

## Pennsylvania Alcohol Laws Give Local Manufacturers a Huge Advantage

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For years, consumers and industry veterans alike have complained that Pennsylvania's laws regarding the sale and access to adult beverage were some of the most restrictive in the nation. Not surprisingly, if one rolls back the clock 20 years one would find only two distilleries, 10 Pennsylvania breweries and a slathering of less than 70 Pennsylvania wineries. Fast forward to today, one finds a totally different landscape. Pennsylvania now hosts more than 300 craft brewers, 142 distilleries and nearly 300 wineries. This evolution is in large part due to many changes made by the legislature to the Pennsylvania Liquor Code. Recognizing the need to boost economic opportunities and Pennsylvania agriculture, laws have been enacted to support these Pennsylvania based adult beverage manufacturers who are now gleefully calling Pennsylvania home.

Prior to these changes, large multi-national and national suppliers of adult beverages ruled the Pennsylvania consumer landscape. Armed with massive amounts of marketing dollars and the ability to offer discount pricing to consumers, these large distillers, brewers and wineries accounted for more than 95% of the Pennsylvania adult beverage market. The advantages these large suppliers had in distribution, pricing and consumer outreach made their position seemingly impregnable. Local suppliers of any of these three types of products were at a severe disadvantage and as such, growth in the local industries were stymied. Eventually, the Pennsylvania legislature recognized measures could be taken to help local business succeed in the adult beverage market. Through a number of legislative changes enacted over the last fifteen years, Pennsylvania distillers, brewers and wine makers have emerged as significant players in Pennsylvania's markets. Given these opportunities, Pennsylvania companies are now at the epicenter of innovation and creative marketing which has served to improve their businesses. Where national manufacturers had numerous advantages in their marketplaces in the past, today Pennsylvania manufacturers have significant advantages over the national and international suppliers.

With regard to the sale of wine, a Pennsylvania limited winery's license was created to entice the creation of more wineries in the commonwealth. These limited wineries were limited in the production of wine (up to 200,000 gallons/year) but given a number of advantageous tools to put in their toolbox. For example, limited wineries are entitled to have up to five PLCB Board approved satellite locations in which to sell their products, for both on and off premise consumption. They were also entitled to two storage locations. To be featured in Pennsylvania Fine Wine and Good Spirits stores as a PA Preferred winery, 75% of the grapes used by the wineries must have been grown in the state of Pennsylvania. Another important advantage was that these limited wineries could sell directly to individuals, the PLCB and PLCB licensees (including restaurants hotels and clubs). These limited wineries were also given the opportunity to have a tasting room where they may charge or may opt not to charge for tastings, which in effect created the opportunity to have their own bar to sell their products. As if this was not enough, the legislature also enacted a law which allowed the limited wineries to serve any Pennsylvania manufactured wine, spirits, or malt beverages for on-premises consumption as long as the sale of these products did not exceed 50% of their own on-premises sales. The ability of these limited wineries to sell directly to consumers and licensees is a huge economic advantage because it eliminates the mark-up charged by the PLCB for all products sold in the Pennsylvania liquor store system. This is a potential savings to limited wineries in the cost of goods of anywhere from 20 % to 35%. The wineries are also allowed to sell a number of other products in their wineries and satellite locations including various wine making equipment and wine enjoyment products as well as food goods and the always popular holiday gift baskets. To enhance their direct-to-consumer concept, the limited wineries may also acquire a direct wine shipper license which allows them to accept orders by mail, telephone or the internet and ship products to their individual consumers. Most importantly, these limited wineries can deliver their products directly to nonlicensee consumers or may hire licensed transporters to deliver their products to customers.

These are all advantages that are reserved to the Pennsylvania limited wineries that the national wineries do not enjoy. As an obvious consequence, this has been significant for the growth of the Pennsylvania wine industry.

Pennsylvania brewers enjoy many of the same advantages. The most significant of these advantages are the ability to sell directly to consumers without having to participate in the wholesale beer distribution system that national suppliers must abide by. As such, successful craft brewers in Pennsylvania have done exceedingly well with their "tap room" operations at their breweries for both on-premises consumption of their brewed beverages as well as to go products. Brewers now also enjoy the advantage of tax credits for capital expenditures, with up to an annual \$220 thousand in reduction. The legislation allowing for this economic benefit incentivizes brewers to conduct business more extensively and be rewarded by the state of doing so. Another major and highly notable benefit for brewers in Pennsylvania is that there is no production cap for brewed beverages. Pennsylvania brewers also may open "storage" facilities, that essentially act as satellite locations and permit sales with the same benefits given to its place of manufacture. Such breweries of course sell their own products, but also may sell beer brewed by other Pennsylvania manufacturers, as well as wines and spirits manufactured in Pennsylvania. Pennsylvania limited breweries can further take advantage of the opportunity to sell their products via exposition and farm market events at the permitted cost of \$30/day and \$250/year, respectively. Pennsylvania brewpubs are permitted to obtain on-premises catering permits, which permit on-premises consumption at an unlicensed premise for five hours/day. The scope of direct sale possibilities available to Pennsylvania brewers is enormous and includes distributors the public, licensees, special occasion permit holders, as well as other limited wineries, distilleries, and breweries. These benefits are not made available to out of state suppliers and are a unique advantage to manufacturers within the borders of this commonwealth.

Finally, once a hub of distilling operations in the early 20th century, Pennsylvania distilleries had dwindled to but two distilleries as of the mid-1990s. While there is much diversification in both the beer and wine markets, the distilled spirits market has historically been controlled by a handful of large multi-national companies who offer a plethora of different distilled products including vodka, whiskey, gin and liqueurs. These large multi-nationals had a stranglehold on the Pennsylvania spirits market until 2006 when the Pennsylvania legislature passed into law the limited distilleries legislation. While the maximum production limits for limited distilleries were set to 100 thousand gallons, significant advantages awarded by this legislation enabled small micro or limited distilleries to compete with the large multi-national companies across the distilled product lines. Again, limited distilleries had the same opportunity to sell direct to consumers and licensees and to deliver products to individual consumers. Like the breweries and wineries, the limited distilleries also had the opportunities or have tasting rooms which entice consumers to come visit the distillery, tour the facilities and taste the product. To further enhance the opportunities for distillers in Pennsylvania, the PLCB enacted a Pennsylvania spirits program which allows licensed limited distilleries the opportunity to sell their products in the PLCB Fine Wine and Good Spirits stores. This is very important given the fact that there are thousands of different products seeking to sell their wares in the Pennsylvania Liquor Control Board's system and the competition for acceptance is extremely difficult with many requirements placed upon suppliers. This program provides limited distilleries the opportunity to introduce their products to new customers, while providing customers opportunities to "buy local" and support Pennsylvania businesses. If this program did not exist to favor Pennsylvania limited distilleries, it is highly unlikely that any of the products made by these limited distilleries would meet the requirements that national suppliers must to obtain shelf space in Pennsylvania's fine wine and good spirits shops.

These advantages provided to wineries, breweries and distilleries in Pennsylvania have spurred the creation of innovative businesses created to capitalize on these advantages. For example, some formerly BYOB (bring your own beverage) restaurants have become a satellite location for a winery, brewery or distillery which gives them the opportunity to sell Pennsylvania products whether they be wine, beer or spirits. Some of these satellite locations have piggy-backed with existing businesses that have similar buying tendencies and

with the opportunity to open up satellite locations, Pennsylvania manufacturers have a distinct advantage of extending the reach of their products. Recently, legislation was introduced in the Pennsylvania House of Representatives that would allow all BYOBs to sell Pennsylvania beer, wine, and spirits.

On balance, Pennsylvania wineries, breweries and distilleries have found that there is no place like home. The evolution of these businesses enables consumers to learn how products are manufactured through tours and tastings and has made Pennsylvania one of the leaders in craft alcohol production in the United States.

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