makes a long term Direct to Consumer (DTC) program challenging in regulating deliveries.

Overall, the logistics of the Direct to Consumer (DTC) shipping program were complicated to manage and some valuable lessons were learned. Because we only rented the Air BNB for one week, we had to correctly time orders to ensure that deliveries arrived during that week. Incorrect timing for some packages led to more violations of law. This program also uncovered a flaw in UPS shipping policies as one package was redirected to a UPS Store which is independent from UPS Corporate. In our investigation it was found that packages containing alcohol were not supposed to be redirected to a UPS Store according to UPS policies. Vermont's program was structured in a way so that products of licensed businesses were to be delivered at the Air BNB to test delivery procedures such as package markings, age verification, etc. Products that were ordered from unlicensed establishments were delivered to an Investigator's residence as those products were overall unlawful.

CONCLUSION

Based on the results of this pilot program, DLL concludes that lawful Direct to Consumer (DTC) shipping in Vermont is significantly underregulated and would take a significant investment to properly regulate and ensure public safety.

The fact that only half of the products received were shipped by a licensed entity is problematic. And of those licensed entities, only 20% reported their shipment to DLL. The pilot program revealed that common carriers are generally compliant with state training requirements (60% of the time) and compliant at obtaining signatures at the time of delivery (88% of the time). DLL also found that shippers generally comply by marking shipments as "containing alcohol" (85% of the time).

In terms of public safety, the Department is concerned that in both instances of a minor receiving the alcohol beverage shipment, the product was delivered without asking for identification. In fact, Identification was only asked of the recipient 20% of the time. As a comparison, DLL sees a 85%-90% compliance rate for sales to minors at brick-and-mortar establishments.

Alcohol sales via DTC shipping is difficult to regulate. The cost of a comprehensive program would be extremely expensive for any widespread application. The Department does not currently have the resources to regulate the currently licensed activity. In closing, the Department wishes to thank the NABCA for their financial support with this important work.

ANNEX A

Hard Cider

coldhollow.com/collections/vermonters
shacksbury-cider.taprm.com/all-products
arrowheadciderworks.com/
brewdog.com/usa
champlainorchards.com/cidershop
edenciders.com/store/eden-ice-ciders/
scottfarmvermont.com/
woodchuck.com/shop-cider/

Malt Beverage

beeramerica.com
artifactbeer.com/
beer.foambrewers.com/collections/direct-ship
burialbeer.com/
deciduousbrewing.square.site/
dudleydirect.tiredhands.com/
hillfarmstead.com/#main-content
kettleheadbrewing.com/
nightshiftbrewing.com/
parishbeer.com/
rockbrothersbrewing.com/
sierranevada.com/
triplecrossing.com/
upper-pass-beer-company.square.site/
wildleap.com/
flightdeckbrewing.com/
gebrew.com/s/shop
kanebrewing.com/
mybeercollectibles.com/

Spirits

brobasket.com
Forwhiskeylovers.com
drinkbetterlocal.com/online-store/ols/categories/wild-moon
farnorthspirits.com/spirits/
fivesaintsdistilling.com/shop-national/
flaviar.com/
my.shopbhakta.com
shop.staugustinedistillery.com/
smugglersnotchdistillery.com/pages/spirits
store.forwhiskeylovers.com/collections/wiggly-bridge-distillery
store.paintedstave.com/
vinoshipper.com/catalog/fruit/vermont_vermouth
catseyedistillery.com/index.php/purchase-online/

tetondistillery.com/liquor
kingscountystillery.com
reservebar.com
spirithub.com
drizly.com
nestorliquor.com

Spirits/Vinous

silodistillery.square.site/
boydenvally.com/shop
elginwd.com/

Vinous Beverage

3brotherswinery.com
adirondackwinery.com
boundarybreaks.com
dryfarmwines.com
foxrunvineyards.com
Greatbasinwinery.com
http://neddofamilyvineyards.com/buy.html
http:// northbranchvineyards.com/shipments.php
canavineyards.com/
dev-cinderwines.orderport.net/wines/
fablefarmfermentory.com/shop/
groennfell.com/collections/mead
grovedalewinery.com/
jedwardswinery.com/
lescombeswinery.com/locations/deming/?y_source=1_NjcyMTQ1NDItNzE1LWxvY2F0aW9uLndIYnNpdGU%3D
macscreek.com/
maquambarnandwinery.com/maquam-wine/
montviewvineyard.com/shop
oregonpinotnoirwine.com/Stone-Wolf-Vineyards-winery-239.php
shop.crwine.com/
socialsparklingwine.com/
stickypawsmead.com/
vermontvines.com/
vinoshipper.com/catalog/fruit/putney_mountain_winery_llp
vinoshipper.com/shop/fernleigh_cellars_llc
vinoshipper.com/shop/montpelier_vineyards_llc
vinoshipper.com/shop/shelburne_vineyard?list=3671
bigcorkvineyards.com/wines/
danasorganicwine.com/
doublecanyon.com/Wines
drycreekvineyard.com/
ellisonestatevineyard.com/store-shipping
foleywines.com/
goldenrulebrew.com/
highrowsvineyards.com/
ilmvineyard.com/
jasperwinery.com/shop-online
kalchewine.co/
pepperbridge.com/

personalwine.com/shop
pineridgevineyards.com/
puckerbrushcider.com/available
snowfarm.com/shop/
stella14wines.com/
lamoreauxwine.orderport.net
Lostdrawcellars.com
Nevadasunsetwinery.com
quantumleapwinery.com
ravineswine.com
rexhill.com
shop.foleyfoodandwinesociety.com
summersetwine.com/shop
thefloridawinery.com
Valleycheeseandwine.com
williamsburgwinery.com
wsjwines.com
wiemer.com

ANNEX B

All deliveries by State of Origin and Website

California

Dry Farm Wines

dryfarmwines.com

The Foley Food+ Wine Society

shop.foleyfoodandwinesociety.com

Connecticut

Edwards Wines LLC

jedwardswinery.com/

Florida

The Florida Winery

thefloridawinery.com

Georgia

Craft Beverage Concepts, LLC

wildleap.com/

Iowa

Jasper Winery

jasperwinery.com/shop-online

Summerset Winery

summersetwine.com/shop

Louisiana

Parish Brewing Co., LLC

parishbeer.com/

Maryland

Rohrersville Vineyards, LLC

bigcorkvineyards.com/wines/

Nebraska

Mac's Creek Winery & Brewery

macscreek.com/

New York

Adirondack Winery

adirondackwinery.com

Boundary Breaks

boundarybreaks.com

Fox Run Vineyards

foxrunvineyards.com

Kings County Distillery

kingscountydistillery.com

Lamoreaux Landing Wine Cellars

lamoreauxwine.orderport.net

Ravines Wine Cellars

ravineswine.com

North Carolina

Sierra Nevada Brewing Co.

sierranevada.com/

Ohio

Brewdog Brewing Company, LLC

brewdog.com/usa

Grayscale Brewing, LLC

artifactbeer.com/

Oregon

Pine Ridge Winery, LLC

pineridgevineyards.com/

Rex Hill

rexhill.com

Pennsylvania

Grovedale Winery and Vineyard, Inc.

grovedalewinery.com/

Unknown

My Beer Collectables

mybeercollectibles.com/

Nestor Liquor

nestorliquor.com

Vermont

Balthazar Rex

my.shopbhakta.com

Eden Ice Cider Company

edenciders.com/store/eden-ice-ciders/

Foam Brewers LLC

beer.foambrewers.com/collections/direct-ship

Green Empire

gebrew.com/s/shop

Groennfell Meadery LLC

groennfell.com/collections/mead

Shacksbury Holdings, Inc.

shacksbury-cider.taprm.com/all-products

Shelburne Vineyard LLC

vinoshipper.com/shop/shelburne_vineyard?list=3671

Snow Farm Winery LLC

snowfarm.com/shop/

Virginia

Williamsburg Winery

williamsburgwinery.com

Washington

Foley Family Wines

foleywines.com/



WSWA Direct Ship Enforcement Model METHODOLOGY

Summary:

The Wine and Spirits Industry Direct Ship Enforcement Model calculates the expected cost for a state alcohol beverage control, revenue, or other responsible agency to fully enforce the licensing, delivery and taxation requirements associated with the direct shipment of wine and/or spirits products to consumers.

The model is based on data from state enforcement agencies, SOVOS Ship Compliant (SOVOS) reporting, the 2022 Wine and Spirits Industry Economic Impact model, and various government statistical agencies. These data are used to construct an econometric model of the enforcement requirements under a standardized direct shipment regime, and are applied to each state based on the calculated market for the direct shipment of wines. Calculations of the enforcement costs for potential direct shipment of spirits are based on data from wine shipments, as only a handful of states currently allow for any direct shipment of spirits from producers to consumers.

It should be noted that the volumes of existing direct shipments from producers to consumers as calculated by SOVOS study are based on extremely limited data. These values are significantly smaller than those calculated as part of the 2022 Wine and Spirits Industry Economic Impact model, and likely do not include direct shipments from out-of-state retailers that may or may not comply with the requirements of the receiving jurisdiction. Even so, as these figures were from a third-party the total sum of direct shipments, as calculated by SOVOS, was utilized in the model.

Table 1
Current Direct Wine Shipment Volumes and Tax Loss

State	Estimated Direct Ship (Gallons)	State Tax Loss (Gain)	State	Estimated Direct Ship (Gallons)	State Tax Loss (Gain)
Alabama	23,456	\$ 6,109	Montana	42,248	\$ 4,964
Alaska	33,625	\$ 11,822	Nebraska	60,008	\$ 82,370
Arizona	272,851	\$ 79,994	Nevada	261,096	\$ 15,560
Arkansas	88,574	\$ 28,670	New Hampshire	52,902	\$ (97,594)
California	4,748,969	\$ 1,085,370	New Jersey	278,396	\$ 17,358
Colorado	783,502	\$ 92,149	New Mexico	72,810	\$ 456,110
Connecticut	132,458	\$ 28,121	New York	1,631,396	\$ 36,966
Delaware	34,769	\$ 3,969	North Carolina	255,693	\$ 8,884
District of Columbia	37,742	\$ 333,015	North Dakota	37,184	\$ 118,032
Florida	1,020,053	\$ 142,040	Ohio	351,562	\$ 49,250
Georgia	407,996	\$ 19,541	Oklahoma	196,494	\$ 104,849
Hawaii	71,144	\$ 9,466	Oregon	599,269	\$ 92,616
Idaho	36,780	\$ 218,779	Pennsylvania	1,418,565	\$ 16,223
Illinois	701,384	\$ 66,983	Rhode Island	51,189	\$ 19,093
Indiana	218,654	\$ 17,290	South Carolina	193,405	\$ 11,335
Iowa	70,073	\$ 69,324	South Dakota	32,422	\$ 75,717
Kansas	173,210	\$ 86,673	Tennessee	236,713	\$ 581,771
Kentucky	185,623	\$ 52,007	Texas	1,406,195	\$ 75,114
Louisiana	151,519	\$ 12,909	Utah	286,900	\$ 145
Maine	50,835	\$ 70,222	Vermont	21,250	\$ 79,253
Maryland	235,581	\$ 88,900	Virginia	303,714	\$ 237,209
Massachusetts	274,737	\$ 16,618	Washington	866,194	\$ 18,151
Michigan	266,212	\$ 60,510	West Virginia	56,188	\$ 75,747
Minnesota	231,282	\$ 27,626	Wisconsin	225,020	\$ 5,277
Mississippi	95,210	\$ 36,156	Wyoming	22,579	\$ (1,346)
Missouri	196,092	\$ 9,400	Total	19,501,725	\$ 4,756,717

Overall, the model suggests that 19.5 million gallons of wine are currently being directly shipped to consumers in all 50 states and the District of Columbia, and that illegal direct shipments result in the loss of about \$4.7 million in taxes. It should be noted that these estimates are based on data from SOVOS, data which JDA believes do not include most illegal direct shipments. Were states to fully enforce their direct shipment laws, the cost to taxpayers could be as high as \$256.2 million if direct shipment from producers to consumers of both wine and distilled spirits were allowed in every state.

Data:

This model is based on the following data elements (in no specific order):

Control State: A dummy variable set to 1 if the state is a control state for any purpose, including either wholesaling or retailing of either wine or spirits. Maryland is not included as a control state as only one country controls the wholesaling and retailing of beverage alcohol products.

Direct Shipment of Wine Prohibited: A dummy variable set to 1 if the state currently prohibits the direct shipment of wine from producers to consumers.

Direct Shipment of Spirits Prohibited: A dummy variable set to 1 if the state currently prohibits the direct shipment of spirits. Only Florida, Kentucky, Nebraska, New Hampshire, Rhode Island, West Virginia and the District of Columbia currently allow significant direct shipment of spirits.

Investigator Wage (\$2021): The average wage of an investigative staff member (including support staff) in a given state as of 2021. These data are from the Bureau of Labor Statistics, Occupational Employment and Wage Statistics for May 2021.

Investigator Wage (\$2022): Investigator Wage (\$2021) inflated to \$2022 using CPI from May 2021, to May 2022. CPI from the Bureau of Labor Statistics, CPI Inflation Calculator.

Investigator All In: Full compensation cost for an enforcement staff worker. This is equal to the 2022 estimated wage multiplied by 1.5.

ABC Budget: The budget of the enforcing entity based on the most recent executive budget in each state. The budget for the District of Columbia was not available. Therefore, the D.C. budget was set to that of Delaware for modeling purposes and both jurisdictions were responsible for similar volumes of beverage alcohol products.

Total Gallons: Total gallons of wine estimated to be sold in each jurisdiction based on the 2022 Wine and Spirits Industry Economic Impact model. Note that Federal sales data from the Alcohol and Tobacco Tax and Trade Bureau were not available as of the construction of the model.

Staff: Total number of staff dedicated to alcohol enforcement and licensing in the responsible agency based on most recent agency reports, budgets or other state government sources.

Direct SOVOS: Direct wine sales into each state as estimated by SOVOS in the *2022 Direct to Consumer Wine Shipping Report*. Figures are reported in cases.

SOVOS Gallons: Direct SOVOS converted into gallons based on 9-liter cases.

JDA Gallons: Total SOVOS Gallons divided across states based on estimated direct shipments from the 2022 Wine and Spirits Industry Economic Impact model. SOVOS figures are based on reporting in just 11 jurisdictions.

Untaxed Gallons: Gallons of wine sold based on Federal excise tax collections less gallons wine sold based on state excise tax collections. This would include wine sold in non-taxed Native American jurisdictions, on military and other Federal property, and on certain cruise ships. It would also include wine shipped directly from one jurisdiction to another without reporting in either jurisdiction.

Percent Untaxed: This is roughly 4 percent of wine volume, and is the untaxed gallons divided by taxed gallons plus untaxed gallons.

18+ Population 2022: Number of people in each state aged 18 and above in July 2022. Data from the US Department of Commerce, Bureau of the Census.

SOVOS Volume Per Capita: SOVOS Gallons divided by 18+ Population 2022

JDA Volume Per Capita: Total Gallons divided by 18+ Population 2022

Direct per Capita: JDA Gallons divided by 18+ Population 2022

JDA Illicit: Untaxed Gallons divided by 18+ Population 2022

State Tax Per Gallon (Wine): Combined state and local taxes on wine in 2022 (not including local sales taxes).

State Tax Per Gallon (Spirits): Combined state and local taxes on spirits in 2022 (not including local sales taxes).

Lawyer Wage \$2022: The average wage rate for a Lawyer in the public sector in a given state as of 2021. These data are from the Bureau of Labor Statistics, Occupational Employment and Wage Statistics for May 2021. This is inflated to \$2022 using CPI from May 2021 to May 2022. CPI from the Bureau of Labor Statistics, CPI Inflation Calculator.

Lawyer All In: Lawyer Wage \$2022 multiplied by 1.5 to reflect full compensation.

Enforcement Cost Estimates:

Based on conversations with state ABC officials it is obvious that no state fully enforces its existing direct shipment laws. As is reported by SOVOS, only 11 states even audit the shippers' reports on alcohol transfers into their jurisdiction. Fully enforcing the laws would require extensive and regular audits of shippers reports, sting operations (such as age restriction stings), the distribution of cease and desist letters to producers or retailers illegally shipping wine or spirits to consumers, and in some cases even legal action.

The estimated cost of fully enforcing current laws was estimated based on the data outlined above, and estimates of the number of gallons per shipment where those data are available.

Data on the number of direct shipments in a given year were obtained for the states of Kansas, Tennessee and Virginia from WSWA. While this is a limited sample of states, these were the only data available to JDA on the number of shipments by state. A ratio of the number of direct shipments to total gallons of wine sold was calculated and averaged across the data, resulting in a value of 0.0317 recorded direct shipments per gallon of wine sold in the states.

This ratio was then applied to total wine and spirits gallonage across all states, and an estimated number of direct shipments was calculated for each state. These totaled over 31.8 million shipments across the entire country. The number of illicit shipments based on the ratio of untaxed sales to taxed sales for each state from the 2022 Wine and Spirits Industry Economic Impact model was added to this value to provide an estimate of total shipments to consumers.

Next the budget for each of the three enforcement agencies from which data were available was divided by the estimated number of shipments for that state, and the number of illicit sales in each state was divided by that result. This provided an estimated agency cost per illicit sale. The average of these costs for the three

states is then used as a proxy to calculate the number of additional staff needed to enforce direct ship laws across each state.¹

Table 2
All in Costs to Fully Enforce Direct Shipment of Wine and Spirits Laws

Estimated Enforcement		Estimated Enforcement	
State	Costs	State	Costs
Alabama	\$ 929,264	Montana	\$ 489,675
Alaska	\$ 628,846	Nebraska	\$ 495,269
Arizona	\$ 1,785,581	Nevada	\$ 1,107,508
Arkansas	\$ 466,498	New Hampshire	\$ 829,205
California	\$ 116,944,912	New Jersey	\$ 7,220,745
Colorado	\$ 2,496,720	New Mexico	\$ 458,938
Connecticut	\$ 4,520,156	New York	\$ 17,471,120
Delaware	\$ 607,817	North Carolina	\$ 4,183,513
District of Columbia	\$ 277,334	North Dakota	\$ 495,697
Florida	\$ 13,851,331	Ohio	\$ 3,039,306
Georgia	\$ 2,369,184	Oklahoma	\$ 560,929
Hawaii	\$ 668,962	Oregon	\$ 1,660,678
Idaho	\$ 461,094	Pennsylvania	\$ 3,604,604
Illinois	\$ 9,342,683	Rhode Island	\$ 764,137
Indiana	\$ 2,403,241	South Carolina	\$ 658,702
Iowa	\$ 610,732	South Dakota	\$ 886,332
Kansas	\$ 550,581	Tennessee	\$ 1,987,776
Kentucky	\$ 1,538,949	Texas	\$ 18,719,448
Louisiana	\$ 822,729	Utah	\$ 519,796
Maine	\$ 474,704	Vermont	\$ 446,105
Maryland	\$ 2,010,450	Virginia	\$ 4,522,436
Massachusetts	\$ 3,285,858	Washington	\$ 9,615,423
Michigan	\$ 3,128,973	West Virginia	\$ 453,544
Minnesota	\$ 1,786,448	Wisconsin	\$ 1,968,232
Mississippi	\$ 446,821	Wyoming	\$ 433,930
Missouri	\$ 1,411,231	Total	\$ 256,414,145

Total costs for each agency were then calculated based on overall agency costs per employee, with the difference between wages for the estimated number of required enforcement staff and the total cost being allocated to “equipment,” a category that would include all machinery, equipment, data, etc. required to operate an enforcement division.

An additional cost for legal services was added to the estimated enforcement cost, since few, if any agencies are taking legal action against illegal direct shippers. The legal costs are estimated to be equal to a maximum of 6 percent additional staff from the based number of employees in the enforcement division. The 6 percent figure is based on an average of 5.5 legal staff per operation (2 lawyers per state).

These figures are then multiplied by the ratio of wine to spirits sales to break them down between the wine and spirits sectors.

Econometric Model:

Econometric models are used to help determine linkages between different variables and effects in the economy. In this case, the goal of the model is to determine if the elimination of a prohibition against the direct shipment of wine and/or spirits in a state would increase enforcement costs.

To calculate the potential estimated change in direct shipments, and therefore the change in enforcement costs, a tool known as a regression model is utilized.

¹ Number of illicit shipments, multiplied by the cost of said shipments and then divided by the wage rate for enforcement staff.

A regression model uses specific statistical processes to estimate relationships between different variables. These models can take a wide number of forms, the most common of which is called linear regression. Other model forms examine non-linear relationships (such as logarithmic regression) or use different forms of estimation.

Regression analysis helps to reveal relationships between the test variable (also called the dependent variable) and other factors. Note that this form of econometric analysis can only be used to infer correlation between these variables, not direct causal relationships. Further analysis is always necessary to interpret the relationships and to understand potential outcomes.

In this analysis, JDA calculated dozens of different models utilizing two different techniques. These were:

- 1) **Multiple Linear Regression:** Uses several explanatory variables to predict the outcome of a specific indicator. Multiple linear regression models the linear relationship between the variables.
- 2) **Log/Linear Regression Models:** In a log-linear regression the indicator is a product, instead of a sum, of explanatory variables.

In conducting these studies, it was determined that the log/linear models provided the best results. This allows for the key explanatory variables (shipments and agency size) to be non-linear in nature. The variables are not correlated with each other suggesting that currently the level of direct shipments is not associated with the size of the agency. This makes sense as little enforcement of direct shipment laws is currently being done.

The other key variables are the dummies surrounding control states and the allowance of direct shipments of wine. Interestingly, higher state tax rates did not correlate to increases in direct shipments, likely because those utilizing legal direct shipment are purchasing higher priced products where the percentage of tax is lower.

The variable of illicit shipments per capita proved to be the most reliable dependent variable. As such the model estimates how the enactment or repeal of a direct shipment law for wine and/or spirits will impact illicit shipments and enforcement costs.

A total of 20 separate models were run examining the direct shipment dummy variables, and estimating a coefficient of the illegal sales differential for states with and without direct shipments controlling for all of the other factors above. The detailed results of the final models are shown in Figure1 below.

Figure 1
Results of Regression Analysis Used in this Model

Wine Model

SUMMARY OUTPUT

Regression Statistics	
Multiple R	0.7662
R Square	0.5871
Adjusted R Square	0.5385
Standard Error	0.0100
Observations	39

ANOVA

	df	SS	MS	F	Significance F
Regression	4	0.005	0.001	12.087	0.000
Residual	34	0.003	0.000		
Total	38	0.008			

	Coefficients	Standard Error	t Stat	P-value	Lower 95%	Upper 95%	Lower 95.0%	Upper 95.0%
Intercept	0.0369	0.0070	5.2658	0.0000	0.0226	0.0511	0.0226	0.0511
DS Wine Prohibited	(0.0018)	0.0065	(0.2781)	0.7827	(0.0151)	0.0114	(0.0151)	0.0114
LogDirectCap	0.0067	0.0012	5.6600	0.0000	0.0043	0.0091	0.0043	0.0091
Log Staff	(0.0027)	0.0021	(1.2483)	0.2205	(0.0070)	0.0017	(0.0070)	0.0017
Control	(0.0040)	0.0035	(1.1225)	0.2695	(0.0111)	0.0032	(0.0111)	0.0032

Spirits Model

SUMMARY OUTPUT

Regression Statistics								
Multiple R	0.8063							
R Square	0.6502							
Adjusted R Square	0.6113							
Standard Error	0.0985							
Observations	51							

ANOVA								
	df	SS	MS	F	Significance F			
Regression	5	0.812	0.162	16.728	0.000			
Residual	45	0.437	0.010					
Total	50	1.249						

	Coefficients	Standard Error	t Stat	P-value	Lower 95%	Upper 95%	Lower 95.0%	Upper 95.0%
Intercept	0.3666	0.0593	6.1777	0.0000	0.2471	0.4862	0.2471	0.4862
DS Spirits Prohibited	0.0145	0.0397	0.3651	0.7167	(0.0655)	0.0945	(0.0655)	0.0945
Logspitscap	0.0735	0.0104	7.0496	0.0000	0.0525	0.0944	0.0525	0.0944
Log Staff	(0.0157)	0.0140	(1.1273)	0.2656	(0.0439)	0.0124	(0.0439)	0.0124
Control	(0.0171)	0.0308	(0.5541)	0.5822	(0.0792)	0.0450	(0.0792)	0.0450

As Figure 1 shows, the initiation of a direct shipment regime for wine would increase per capita direct shipments by 1,814 gallons of wine/spirits (roughly 9,150 bottles) per 1,000,000 adults in the state.

This low value suggests that direct shipment of wine and spirits is already common in states that technically restrict it, and if so may be as high as the 3.2 bottles per adult that is calculated in the 2022 Wine and Spirits Industry Economic Impact model. If the figures in the 2022 Wine and Spirits Industry Economic Impact model are correct, the calculated enforcement costs might be as high as 3 or 4 times what is reported here.

Discussion and Conclusions:

The WSWA Direct Ship Enforcement Model provides an estimate of what it would cost to fully enforce laws allowing for the direct shipment of wine and/or spirits in every state. It also provides estimates of how changes in these laws could impact direct shipment volumes and costs.

The key data used to construct the model come from SOVOS and are likely grossly underestimated. This means that the enforcement costs and impact of changes in regulations could be as much as 4-times higher than reported here.

In addition, the models suggest that changes in direct shipment regulations might only have a marginal impact on the number of gallons shipped. This is also likely due to underestimates in current levels of direct shipments. In addition, the state consumption tax implications and number of bottles per shipment is very low, meaning that it is mostly higher-priced specialty products, or those from small vintners and distillers that account for the majority of reported direct shipments, while lower-priced table wines or “well” spirits are not generally shipped from producers.

The model estimates are based on extremely limited data, and data modeled as part of the process of conducting the 2022 version of the wine and spirits industry economic impact study. Data from either taxing authorities, shipping companies or state regulators are extremely limited. If better data become available, it is likely that the model parameters could change significantly.