



Sally H. Jefferson
Director, Western States

The Honorable Kelly Merrick
Co-Chair House Finance Committee
Alaska House of Representatives
Juneau, AK 99801

The Honorable Neal Foster
Co-Chair House Finance Committee
Alaska House of Representatives
Juneau, AK 99801

Dear Chairs Merrick and Foster:

I am writing on behalf of Wine Institute to express our concerns with recent amendments to SB 9 regarding the annual quantity limit on direct to consumer wine shipments. Wine Institute is a public policy association representing more than 1000 California wineries who make 85% of the wine produced in the United States.

We appreciate the years of work to develop SB 9, the omnibus liquor bill, and the opportunity to be a member of the stakeholder group that drafted the winery direct to consumer shipment (DTC) provisions – a product of extensive negotiation, compromise and an agreement among all tiers of the industry and other interested stakeholders including alcohol misuse prevention and recovery groups.

As agreed to by the stakeholder group, these provisions are consistent with successful state direct shipping programs that have been safely operating for more than 30 years and that wineries are required to comply with across the country. They would:

- Require wineries to obtain a winery direct shipment license in order to directly ship to adult consumers as well as require payment of state taxes on those shipments, which help offset, if not cover, the costs associated with issuing the license and program operation;
- Require direct ship winery applicants to consent to the jurisdiction of the state government and state courts and maintain records in the event of an audit – thereby allowing state enforcement of the bill's requirements and penalties for violations;
- Require licensed direct ship wineries to verify that the person placing the order is 21 years or older and that the customer is not located in a Local Option Area, where direct shipments would be prohibited;
- Limit the amount of wine that an adult consumer can have directly shipped from the current "reasonable" quantity to 12 cases annually per person. The SB 9 stakeholder group agreed to further require that there be a 6 case limit per transaction; and
- Require that all shipments be labeled containing alcohol and that a signature of someone 21 years or older is required for delivery. Both common carriers, UPS and Fedex, have wine shipping programs that embed these requirements into their automated systems.

These new requirements will move Alaska from its many years of being an open state for direct winery shipments to one that would allow limited, regulated and tax-paid shipments directly to consumers for their personal use only. Equally as important, they will establish strong regulatory controls to prevent both underage access and sales to Local Option Areas.

However, SB 9's section (04.09.370) to establish a "winery direct shipment license" was recently amended to be a "manufacturer direct shipment license" to allow manufacturers of spirits and beer to directly ship their products to consumers. Based on growing concerns about direct shipping and bootlegging of spirits, the limits on spirits and beer were reduced and the previously agreed to 12 case annual quantity limit for wine

was drastically cut to 27 liters or 3 cases annually, with a unique prohibition on selling no more than 9 liters or 1 case in a single transaction. Despite a claim to the contrary, the SB 9 stakeholder group did not sign off in support of this amended wine quantity limit.

We are opposed to the newly proposed limits on direct wine sales and respectfully request that the 12 case annual limit per person that was fully vetted over the last 9 years, and agreed to by the stakeholder group, be restored. Due to the enormous popularity of direct wine shipping among consumers, almost every other state allows a minimum of 12 cases of wine annually and a number of states allow 24 cases or more, providing adult consumers access to thousands of wine brands and vintages that may not be available to them locally. If the 3 case annual limit on wine were to become effective, Alaska would have the second most restrictive of the 47 states that allow direct wine shipping. Furthermore, some states are looking to increase their annual quantity limits in response to strong support for the program. Minnesota, which has the lowest permissible quantity limit of 2 cases, is seriously considering increasing its current limit to 12 cases per person as negotiated and agreed to by the wholesalers, retailers, common carriers, Teamsters and Wine Institute as a part of legislation to update the state's direct shipping program.

The proposed overly restrictive annual quantity limit in combination with a high permit fee of \$200 biennially would likely result in diminishing winery participation in the direct shipping program. We gathered statistics from states with similar adult (21 years or age and older) populations that permit wine direct shipping to demonstrate the effect fees and quantity limits have on the number of direct shipment permit holders. Each state statute is different, so there may be variables; however, there is a correlation between higher permissible quantity limits and lower fees in relation to the number of winery permit holders that will participate in a direct shipping program.

Alaska Compared to States With Similar Population Size - DTC License & Shipment Volume

State	2020 Adult Population	License Fee	Active License Count	Per Winery Volume Limit	2020 Winery DTC Shipments (cases)
Alaska	515,000	NA	NA	"reasonable quantity"	6,961.04
Idaho	1,295,000	\$50	1,080	24 cases per person per year	34,962.24
North Dakota	543,000	\$50	885	3 cases per person per month	6,312.82
Vermont	472,000	\$330	570	12 cases per person per year	14,430.87
Wyoming	426,000	\$50	1,140	12 cases per household per year	12,073.37

Sources:

2020 Adult Population size - 2021 Wine Handbook, Beverage Information Group

2020 DTC Shipment Volume data - Sovos ShipCompliant and Wines Vines Analytics

North Dakota

- Volume increased from 1 case to 3 cases per month on 8/1/2007

Wyoming

- Volume limit increased from 2 cases to 4 cases per year on 7/1/2015
- Volume limit increased from 4 cases to 12 cases per year on 7/1/2021

In addition, the steep cost and delivery time to ship wine via common carrier to Alaska already creates practical limits on the amount of wine that consumers will purchase for direct shipment to their homes. For example, the estimated cost to ship one 750 ml bottle of wine from Napa to Anchorage is approximately \$52 and a minimum cost of \$186 for a case to arrive at the end of the third or fourth business day. It is typically more cost efficient to purchase more at one time rather than multiple smaller shipments.

Furthermore, the proposed 3 case annual limit and 1 case restriction on a single transaction would likely limit Alaska wine consumers from joining wine clubs of their favorite producers. As a part of these clubs, wines are selected by the winery on a regular basis, which often allows access to wines produced solely for club members that cannot be purchased at retail. Many of these unique, limited offerings are only available for a short period of time around spring and fall releases. Alaska wine consumers looking to take advantage of these opportunities could be severely limited in the amount they could purchase from a single winery in comparison to adult consumers in most every other state.

Therefore, we respectfully request that SB 9 be amended to restore the 12 case annual quantity limit for regulated direct wine shipments. Reverting back to the SB 9 stakeholder group proposed and agreed upon 12 case per person limit will not hurt local wine retailers or wholesalers. Legal, regulated direct shipping can grow brands and boost local sales, as has been the case in other states. Even with most of the US population living in states with access to direct wine shipments, 97% of wine is still sold through wholesalers and retailers and that would not change by restoring the original 12 case quantity limit for wine as originally proposed in SB 9.

We appreciate your consideration of our comments. If you have any questions, please let me or Wine Institute's local contract lobbyist, Ashley Reed, know.

Sincerely,

A handwritten signature in cursive script, appearing to read "Sally Jypen", with a long horizontal flourish extending to the right.

cc: The Honorable Adam Wool