

BILL ANALYSIS

C.S.H.B. 4016
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Licensing & Administrative Procedures
Committee Report (Substituted)

BACKGROUND AND PURPOSE

The distilled spirits industry is a relatively new industry in Texas but has seen incredible growth over the past decade. From 1997 to 2008, there were only 8 distillers in Texas. In 2013, when distilleries obtained the right to sell bottled products at their distilleries, there were 49 distillery permits in Texas. Today, there are 170 distiller's and rectifier's permits. Because of the growth in the industry and the increased market competition, distillers are increasingly focused on creating appealing packaging and minimizing costs by increasing economies of scale. Many distillers would like to accomplish these goals by means of contract distilling, a practice in which two or more distilleries contract together to share costs for packaging equipment, thus allowing them to save money on equipment and to afford more premium packaging. Currently, state law allows both wineries and breweries to utilize similar practices in their manufacturing processes. C.S.H.B. 4016 seeks to allow Texas distilleries to incorporate contract distilling into their business operations.

CRIMINAL JUSTICE IMPACT

It is the committee's opinion that this bill does not expressly create a criminal offense, increase the punishment for an existing criminal offense or category of offenses, or change the eligibility of a person for community supervision, parole, or mandatory supervision.

RULEMAKING AUTHORITY

It is the committee's opinion that rulemaking authority is expressly granted to the Texas Alcoholic Beverage Commission in SECTIONS 1 and 2 of this bill.

ANALYSIS

C.S.H.B. 4016 amends the Alcoholic Beverage Code to authorize the holder of a distiller's and rectifier's permit to enter into an agreement with another distiller's and rectifier's permit holder to engage in certain activities on the permitted premises of the other permit holder, subject to approval by the Texas Alcoholic Beverage Commission (TABC). The bill also authorizes the holder of a nonresident seller's permit who owns a distillery outside Texas to enter into an agreement with the holder of a distiller's and rectifier's permit that allows the nonresident seller to use the distiller's and rectifier's permitted premises to engage in those same activities, subject to approval by TABC. The authorized activities under both agreements are as follows:

- manufacturing distilled spirits;
- rectifying, purifying, and refining distilled spirits and wines;
- mixing wines, distilled spirits, or other liquors; and
- bottling, labeling, and packaging the permit holder's or nonresident seller's finished products, as applicable.

Either agreement must describe with specificity the nature, duration, and extent of the activities authorized by the agreement.

C.S.H.B. 4016 requires TABC to adopt rules regulating the shared use of the permitted premises for both agreements authorized by the bill for purposes of ensuring administrative accountability of each applicable permit holder and a strict separation between the businesses and operations of the permit holders.

EFFECTIVE DATE

September 1, 2021.

COMPARISON OF ORIGINAL AND SUBSTITUTE

While C.S.H.B. 4016 may differ from the original in minor or nonsubstantive ways, the following summarizes the substantial differences between the introduced and committee substitute versions of the bill.

While the original authorized an agreement between one holder of a distiller's and rectifier's permit and another for the shared use of permitted premises to include any activity otherwise authorized under that permit class, the substitute limits the activities authorized under such an agreement to the activities specified by the bill.

The substitute includes authorization not in the original for the holder of a nonresident seller's permit to rectify, purify, and refine wines and to mix wines, distilled spirits, or other liquors on the permitted premises of a distiller's and rectifier's permit holder under an agreement.