

# The 3-tier System of Alcohol Beverage Regulation

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Liquor Control Commission and founder of Campaign for  
a Healthy Alcohol Marketplace

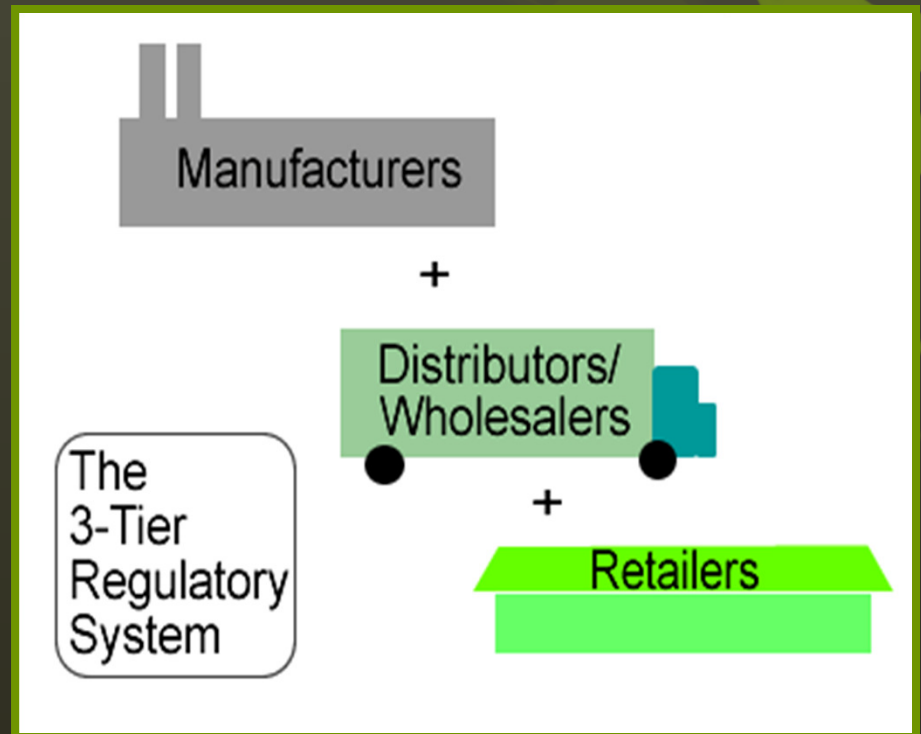
Purpose: Explain the benefits of the 3-tier system and how it works to foster public health and safety.

○ Objectives:

- Describe how and why the 3-tier system was developed.
- Explain how it works to enhance basic system strategies designed to reduce problems with alcohol.
- Indicate the unique benefits of this system for industry and the public.
- Review current issues with alcohol regulation in Florida.

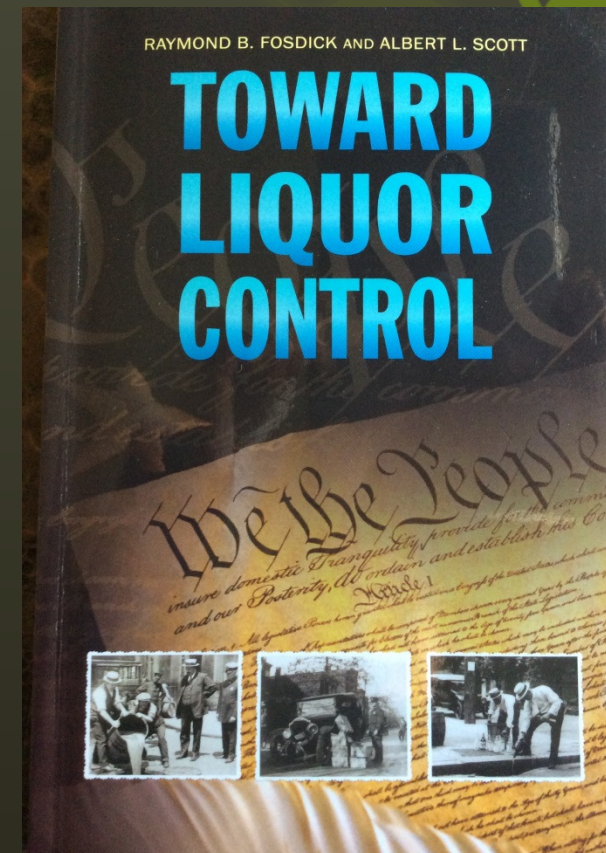
# What is the 3-tier system?

- It is a regulatory structure that involves a closed system of product sale.
- All alcohol products must go from a licensed manufacturer or importer to a licensed wholesaler to a licensed retailer.
- Each tier is usually required to be independent of the other.
- 3-tier system is like a house's foundation.



# Why was this system developed?

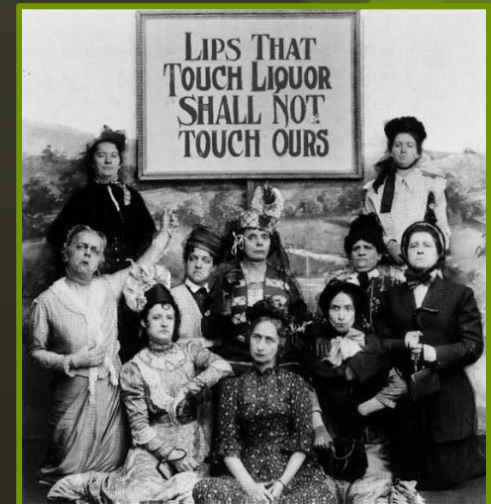
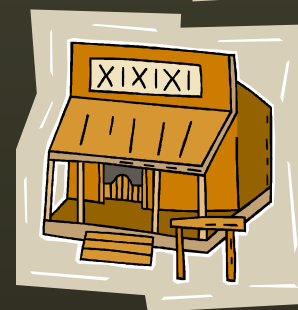
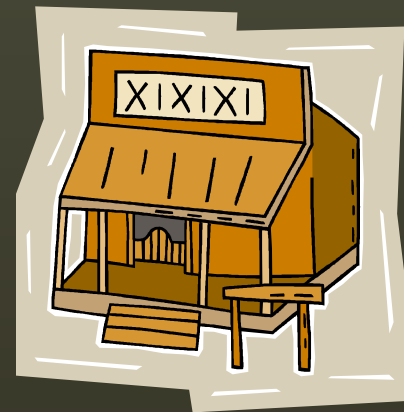
- Two major experiences with marketplace problems:
  - Poorly regulated market before Prohibition.
  - Completely illegal market during Prohibition.
- Toward Liquor Control* established the blueprint for state regulation with two options: control system or license system.



Before Prohibition: "For generations, Americans had been heavy drinkers, and by 1900 saloons were identified with political corruption, gambling, crime, poverty and family destruction." *W.J. Rorabaugh, University of Washington Historian.*

Alcohol sold primarily in bars (called saloons) owned by **large, out of state manufacturers**. A "Tied House" saloon could only sell the manufacturer's product. Each manufacturer had a saloon in many communities crowding town centers.

- Competition was fierce. Aggressive sales—with lot's of inducements--promoted **high volume drinking**. Workers would often drink up their family's paycheck.
- **Social problems:** public disorder, intoxication and addiction, family wages squandered, prostitution, gambling.
- This situation lead to the extreme solution of national Prohibition.





# Prohibition fostered illegal market

Drinking rates declined and public order problems subsided, but alcohol went underground.

Nationally organized crime syndicates developed to supply alcohol.

Illegal retail outlets, called "speak-easies", sprung up to accommodate drinkers.

Eventually, Prohibition was repealed and states got the primary responsibility to regulate alcohol.



Regulation was designed to curtail the kind of local market domination that produced high volume sales and extensive social problems.

- **Reduce adverse impacts of “the profit motive”** such as price wars, incentives to consume in high volume.
- **Prevent “vertical integration”** or inducements which tie manufacturers to retailers.
- Curtail public order problems created by saloons, including **outlet density restrictions**, and measures to encourage more drinking at home.
- **Greater restrictions on high alcohol content products;** make “lighter alcohol content” products more widely available.

***“The ‘tied house’ system had all the vices of absentee ownership. The manufacturer knew nothing and cared nothing about the community. All he wanted was increased sales. He saw none of the abuses, and as a non-resident he was beyond local social influence.”*** Fosdick and Scott, *Toward Liquor Control*.

Efforts to regulate marijuana by permitting full scale commercialization illustrate the difficulty of controlling a former illegal product with potential for abuse.

- An extreme bottom-line orientation can induce sales that result in underage use, addiction, impaired driving, violence, abuse and psychotic events.
- Standard business practices that must be curtailed:
  - marketing that targets or over-exposes youth or encourage excess consumption
  - price reductions that induce high volume consumption





# The UK is an example of problems encountered through deregulation of alcohol

- At one time, the UK had a model alcohol regulatory system. But, they deregulated over 50-60 years.
- Big box grocery chains are “vertically integrated” and dominate local markets with cheap alcohol available 24 hours a day, 7 seven days a week.
- Today the UK has an alcohol epidemic with high rates of underage drinking, public drunkenness and over 1 million alcohol related hospital admissions.
- Re-regulation has proven difficult. Top UK health officials are calling for new tough measures including criminalization of public drunkenness: policymakers **“...successive governments have failed to enact evidence-based policies that would save lives and ease pressure on the health, policing and criminal justice systems.”**
- Industry representatives oppose “strong strategies” preferring “personal responsibility.” (see New Year’s Eve photo on right)



In general, here is how alcohol regulation works to control business practices which can create problems.

1. **Price:** Through taxes, price policies and the 3-tier structure, prices are balanced: not too high to induce bootlegging and not too low to increase consumption, particularly among youth.
2. **Promotion:** curtails or bans promotions that encourage high volume consumption; prohibits advertising that targets youth.
3. **Product:** controls or bans dangerous or high potency products.
4. **Place:** limits availability (locations, days and hours of sale)



3-tier system detail: It's complicated, but comprehensive. Laws at each level of government help control local markets.

- **Financial Independence** prevents business practices which promote increased and high-volume consumption through price reductions. (Ownership prohibited between sectors)
- **Functional Independence** protects the integrity of the three-tier system by prohibiting ways to circumvent it. (One sector can't perform function of another)
- **Trade Practice and Price Regulations** prevent increased consumption that would occur by selling large quantities of very cheap product. (Uniform pricing, ban on volume discounts). Other regulations maintain fairness, transparency and level the playing field.
- **Promotion and Advertising Regulations** prevent business practices that target heavy-drinking groups and promote volume consumption.
- **Tax Collection** provides for an efficient tax collection system.
- **Product Tracking** prevents sale of tainted and counterfeit product.
- **Age Restrictions** prevent sales to underage youth.
- **Availability Limits** reduce consumption, social problems and burden on law enforcement.

Financial independence for each tier achieved by laws that prohibit several practices:

- **Ownership** of one tier by another. Federal law allows ownership but requires retailer independence.
- **Financial ties:** loans, favorable credit terms, cash payments, exclusive favorable product pricing.
- **Inducements:** Things of value as an inducement to buy a manufacturer's products: slotting fees, promotions, furniture, fixtures, labor, free products.
- Many states also have **Franchise Laws** that protect the distributor from being dominated by the manufacturer.





# Functional independence focuses each tier on its services and responsibilities.

- Each tier is licensed to perform particular functions.
- Some states prohibit one tier from performing another tier's function (e.g. retailer can't have a central warehouse and distribute product).





# Each tier has important regulatory functions.

- **Tax collection** (US has almost 100% collections v. substantial loss in other countries.)
- **Product quality.** Distributors track all bottles and cans. Products can be quickly removed from shelves before harm occurs. Other countries experience death and injury from tainted alcohol products.
- Retail tier must **prevent sales to minors and intoxicated persons.** Also collect sales taxes.



# What does research say about these alcohol regulations?

- Credible research from public health officials such as the Centers for Disease Control and the World Health Organization have confirmed the effectiveness of basic alcohol regulations.
- Example: “Alcohol, No Ordinary Commodity,” Second Edition): the strong strategies are “restrictions on affordability, availability and accessibility, as well as drink-driving deterrence measures”



## Pressure to deregulate: Hyper-competitive grocery market and governments needing revenue

- Supermarket chains have become a dominant force in the alcohol market. They want to sell all forms of alcohol in lightly regulated environments.
- Many new outlets. Drug stores, convenience stores, “dollar stores” apply for licenses.
- In-store advertising over-exposes youth to alcohol ads.
- Governments are desperate for revenue and seem willing to ignore likely consequences.



# Hot Issues



- **Liquor Stores v. Big Box Grocers—Customer Convenience, “one-stop shopping,” and excessive merchandising.**
- **More jobs and revenue (ignore the consequences) greater outlets, customer convenience, “vibrant nightlife.”?**
- **Three tier issues—buying vertical integration, wholesale regulation enforcement, accommodating small producers.**
- **Lack of funding for prevention and law enforcement.**

Vodka and Vegetables: Large grocery chains want to sell all forms of alcohol throughout their store, not in a separated area.

- Merchandise and advertise throughout the whole store
- Expose all grocery customers to ads and promotions not just those who regularly buy alcohol
- Maximize use of impulse buys and other inducements
- Sell at "store hours"
- Use reduced labor devices such as self-service

- "Allowing grocery stores to sell all forms of alcohol in lightly controlled shopping environments would be directly opposite from public health recommendations for regulation. It would increase availability, likely increase inducements for high volume purchase, remove incentives to purchase "lighter beverages," and effectively eliminate age restrictions on employees. Underage drinkers would be frequently confronted with alcohol promotional advertising and would have more opportunities to purchase and pilfer alcohol products. It is very reasonable to assert greater control over products of high alcohol content that are frequently not packaged or sold in single serving sizes." AFFIDAVIT OF PAMELA S. ERICKSON, Maxwell Pic-Pac v. Robert Vance.



# Over-the-top Merchandising of Alcohol

**THIS LOOKS LIKE A LIQUOR  
STORE/WINE BAR**



**BUT...IT'S A BIG BOX  
GROCERY STORE**



# Let's make more money, create more jobs!

- ⦿ Connecticut governor wants to expand alcohol sales to gain revenue. Cross border wars.
- ⦿ New licenses created to sell alcohol in non-traditional spaces.
- ⦿ Dry jurisdictions vote to go wet.
- ⦿ Sunday sales expands...it's not necessarily about religion.





# **“Vibrant Night Life”**

- ◎ **Revitalize inner cities**
- ◎ **Create jobs, more money, more tax revenue by selling more alcohol and capturing young adult’s entertainment dollars.**
- ◎ **Law enforcement impact**
- ◎ **Problems with public disorder, DUI, underage drinking**
- ◎ **The “pre-drinking issue”**
- ◎ **Is it cost-effective?**



# Three tier system challenges

- Many threats to three-tier system including legislative changes, court suits and ballot measures.
- Since 2010, seven states including Ohio and Illinois have passed legislation that clarifies a prohibition on brewery-owned distributorships
- Small craft breweries and distilleries want to operate as distributors and retailers. Laws sometimes allow 3 tier exceptions for small operators. What happens when they get big?



# Greater investment in prevention is warranted

Remarkable decline in 8<sup>th</sup> grade use nationally demonstrates the value of strong prevention measures.

Major declines in many other risky behaviors and increase in parent influence.

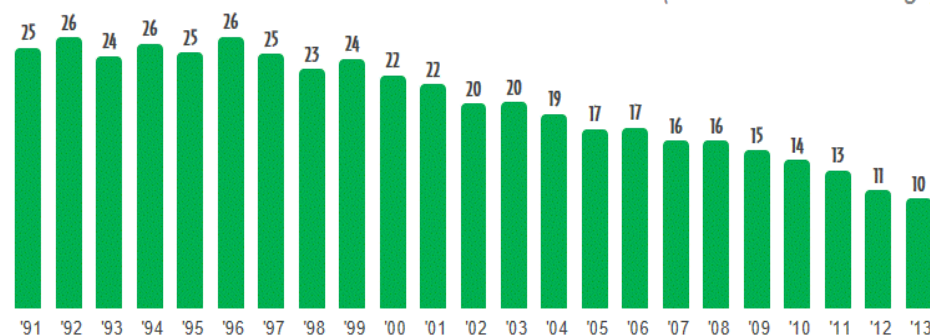
Preventing risky behavior is more cost-effective than criminal sanctions after the fact...especially jail.

Alcohol regulation is basic prevention because it employs strong environmental strategies.

This track record warrants greater investment in prevention.

## Eighth Grade Students Who Reported Drinking in the Past Month Declined 59% Proportionally from 1991 to 2013.

*(Numbers in Percentage)*



Source: NIDA, *National Survey Results on Drug Use from the Monitoring The Future Study*, Vol. II Johnston L., et al, U. of Michigan, 12/13  
Note: Author state language on the 93/94 survey changed slightly.



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[www.healthyalcoholmarket.com](http://www.healthyalcoholmarket.com).

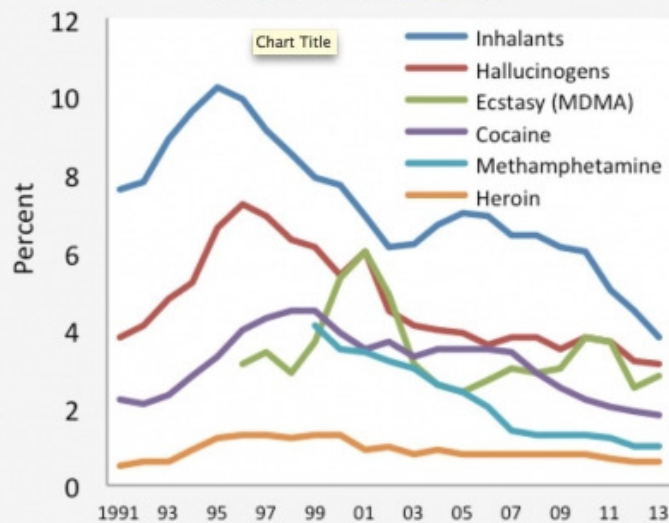


#### Website has:

- Monthly newsletter, educational pieces, PowerPoint presentations from conferences. (These are free!)
- Status Report on Washington State De-regulation: "Alcohol Deregulation by Ballot Measure in Washington State," can be downloaded from website.
- Issue Briefs for 2015 has simple explanations of alcohol regulatory issues as well as citations for research and more information.

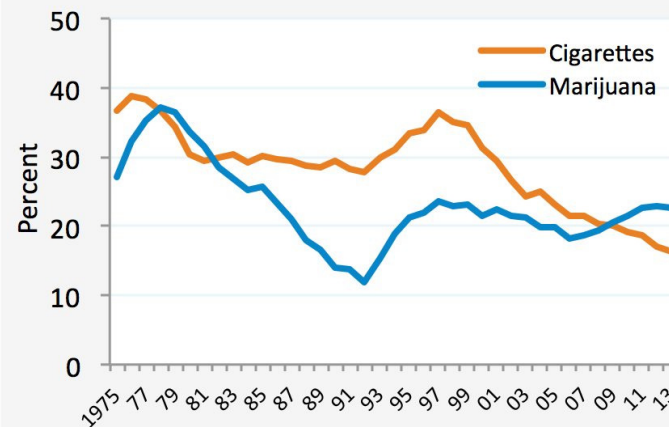
# See newsletter for data that supports prevention investment

Past-Year Use of Various Drugs (All Grades Combined), 1991–2013



SOURCE: University of Michigan, 2013 Monitoring the Future Study

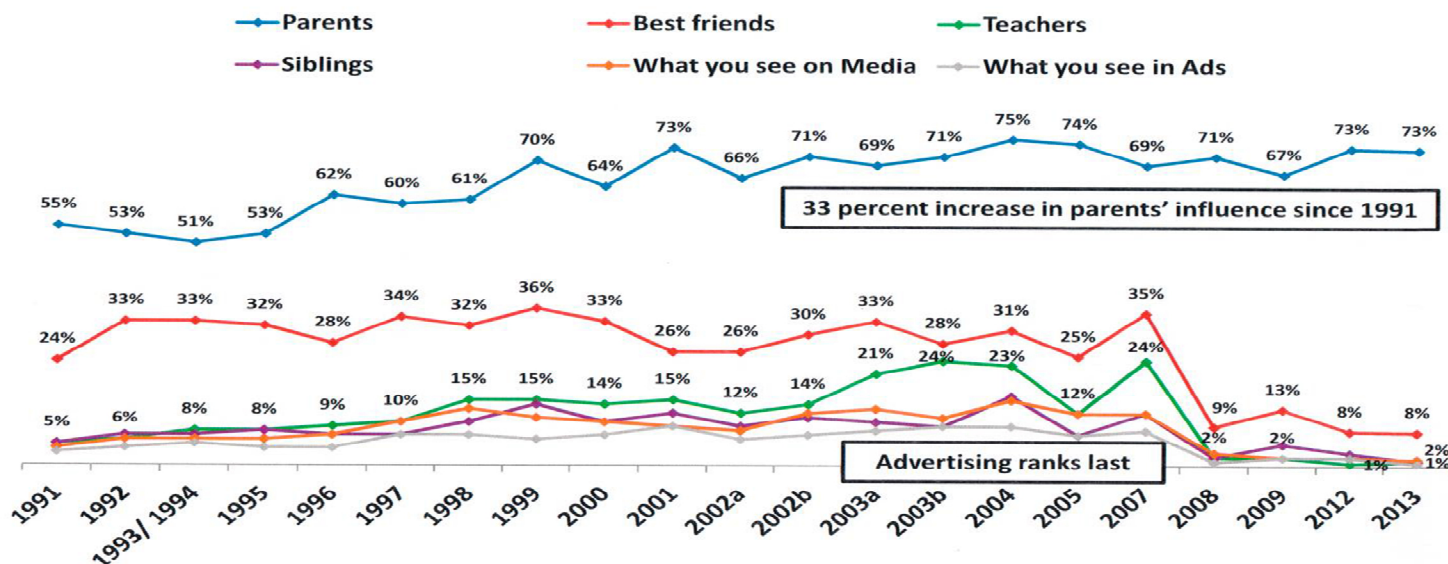
Past-Month Use of Cigarettes and Marijuana by 12th Graders, 1975–2013



SOURCE: University of Michigan, 2013 Monitoring the Future Study

# Dramatic increase in parent influence

## GfK Roper Youth Report Influences on Youth Decisions about Drinking Parents Have Been the Strongest Influence on Teens Ages 13-17 for 20 Years



Source: GfK Roper Youth Report. Americans age 13-17. Notes:  
2008-2013: Media includes TV, radio, magazines, and Internet; 1991-2007: Media included TV only  
1999 and 2001 surveys allowed the unaided response "no one/just know." Therefore, they cannot be compared to other years' data points.  
Starting in 2008, respondents could only choose one answer option for this question.  
Question: Which people or things, besides yourself, influence you the most or give you the best ideas about each of the following items?...Whether you drink alcohol or not