

MEMORANDUM

TO: Chelsea Crucitti
 FROM: John Dunham
 DATE: February 8, 2022
 RE: Impact of Direct Shipment of Spirits on Market in Maine

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

Maine is a control state, and the Bureau of Alcoholic Beverages and Lottery Operations controls all liquor wholesaling through a subcontracted private firm. Retailing of spirits in the state is fairly developed with licensed private package stores, and spirits sold in grocery stores, convenience stores and on Sundays. In addition, Maine allows licensed wineries (both in and out-of-state) to ship directly to consumers.

Maine 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 20,543 additional cases of distilled spirits would move from the normal three-tier distribution channel to direct ship. This represents 1.4 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)
Maine	2,675,290	3,419,510	48,842	20,543

An additional 126,809 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 82 cases of distilled spirits are currently being shipped to consumers in Maine 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

	Taxable Sales	Current Consumption	Imports from Non-Local States	Current Direct Shipments
Gallons	2,675,290	3,232,284	301,495	196
Cases	1,125,230	1,359,502	126,809	82

The spirits sent to consumers in Maine through retail channels without appropriate taxes being remitted currently account for roughly 9.8 percent of total consumption, on top of which another 8.1 percent of consumption is purchased from retail locations in neighboring New Hampshire. Currently, only 7-tenths of a percent of total sales are being shipped directly by producers. It is unlikely that legal direct

¹ Hawaii, Alaska, 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).

shipments would replace these sales, so overall, if a direct shipment law was to pass, the total share of consumption would reach 321,492 cases of spirits (nearly 2.9 million bottles).

This shift from the three-tier system would not only reduce sales for the State’s contract distribution company but would also harm retailers. Based on the most recent economic impact analysis of the spirits industry in Maine, the three-tiers account for 1,440 jobs, with a total of 6,800 jobs in the state generated when supplier and induced impacts are included. Overall, the industry accounts for about \$946.4 million in economic activity in the state and generates over \$77.5 million in taxes outside of the excise and sales taxes, as well as other fees paid by consumers.³

Economic Impact of Spirits Industry in Maine

	Direct	Supplier	Induced	Total
Jobs	1,440	3,463	1,903	6,807
Wages	\$ 114,756,490	\$ 77,845,863	\$ 89,238,807	\$ 281,841,160
Economic Output	\$ 416,888,565	\$ 247,513,924	\$ 281,999,852	\$ 946,402,342
	Federal	State and Local	Total	
Taxes	\$ 65,299,831	\$ 77,513,326	\$ 142,813,157	

If DTC were to be allowed for spirits, this impact would be reduced by 98 full-time equivalent jobs that would have paid over \$3.3 million in wages and benefits. The overall economy of the state would be \$12.4 million smaller, and state and local taxes on businesses and individuals would fall by \$1.3 million

Economic Impact of DTC Spirits in Maine

Change	Direct	Supplier	Induced	Total
Jobs	(56)	(18)	(24)	(98)
Wages	\$ (1,452,456)	\$ (903,620)	\$ (989,598)	\$ (3,345,674)
Economic Output	\$ (5,782,915)	\$ (3,278,817)	\$ (3,343,194)	\$ (12,404,927)
Taxes:	Federal	State and Local	Total	
Taxes	\$ (1,114,139)	\$ (1,335,945)	\$ (12,404,927)	

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. 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.

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

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.