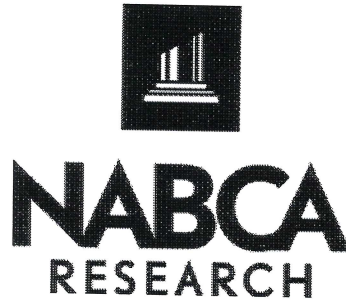




The Three-Tier System: A Modern View

NABCA attempts to provide accurate and up-to-date information on alcohol policy topics. As such, white papers should be considered working documents; snapshots of the current status of an issue or subject. Papers are reviewed regularly and updated. We welcome clarification or additional information on the topic of this paper. Please contact NABCA at communications@nabca.org to provide knowledgeable and credible comments or suggestions. Thank you.

For additional information on the three-tier system, please read Safe and Sound, a publication from Public Action Management.

With the passage of the 21st amendment ending national prohibition, states were given the authority to regulate alcohol as they saw fit. The states developed a structure of checks and balances that provided safe alcohol to the consumer while ensuring a simple method to collect tax revenue. This is known as the three-tier system.

The three-tier system is simple in theory: **manufacturers** provide alcoholic products to **wholesalers**, who distribute the products to **retailers**, who sell to the consumers. No one entity can be involved in more than one tier under most state models and each tier is regulated and licensed separately.

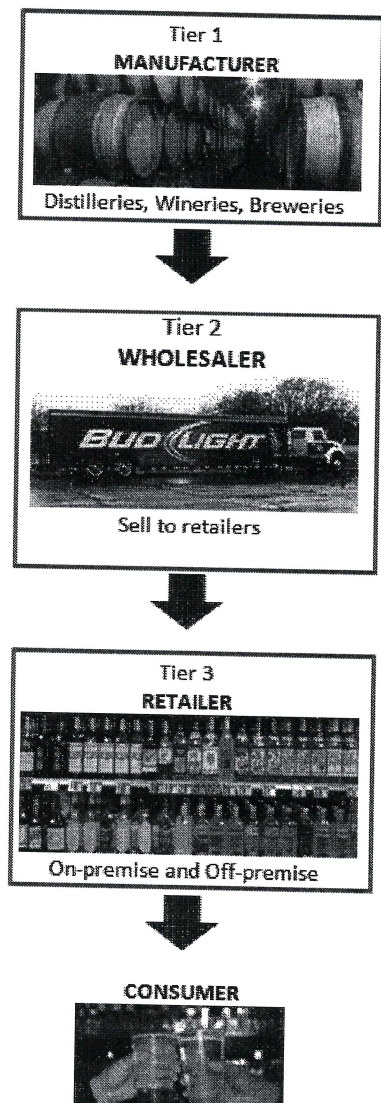
Benefits of the Three-Tier System

The three-tier system offers many benefits to society with the most prominent falling into four categories: regulatory, economic, commercial, and public health.

Regulatory Benefits

Within the three-tier system, each tier becomes responsible for ensuring that the laws and regulations set forward by the government are executed. All parties must comply with those laws and each is responsible to the other. These laws and regulations provide safeguards that there are lawful trade practices and safe handling of alcoholic beverages before it gets to consumers. This transparent regulatory scheme elevates consumer confidence because the three-tier system ensures that only licensed distributors and retailers will be able to provide and sell alcoholic beverages.

The Three-Tier System





An example of the system's effectiveness can be illustrated in the 2008 recall of certain products by the Sam Adams brewery. The recall was initiated due to glass shards found in bottles. The recall was quick and without major issues because of each tier's responsibility in tracking alcohol products across distribution channels.

Economic Benefits

The economic benefits of the three-tier system positively impacts society in several ways. Tens of billions of tax dollars are provided to federal, state, and local governments by manufacturers, wholesalers, and retailers in the alcohol industry. Because of the checks and balances created within the three-tier system, there is less risk of untaxed, potentially tainted "black market" alcohol passing to the consumer. The tax money provided by the system goes to education, infrastructure improvements, and other areas that benefit all citizens.

Commercial Benefits

Commercial benefits of the three-tier system clearly are numerous. For manufacturers, they are given equal access to the marketplace that they would not receive under other systems. This allows for large corporations as well as craft distillers and brewers to reach consumers. Rather than be dwarfed by larger competitors, smaller manufacturers receive greater opportunities to increase sales through distributors with retailers nationwide. As a result, consumers have more choices to a variety of alcoholic products.

Public Health Benefits

Because of the checks and balances created by the three-tier system, several public health and safety benefits are present. As each party must be licensed and accountable for alcoholic products, this prevents tainted alcohol from entering the marketplace. This is a major issue in other countries that do not follow the three-tier system, including the United Kingdom.

Additionally, the system prevents the marketplace from being dominated by major companies who can use tactics to increase alcohol sales. For example, a major reason for national prohibition in America was the behavior of saloon owners who used influence to solicit customers to overdrink and overspend on alcohol, causing a negative impact on families and creating numerous public health issues.

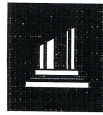
The United Kingdom has experienced many negative consequences because of inexpensive and readily available alcohol, and at times tainted alcohol. The system has played an important role in preventing such problems in the United States. As described in the “Safe and Sound” publication on alcohol regulation and the three-tier system:

This structure prevents marketplace domination by large companies that would seek to greatly increase alcohol sales through aggressive practices, or by controlling the entire alcohol distribution chain, from manufacturer to consumer.

Threats to the Three-Tier System

The benefits of the three-tier system are obvious but there remains a threat to the structure in the form of deregulating the alcohol industry. Deregulation is seen by its advocates as a way to increase state revenue and replace what they consider to be an out-of-date system.

A deregulated alcohol industry would remove marketing restrictions and can lead to the dominance of certain companies in a geographic area, eliminating consumer choice. There is also potential for tainted alcohol to get into the distribution stream as the checks and balances of the three-tier system would be removed.



The United Kingdom has gone through piecemeal deregulation over the last several decades, causing a range of issues in the country. These include, increases in alcohol-related crime, bar intoxication, and deaths related to alcohol. Grocery stores have been seen as a major factor with promotional efforts and “loss leader” tactics; a strategy whereby a product (such as alcohol) is sold below cost to stimulate sales of other products.

Despite best efforts, the movement toward alcohol deregulation and a change in the three-tier system does not have widespread public support. A 2012 survey by the Center for Alcohol Policy found that:

- 72% believe states should regulate alcohol as a unique good
- 81% support states determining their own laws and regulations regarding alcohol
- 76% support the states’ right to regulate the manufacture, sale and distribution of alcohol

Not just the public but also the alcohol industry is in favor of the three-tier system. Manufacturer MillerCoors reiterated its commitment to the system as a model that “offers significant commercial and societal value” and that a “vibrant three-tier system is critical to their mutual future success.” The National Beer Wholesalers Association has commented several times about the importance of the system and noted in a press release on small brewers that the “independent Three-Tier system works to ensure that consumers have access to the widest selection of beer styles and brands.” Executive Director John Bodnovich of American Beverage Licensees, an association of alcohol retailers, noted that the United States alcohol market is “balanced on the principles of the three-tier system.”

Additionally, the platform of The Presidents' Forum of the Distilled Spirits Industry specifically mentions support for the "distribution of alcoholic beverages through the existing three-tier system."

Conclusion

The three-tier system has been an effective method of alcohol regulation and distribution in the United States since the end of Prohibition. The structure creates important public health safeguards while streamlining the tax revenue process. Products made unlawfully have a difficult time making it to the marketplace within the confines of this arrangement. Deregulation continues to threaten it, but the public at large sees the three-tier system as impactful and just as necessary as it was almost a century ago.



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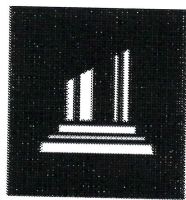
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