

HB 291 is Wrong for Pennsylvania



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Why HB 291 – Why Now

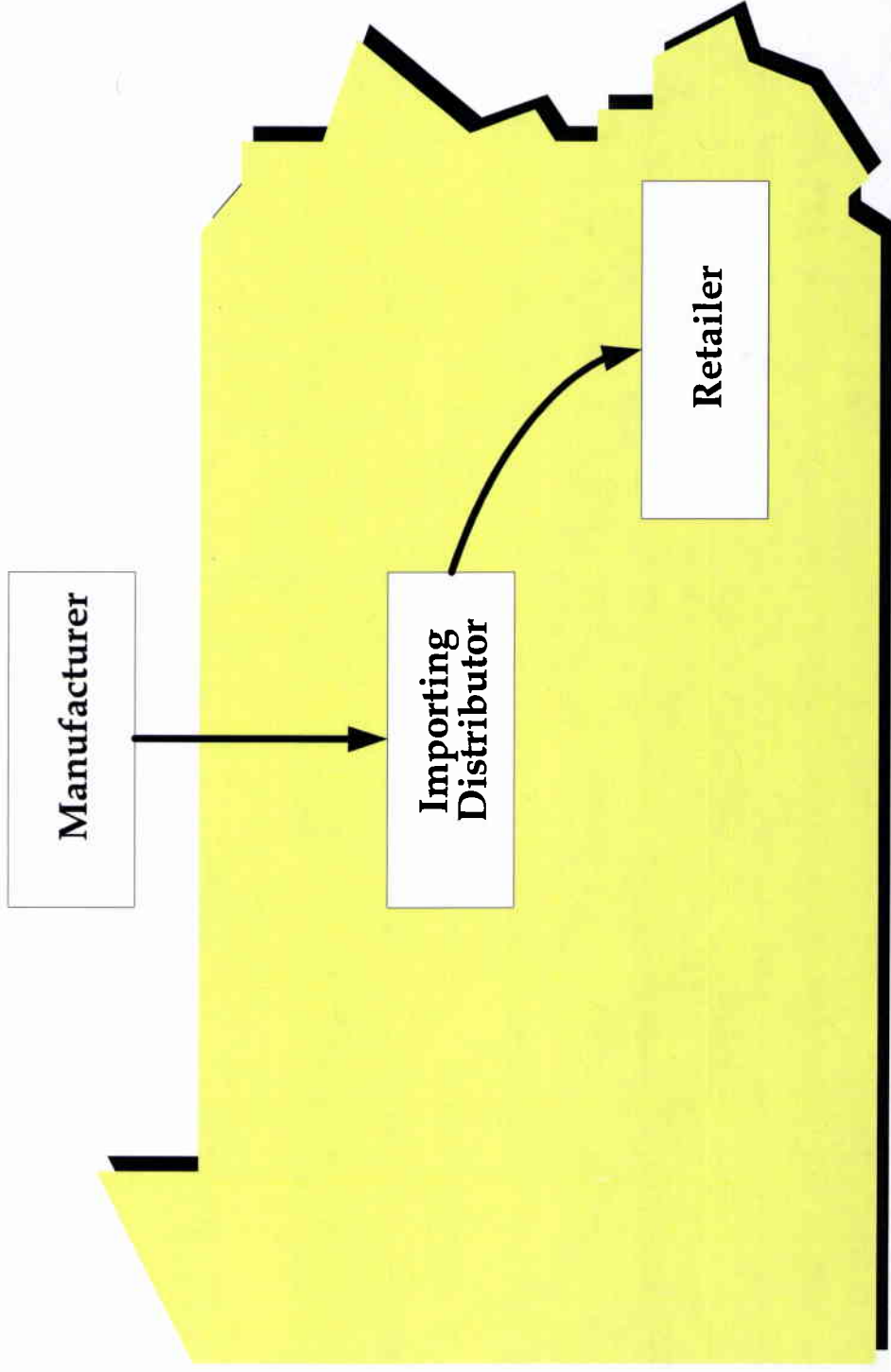


- HB 291 was introduced to cure constitutional issues of disparate treatment of in-state and out-of-state manufacturers
 - Only 1 court case raised the issue, and that case was concluded 3 years ago
 - No present constitutional threats
- HB 291 seeks to amend the Pennsylvania franchise laws (Section 431 of the Pennsylvania Liquor Code) and will greatly affect the three-tier distribution system

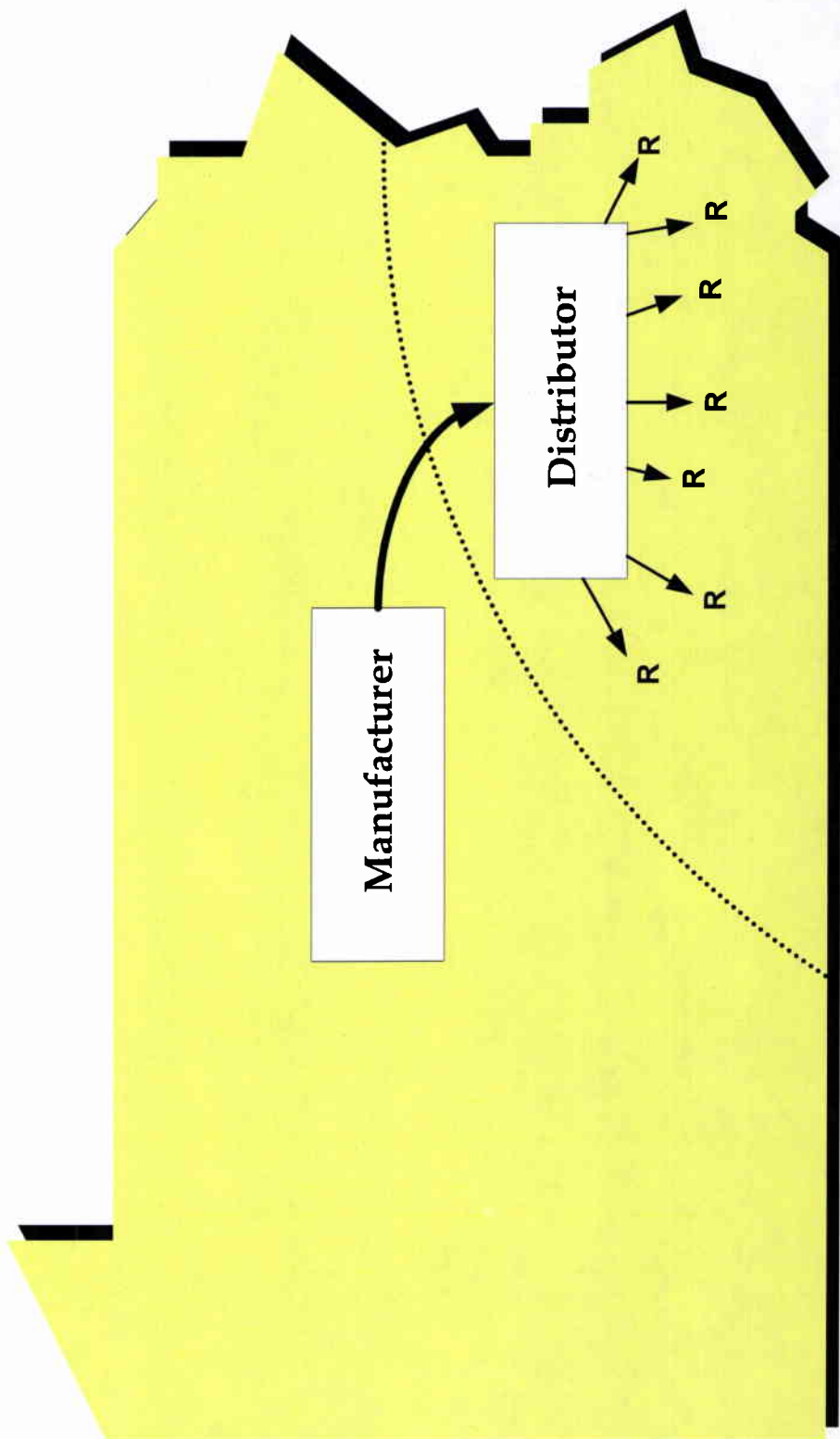
Three Tier System

- State Mandated Middleman Monopoly
- Distribution system since end of Prohibition:
 1. Manufacturer must sell to one wholesaler in geographic region
 - E.g., Any Yuengling Lager sold in Philadelphia 5-county area must pass through 1 designated wholesaler
 2. Wholesaler sells to retailer
 3. Retailer sells to general public
- In Pennsylvania, manufacturer cannot terminate wholesaler unless there is “good cause” and burden is on manufacturer to establish “good cause”
- Wholesaler can sell rights to another wholesaler without manufacturer’s consent!

Out-of-State Distribution

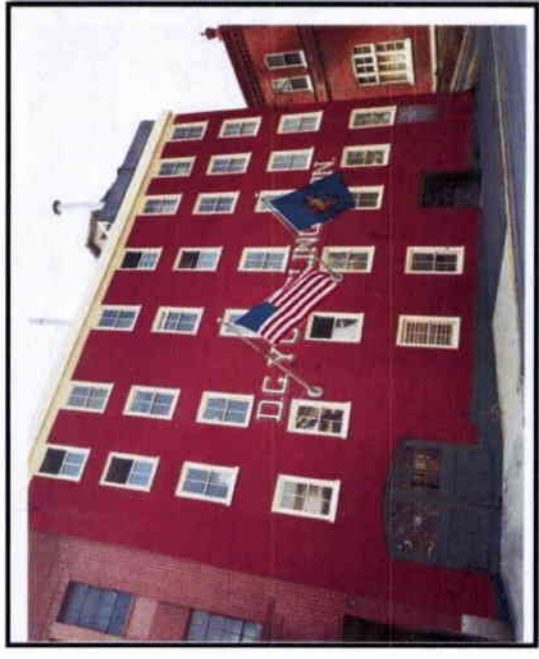


In-State Distribution



Faults of Three Tier System

- Prohibits free trade by creating monopoly of manufacturers' products and intellectual property by 1 wholesaler
- Failure to adopt to mass industry consolidation and changes
- Increases cost of alcohol to general public



Historical Benefits of Three Tier System

- Prohibited direct sales which could be exposed to anti-competitive conduct of manufacturer and increased promotion of alcohol consumption
- Local wholesalers more knowledgeable of responsible alcohol distribution and subject to state law

Industry Changes

- In 1980, the Pennsylvania legislature modified the Three Tier System to include in-state manufacturer's right of self-distribution
 - Many local brands like Schmidt's, Rolling Rock, Stroh, Reading, Ortlieb, Duquesne, and Schaefer viable and independent