



FACT SHEET

Value of the three-tier system

Alcohol as a controlled commodity

- Alcohol has been a fixture of almost every human society for thousands of years – from social to religious and even medicinal purposes. Proving old beliefs true, new and growing scientific research links the moderate consumption of alcohol to good health, from fighting heart disease to slowing the aging process. However, as much as alcohol is an enduring part of human culture and can be beneficial, it is dangerous in the wrong hands. Every society has recognized the critical need to limit the access to and use of alcohol.
- Alcohol – like prescription drugs or firearms – is no ordinary commodity. In fact, alcoholic beverages are the only commercial products specifically named in the United States Constitution. Because our society recognizes the importance of controlling alcohol use and access, alcohol has always been treated differently under the law than most other products.
- Before Prohibition, alcohol manufacturers either owned or controlled most retail outlets. This led to irresponsible and unaccountable practices – illegal sales practices, monopolistic behavior, and easy access to alcohol – which resulted in high levels of alcohol abuse and underage sales.
- After the repeal of Prohibition in 1933, the three-tier system was created to strike the right balance between control and access of this socially important but potentially harmful commodity.
- Distributors are a vital part of the three-tier system and make the regulatory system accountable and transparent.

How the three-tier system works

- In all 50 states, alcohol is sold through a three-tier system. In the system, beverage manufacturers, distributors and retailers each occupy a different level. Manufacturers (breweries, vineyards and distilleries) supply distributors (wholesalers); distributors in turn supply retailers. Under the laws which created the three-tier system, each level of the system is independent of the others – ensuring accountability to the public as well as the benefits of healthy competition.

- Under the three-tier system, distributors play the key role. It is no exaggeration to say that without distributors there would be no three-tier system at all. Distributors are the indispensable buffer between manufacturers and retailers, protecting the two other levels of the three-tier system from the abuses of the pre-Prohibition period.

Benefits of the three-tier system

- The three-tier system is designed to prevent vertical integration within the industry, thereby promoting moderation in the sale of alcohol.
- By preventing tied houses (retailers that sell the products of only one supplier), the three-tier system limits the number of retail outlets and therefore promotes moderate consumption.
- Limited access is tied to moderate, more responsible consumer use. In turn, moderate use ensures lower levels of excessive drinking, underage drinking, and drunk driving.

Regulating alcohol

- By requiring that all alcohol pass through a state licensed distributor subject to Minnesota regulatory authority, the three-tier system ensures that alcohol is only sold to licensed retailers in a manner that is consistent with applicable law and that the proper taxes are paid.
- At a time when society is demanding more effective regulation in other industries, the three-tier system has been effectively ensuring transparency and accountability in the beer, wine and spirits industry for 75 years.
- The best method of regulating alcohol does not necessarily come at the greatest convenience or lowest cost for individual consumers. However, it does ensure that consumers have appropriate access to alcohol at the lowest cost to society and with the least harm to its members. The incidental regulatory burdens associated with the three-tier system provide greater retail choices for consumers, as well as transparency, accountability, and limited access to alcohol.



Minnesota's system not only works – it is the ideal

- In addition to the three-tier system, Minnesota has other longstanding laws that safeguard consumer choice, regulate who can be served and who cannot (namely minors and impaired individuals), and protect small retailers.

- Although grocers are currently permitted to sell alcohol if they abide by the regulations imposed on other retailers, they are currently asking to be exempt from the most important of those regulations with regard to the sale of wine. In addition to public safety concerns, such an exemption for grocers would jeopardize the viability of smaller retailers – including the 226 municipal liquor stores across Minnesota – and limit the variety of choices presently available to consumers. Proponents of Minnesota’s three-tier system believe that grocers would inevitably also ask to sell beer and spirits.
- Typically, grocers only offer a small selection of alcohol brands and cannot provide selection advice to their customers; both of these factors hurt rather than help consumers.
- In recent years, deregulation proponents have suggested closing municipal liquor stores, an idea that threatens the fiscal health of already hard-pressed local governments and property taxpayers.
- Recent studies suggest that the sale of alcohol by grocers would result in an increase in consumption abuse by youth.
- Even a slight increase in alcohol use would result in public safety and law enforcement costs that offset the dubious economic savings alleged by deregulation proponents. This is why the Minnesota Alcohol and Gambling Enforcement Division – the lead state agency for alcohol regulation – opposes any change in the regulatory system.

For more information

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