

FINAL BILL REPORT

ESB 5834

C 229 L 17
Synopsis as Enacted

Brief Description: Concerning the licensing of bonded spirits warehouses.

Sponsors: Senator Baumgartner.

Senate Committee on Commerce, Labor & Sports
House Committee on Commerce & Gaming

Background: Any licensed distiller may act as a retailer of spirits of its own production or as distributor to retailers selling for consumption on or off the licensed premises.

Any manufacturer, importer, or bottler of spirits holding a certificate of approval may also act as a distributor of spirits it is entitled to import into the state. The Liquor and Cannabis Board (LCB) issues a spirits certificate of approval license to certain spirits manufacturers located, outside of the state of Washington, but within the United States.

A liquor industry member who is authorized to operate as a distributor may maintain a warehouse, off the distillery premises, for the distribution of spirits of its own production to spirits retailers within the state. The warehouse must be within the United States and be approved by the board.

Under federal law applicable to spirits, a bond is a formal guarantee for payment of monies due to the federal Alcohol and Tobacco Tax and Trade Bureau up to an amount specified by the bond. The bond secures payment of applicable federal taxes related to the spirits that have not yet been determined.

Summary: A new license is created for bonded and nonbonded spirits warehouses that authorizes the storage and handling of bonded bulk spirits and, to the extent authorized under federal law and under LCB rules, bottled spirits and the storage of tax-paid spirits not in bond. The license fee is \$100 per year. A license holder may maintain a warehouse for the storage of spirits off the premises of a distillery or entity otherwise licensed and permitted in the state.

A licensee must designate which sections of the warehouse that are bonded and nonbonded with a physical separation between the spaces. Only spirits in bond may be stored in the bonded sections of the warehouse, and only spirits that have been removed from bond tax-paid may be stored in nonbonded sections of the warehouse. The proprietor of the warehouse

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must maintain a plan for tracking spirits being stored in the warehouses to ensure compliance with relevant bonding and tax obligations.

The LCB must adopt similar qualifications for a bonded spirits warehouse license as is required for obtaining a distiller, craft distillery, or manufacturer's license. One or more domestic distilleries or manufacturers may the facility under a common management and oversight agreement free of charge or for a fee. A spirits warehouse may be owned and operated by a person or entity acting in a commercial warehouse management position on behalf of an authorized licensee.

Spirits in bond may be removed from a bonded spirits warehouse for purposes of being: (1) exported from the state, (2) returned to a distillery or licensed spirits warehouse, or (3) transferred to a distillery, licensed spirits warehouse, or bottling or packaging facility.

Bottled spirits that are being removed from a spirits warehouse tax-paid may be: (1) transferred back to the distillery that produced them, (2) shipped to a licensed Washington spirits distributor, (3) shipped to a licensed Washington spirits retailer, (4) exported from the state, or (5) removed for direct shipping to a consumer by a distillery.

The handling of bottled spirits that have been removed from bond tax-paid, and that reside in the spirits warehouse, includes the following: (1) packaging and repackaging services, (2) bottle labeling services, (3) creating baskets or variety packs that may or may not include nonspirits products, and (4) picking, packing, and shipping spirits orders on behalf of a licensed distillery direct to consumers. A distillery contracting with the operator of a spirits warehouse licensed under this section for handling bottled spirits must comply with all applicable state and federal laws and is responsible for financial transactions when spirits are shipped directly to consumers.

The LCB must adopt rules requiring a spirits warehouse to be physically secure, zoned for the intended use, and physically separated from any other use. The operator or licensee operating a spirits warehouse must submit a monthly report of movement of spirits. The LCB may require an annual permit of each licensee or entity warehousing spirits in a spirits warehouse that allows for unlimited transfers to and from the warehouse. The permit fee is \$100 per year.

It is clarified that an industry member operating as a distributor may maintain a warehouse off the distillery premises for the distribution of bottled spirits of its own production to spirits retailers within the state, and may also use the warehouse for the distribution of bottled foreign-made spirits that the distillery is entitled to distribute.

Votes on Final Passage:

Senate	45	2	
House	97	0	(House amended)
Senate	47	1	(Senate concurred)

Effective: July 23, 2017