

Paul Gregutt Article: a very reluctant vote on 1100

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Subject: a very reluctant vote on 1100

The most important and rewarding aspect to writing this blog is the dialogue it engenders, and nothing has brought that dialogue into play for me more significantly than the ongoing struggle to analyze Initiative 1100. Over the weekend, in response to my two most recent posts, three individuals who I have known for many years, and whose opinions I greatly respect, have contacted me to offer their (very different and well-considered) perspectives. All three are opposed to 1100.

I have been right on the verge of writing “hold your nose and vote yes.” I want to send a message, and I think a lot of other voters do too.

The message is “Give us freedom of choice. Give us a free market for wine and spirits. Give us vendors who know their products and love what they do. And end the inherent conflict in a state monopoly that both sells and restricts the same products.” I was thinking that Prohibition ended over 75 years ago, and I don’t have another 75 years to wait for the state to amend the current laws. Here are the arguments that make the case that this initiative is simply too broad and too vague – a clearcut rather than a cleanup.

Caleb Foster, who with his wife Nina owns Buty winery, one of just 20 to receive five stars in my new book, has posted this note on my blog. It’s important enough that I want to repeat parts of it here (the entire post is on last Wednesday’s blog).

“Paul, I want to weigh in to say that it's important to vote NO on the 1100 initiative. The hundred words of an initiative are not information enough for voters about their proposals. Most well intentioned people don't understand what's at work already let alone the changes proposed. In fact, Washington is rare in allowing (since 2009) any winery in the USA to get a distributor's license to directly sell to any store or restaurant in the state. Washington already allows that "direct marketing avenue" we agree is needed.

What's really at stake here is gross market control by the wealthiest distributors, stores etc. The question really is who do you trust? Do you trust the mysterious author of this initiative to make new laws built for their special interest, or the elected people who for the last 70 years have reworked the laws allowing for a wildly successful small farm wine industry to thrive in Washington making some of the world's greatest wines in the recent past under the current laws. Who do you favor? Shall we protect small family producers and vote NO or whoever wrote this law and vote YES? Baiting you with Jim Beam in the grocery store, they rewrote the rest of the law to get everything else which would give them a unique market advantage over their competition, me.

Please enjoy reading Initiative 1100 in its original

at <http://www.sos.wa.gov/elections/initiatives/text/i1100.pdf> I have read it. As an English major and business owner, I don't like it. As a small winery owner I voted NO against 1100. Please vote No with me. I am openly asking that you protect me and all my friends making great wines in Washington.”

Also over the weekend I spoke at length with Marty Clubb, who called not only as a winery owner (L'Ecole No 41) but in his capacity as the current President of the Washington Wine Institute. Marty has been a tireless (and often under-appreciated) worker on behalf of Washington wines and wineries, and owns (with his wife Megan) one of the largest family-run wineries in the state. He too is opposed to 1100. I asked him why, as far as I could tell, there was no unanimous opinion about the initiative – some neutral, some for, some opposed.

“The neutral parties,” says Clubb, “tend to be the bigger parties who are more able to deal with a totally unregulated free-for-all market. The Restaurant Association is for it, the big retailers are for it, and the smallest wineries are for it. Most of those guys don't deal in other states.

This initiative process takes a sledgehammer to the rules, with unforeseen consequences. We don't have a mandatory three tier system. My point of view is to change the laws progressively with time. That's the Wine Institute tack; we've done that over the years. We have the most liberal tied house rules of any state; less restrictive than California. By redlining the entire statute, everything goes away. There's nothing that defines anything in terms of credit. All the tied house rules go. So you have states like Florida where they don't enforce tied house laws, and the retailers make more money on shelf placement than by selling wine.

“I would argue,” Clubb continued, “there's a potential for reduced consumer access in some circumstances. Let's look at quantity discounts. We were open to working toward some way to pass quantity discounts. But as you know the distribution business is a margin business. You can argue that you can improve efficiency, but at some end the distributor has to make some margin to pay the bills. Let's just say that's 30%. With quantity discounts, if you buy the bigger volume, you get a 20% margin. They make up for it by selling the smaller winery products at higher markup.

Centralized warehousing – all the big guys are going to implement it, which probably will lower pricing. But all of these places will deal with boxes, not bottles. If you go into Safeway now and there's a wine facing, three or four deep, they can replenish that spot alone. But if you have to buy by the case you end up with multiple facings so the number of SKUs go down. The way we should do this is not by gutting the law, but by doing it strategically. The biggest unforeseen consequence relates to these tied house rules.”

In closing, Marty told me about his own efforts to place one of his wines on a prestigious New York restaurant's wine list. He finally got them to agree to pour the wine by the glass; then they said “oh, by the way, it's going to cost you \$1500 to help us print the menus.”

The third person who weighed in over the weekend has worked all his life in wine distribution. For obvious reasons, I cannot divulge his name, but this is someone I have known a long time and whose opinions mean a lot. He writes:

“Both 1100 and 1105 are very messy and really not very transparent to the voter. While [my company] has taken a neutral position on the matter, I will tell you I am voting ‘no’ on both and recommending that to people if they ask me. Why you ask? Simply, neither are solutions that will benefit the consumers. While 1105 favors the distributor, it is 1100 that scares the dickens out of me. When you read the entire initiative, the only thing that will be illegal in Washington State will be selling to minors. All rules, laws, etc. are gone.

Slotting allowances will be legal so the big suppliers will push aside the small wineries and anyone else

who gets in their way for the premium shelf space. (Check Coke and Pepsi where slotting is legal). Small wineries everywhere will lose “big time” if this passes. No other state in the USA will be as ‘lawless’ as Washington State if 1100 passes. This is not a scare tactic, just a statement of the facts.

Liquor will not be cheaper by the 51% noted in the ‘for’ campaign. They are being disingenuous in their comments and projections. The state makes 29% GP on the sale of their products. Drop by any Liquor store or check their web site for the breakdown of the costs of a bottle of spirits in their stores. Public information. All the rest of the cost is in taxes and these will not go away. Costco works on 13.9% GP and most all other retailers work on between 25 – 30%. Will life go on, yes it will. However, the changes will be far more dramatic than what the ads and Costco are saying.”

PG: My takeaway from all of the above is that there have been positive changes made to the laws, mostly behind the scenes. The Wine Institute has done a poor job of defining and selling their agenda to the general public. What should be done is to develop a master plan for an ideal system of liquor sales; explain to the voters what it entails, and then go about implementing it, as Marty Clubb says, strategically. Much as a clear cut, clean sweep of the current morass promises voters a certain amount of immediate satisfaction, the mess it creates may be as bad – or worse – than the tangled jungle of conflicting rules and regs we are currently stuck with.

So I’m going to hold my nose and vote... No... on both 1100 and 1105.

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