

MEMORANDUM

TO: Chelsea Crucitti, Wine & Spirits Wholesalers of America (WSWA)
FROM: John Dunham
DATE: March 3, 2022
RE: Impact of Direct Shipment of Spirits on Market in Vermont

As per your request, we have examined the impact of legislation allowing for the direct shipment of spirits in Vermont.

Vermont is a control state, and the Vermont Department of Liquor and Lottery controls all liquor wholesaling and retailing through licensed agency stores. As such private companies provide broker and retailing services under contract with the state. There are 78 Agency stores in Vermont. Liquor is permitted to be sold on Sundays. In addition, Vermont allows licensed wineries and breweries (both in and out-of-state) to ship directly to consumers.

Vermont is not one of the six states and D.C. that currently allow distilleries to ship directly to consumers.¹ Were the state to allow for direct shipment of spirits in a similar form to that of wine, it is estimated that **over 7,125 cases of distilled spirits would move from the normal three-tier distribution channel to direct ship, in addition to those being shipped in illegally.** This represents 1.6 percent of the spirits currently being consumed in the state.²

Impact of Direct Shipment of Spirits

State	Taxable Sales (Gallons)	Current Consumption (Gallons)	Estimated Change (Gallons)	Estimated Change (Cases)
Vermont	1,056,776	1,072,593	16,944	7,126

An additional 6,359 cases are currently estimated to be directly shipped from retailers, wine clubs, etc. located in other states that have paid the excise tax in their home state but not necessarily in the importing state. These sales have gone through the wholesale process but may not have been legally sold or shipped by retailers.

In addition to this, it is estimated that an additional **2,152 cases of distilled spirits are currently being shipped to consumers in Vermont from producers**, either located in-state or from out of state where only the Federal excise tax has been paid. Since producers pay that tax at the distillery or rectifier level, and since no state level excise tax has been paid, (and the products have not been purchased directly in-state from non-taxed sources including duty-free, military and other federal territories, or in some cases Native American retailers) they must have been shipped directly from distillers.

Estimate of Current Direct Shipments of Spirits

¹ Hawaii and Arizona allow for limited direct shipment of spirits. See: *Internet Sales & Residential Shipping*, Arizona Department of Liquor, at: https://www.azliquor.gov/faq/internet_sales.cfm and Hawaii Rev. Stat. §281-33.1

² Note that the difference between taxable sales and consumption represents the current sales volume that is entering the market from cross-border sales, or other untaxed sources (which may already include direct shipment).

	Taxable Sales	Current Consumption	Imports from Non-Local States	Current Direct Shipments
Gallons	1,056,776	1,072,593	15,119	5,117
Cases	444,481	451,134	6,359	2,152

The spirits sent to consumers in Vermont through retail channels without appropriate taxes being remitted currently account for roughly 1.9 percent of total consumption, on top of which another 3.7 percent of consumption is purchased from retail locations in neighboring states such as New Hampshire and New York. Currently, only 5-tenths of a percent of total sales are being shipped directly by producers. It is unlikely that legal direct shipments would replace these sales, so overall, if a direct shipment law was to pass, **the total share of consumption would reach 9,279 cases of spirits (over 111,340 bottles).**

This shift from the three-tier system would not only reduce sales for the state's brokers distributors but would also harm its agency retailers. Based on the most recent economic impact analysis of the spirits industry in Vermont, the three-tiers account for 1,554 jobs, with a total of 2,823 jobs in the state generated when supplier and induced impacts are included. Overall, the industry accounts for about \$393.9 million in economic activity in the state and generates over \$110.8 million in taxes.³

Economic Impact of Spirits Industry in Vermont

	Direct	Supplier	Induced	Total
Jobs	1,554	566	704	2,823
Wages	\$ 44,475,996	\$ 28,861,478	\$ 30,457,697	\$ 103,795,171
Economic Output	\$ 189,999,111	\$ 101,485,354	\$ 102,385,599	\$ 393,870,064

	Federal	State and Local	Total
Taxes	\$ 36,294,130	\$ 74,534,382	\$ 110,828,512

If direct-to-consumer shipping were to be allowed for spirits, this impact would be **reduced by 42 full-time equivalent jobs that would have paid over \$1.5 million in wages and benefits.** The overall economy of the state would be \$5.9 million smaller, and **state and local taxes on businesses, consumers and individuals would fall by \$1.1 million.**

Economic Impact of DTC Spirits in Vermont

Change	Direct	Supplier	Induced	Total
Jobs	(23)	(8)	(10)	(42)
Wages	(661,246)	(429,097)	(452,829)	(1,543,172)
Economic Output	(2,824,807)	(1,508,831)	(1,522,215)	(5,855,853)

	Federal	State and Local	Total
Taxes	\$ (539,602)	\$ (1,108,138)	\$ (1,647,740)

The model for this analysis was developed by JDA for the WSWA in 2010, when states began passing direct shipment legislation. It has been updated to reflect current volumes and prices.

³ Economic Impact of the Wine and Spirits Industry: 2020, prepared for Wine and Spirits Wholesalers of America by John Dunham & Associates, 2021.

The model is based on a function incorporating current import propensity in each state, population, and the size of the state-specific spirits industry.⁴

Please let me know if you need further information.

⁴ The model uses an unweighted average of these factors in terms of percentages across states and multiplies them by approximately 1.5 which is a direct shipment factor based on a cross-sectional regression analysis. In effect, states with a higher propensity for cross-border sales, and those with a larger spirits industry will be more prone toward substituting direct shipments from producers for retail sales.