

SENATE BILL REPORT

ESB 5834

As Amended by House, April 11, 2017

Title: An act relating to licensing of bonded spirits warehouses.

Brief Description: Concerning the licensing of bonded spirits warehouses.

Sponsors: Senator Baumgartner.

Brief History:

Committee Activity: Commerce, Labor & Sports: 2/16/17, 2/16/17 [DP].

Floor Activity:

Passed Senate: 3/03/17, 45-2.

Passed House: 4/11/17, 97-0.

Brief Summary of Engrossed Bill

- Creates an new license for bonded spirits warehouses for the storage and handling of bulk or barreled spirits.
- Authorizes an annual permit that allows for unlimited transfers to and from the warehouses.
- Authorizes certain industry members to maintain a warehouse for the storage or distribution of bottled spirits of their own production.

SENATE COMMITTEE ON COMMERCE, LABOR & SPORTS

Majority Report: Do pass.

Signed by Senators Baumgartner, Chair; Braun, Vice Chair; Keiser, Ranking Minority Member; Conway, Hasegawa, King, Rossi, Saldaña and Wilson.

Staff: Richard Rodger (786-7461)

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

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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.

Summary of Engrossed Bill: A new license is created for bonded spirits warehouses that authorizes the storage and handling of bulk or barreled spirits. The warehouse may be located off the premises of certain specified distillers or licensed entities. The bulk or barreled spirits transferred into the state may only be stored in the warehouse and may not be further processed or bottled.

Certain persons and entities may hold a spirits warehouse license. Domestic distilleries or manufacturers may operate the facility under a common management and oversight agreement. The warehouse may be owned and operated by a person or entity acting in a commercial warehouse management position on behalf of an authorized licensee. The bonded spirits warehouse license fee is \$100 per year.

The LCB must adopt rules requiring a bonded spirits warehouse to be physically secure, zoned for the intended use, and physically separated from any other use. The operator or licensee operating a bonded spirits warehouse must submit to the board a monthly report of movement of bulk or barreled spirits.

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

The LCB may require a single annual permit issued to each licensee or entity warehousing spirits in a bonded spirits warehouse that allows for unlimited transfers to and from the warehouse. The annual fee for this permit is \$100.

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.

Appropriation: None.

Fiscal Note: Available.

Creates Committee/Commission/Task Force that includes Legislative members: No.

Effective Date: Ninety days after adjournment of session in which bill is passed.

Staff Summary of Public Testimony on Original Bill: PRO: We want this bill because the LCB recently took an enforcement action against one of our distillers for storing spirits, off the distillery premises, at a federally licensed site. The LCB does not have a license for this

type of storage, so we need the bill to clarify the laws. The good news is that the distilleries are growing industries and don't have enough space on their properties to store their products.

OTHER: The LCB wasn't aware that the site at issue in the enforcement action was federally licensed. We are willing to work with proponent to address the situation and believe the bill would add additional clarity to this area.

Persons Testifying: PRO: Senator Michael Baumgartner, Prime Sponsor; Jim Hedrick, Washington Distillers Guild; Trent House, Woodinville Whiskey.

OTHER: James Paribello, WSLCB.

Persons Signed In To Testify But Not Testifying: No one.

EFFECT OF HOUSE AMENDMENT(S): The license is changed to a bonded and nonbonded spirits warehouse license. To the extent authorized under federal law and LCB rules, bottled spirits may be stored at the spirits warehouse. 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 areas of the warehouse. Other operational restrictions and conditions are included.