Testimony on SB 316
Submitted by Brad Irwin
On behalf of the Oregon Distillers Guild
Senate Finance Committee
February 11, 2021

Chair Burdick, and members of the committee, the Oregon Distillers Guild urges you to pass SB 316, the Oregon Distillers' Tasting Room Profitability Act. This is the most important policy issue for Oregon's small but growing crafts sprits industry, because it will make our tasting rooms economically viable.

This legislation was very close to passing in 2020. This committee unanimously passed this bill to the Joint Ways & Means Committee. It was approved by Ways & Means, but did not get a floor vote, like many other bills.

What has changed since then? Oregon distillers have struggled greatly due to COVID closures and our state's economic downturn. However, on the positive side, Governor Brown has shown support for this policy change by including it in her recommended budget to the legislature.

Oregon distiller stepped up to help the state by producing hand sanitizer when supply was short during COVID. Many distillers donated or sold reduced priced sanitizer to first responders, medical providers and essential businesses when they desperately needed hard to find supplies. This pivot to hand sanitizer production could not replace lost revenue from reduced spirits sales, but it was important to do during a critical time for the state.

We hope now is the time to help distillers still trying to recover from COVID, and provide tools for long term economic success. Oregon distillers are small businesses with hopes of getting bigger by building strong brands that are recognizable in-state and throughout the nation.

One of the best ways for distillers to build brand awareness is to have sustainable tasting rooms to showcase their premium spirits to tourists and visitors who want a unique Oregon experience. This has been a successful model for our craft beer and wine industries, which are now thriving with recognizable brands worldwide.

The challenge today is that the current economic model for selling spirits in tasting rooms is unprofitable for Oregon's distillers who want the opportunity to sell the spirits they make and use their tasting rooms as a marketing tool. These sales are currently treated the same as liquor store sales, which are about high-volume sales with a focus on maximizing revenue for the state.

Since Oregon is an alcohol "control" state, distillers must be compensated by the OLCC for the spirits they sell out of their own tasting rooms. That compensation averages 17% for Oregon's distillers. Since distillery tasting rooms are more about showcasing products and creating brand awareness, this compensation amount does not allow any distiller to keep enough money to have a profitable tasting room. This has led to some tasting rooms closing, downsizing or cutting back hours of operations.

SB 316 - Oregon Distillers' Tasting Room Profitability Act

For three years, the **Oregon Distillers Guild** has been working with the OLCC and lawmakers on a new economic model for tasting room sales. The goal is to have economically sustainable tasting rooms where a distiller can better market and promote their brands and premium products. It also would allow Oregon distillers to achieve a level of parity with beer and wine producers that do not pay special taxes for their tasting rooms sales.

We want to have a strong and thriving distilling industry. Oregon distillers employ local workers, buy Oregon ag products that go into their spirits, and provide a unique tourism experience - all of which create tax revenue and tourism dollars for the state and local communities.

In short, we want to be part of Oregon's COVID economic rebound.

The Oregon legislature has crafted policies over the years to allow Oregon's craft beer, wine and cider industries to grow and thrive. Now is the time for policymakers to give tools to Oregon's craft spirits industry so it, too, can be competitive in-state and outside Oregon.

SB 316 establishes a new policy for spirits sales made by Oregon-licensed Distilled Spirts Producers, DSPs, in their own tasting rooms (aka, compensation for distillery retail outlets):

- Tier one compensation - for the first $250,000 in annual total combined sales from all tasting rooms, distillers' compensation is 45% of the retail price set by OLCC.

- Tier two compensation - for annual combined sales over $250,000, compensation is 17% of the retail price - in essence, the current compensation model.

- Cap applies to all tasting rooms under a producer's DSP, not for each tasting room.

Thank you for addressing this critical issue for Oregon's craft spirits industry. We ask that you pass SB 316.

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