

SUBJECT: Allowing agreements for certain distillers to use other permitted premises

COMMITTEE: Licensing & Administrative Procedures — committee substitute recommended

VOTE: 10 ayes — K. King, Walle, Goldman, Harless, Hernandez, Herrero, Patterson, Schaefer, Shaheen, S. Thompson

0 nays

1 absent — T. King

WITNESSES: For — Stephanie Houston, Texas Distilled Spirits Association; Lance Lively, Texas Package Stores Association (*Registered, but did not testify*; Rick Donley, Beer Alliance of Texas; Lisa Garcia, Diageo North America; Jim Short, SPEC's; Amber Hausenfluck, Texas Distilled Spirits Association; JP Urrabazo, The Beer Alliance of Texas; Ryan Brannan, Treaty Oak Distillery; Ricky Knox, Wine and Spirits Wholesalers of Texas)

Against — None

BACKGROUND: Concerns have been raised that Texas authorizes beer and wine producers to enter into certain contracts but does not provide the same allowances for the distilled spirits industry, which has grown over the past decade.

DIGEST: CSHB 3656 would permit the holder of a distiller's and rectifier's permit to enter into, with another holder of the same permit type, an agreement that allowed the distiller's and rectifier's permit holder to engage in certain activities on the permitted premises of the other permit holder, including:

- manufacturing distilled spirits;
- rectifying, purifying, and refining distilled spirits and wines;
- mixing wines, distilled spirits, or other liquors;
- bottling, labeling, and packaging the permit holder's finished

- products;
- selling the finished products in Texas to holders of wholesaler's permits and to authorized wholesalers and manufacturers outside the state;
 - selling, through an affiliate who was the holder of a nonresident seller's permit, the finished products in Texas to holders of wholesaler's permits, to authorized wholesalers, and manufacturers outside the state;
 - purchasing distilled spirits, to be used only for manufacturing or rectification purposes, from holders of nonresident seller's permits or distiller's and rectifier's permits; and
 - selling bulk alcohol produced by the permit holder for certain purposes related to manufacturing, rectifying, refining, transporting, and storing industrial alcohol.

The holder of a nonresident seller's permit who owned or whose affiliate owned a distillery outside of the state could enter into an agreement that allowed the nonresident seller to engage in the above activities except for purchasing distilled spirits and selling bulk alcohol produced by the permit holder.

The agreement would be subject to approval by the Texas Alcoholic Beverage Commission (TABC) and would be required to describe with specificity the nature, duration, and extent of the activities authorized by the agreement. TABC would be required to adopt rules regulating the shared use of the permitted premises to ensure administrative accountability of each permit holder and a strict separation between the businesses and operations of the permit holders.

The permit holder whose premises were used under the agreement could not consider the other permit holder's alcoholic beverages as their own or sell those alcoholic beverages.

The bill would take effect September 1, 2023.