

Mike Hughes

**To: The Texas Sunset Advisory Commission**

**From: Mike Hughes and George Hager**

**TESTIMONY TO THE TEXAS SUNSET COMMISSION**

**By Mike Hughes 12/13/18**

Mr. Chairman and members of the committee, thank you for the opportunity to testify today.

We are here to ask for your support in your report back to the Sunset Commission staff to allow wine warehousing and shipping services here in Texas.

There are over 400 wineries here in Texas. Only a few of those wineries can distribute their product through the three tier system to retailers. The majority of Texas wineries – especially small wineries – rely mainly on direct to consumer sales and wine clubs. The same is true for many out of state wineries as well.

While Texas wineries can ship directly to consumers, they are precluded from utilizing a third party fulfillment service, unlike out-of-state wineries. Out of state wineries currently contract with independent facilities located in geographically advantageous locations to warehouse and ship wine to Texas customers rather than shipping directly from the wineries.

We are here today to ask for ability to provide these same services from warehouses located here in the state of Texas.

Establishment of centralized wine storage warehouses would relieve Texas wineries of the financial burden of building their own storage facilities and allow them to use their limited capital to improve and expand their wine production and pay for promotion of their wines.

The economy of scale of centralizing packing and shipping operations would also result in lower labor and shipping charges providing lower costs to the wineries and lower prices to Texas consumers.

Last and not least, shipment of direct to consumer orders to Texas consumers from Texas based warehouses will provide TABC and the State Comptroller's office with a greater ability to monitor sales and ensure collection of appropriate taxes. In discussions with TABC staff they have indicated that this would be a welcome benefit.

To be clear, these facilities DO NOT distribute, sell, or promote any of these wines – they simply serve as a fulfillment center on behalf of wineries.

These warehouses would not sell or promote the sale of wines. They would serve two functions only. The first is temperature controlled storage space where wineries could store their product for a storage fee. The other is a packing and shipping service for wines legally sold directly to Texas consumers by the wineries.

To achieve these goals, we are requesting changing to TABC laws to extend the same benefit provided to out-of-state companies to those doing business in Texas by permitting the operation of temperature controlled warehouses where Texas and out of state wineries can store their wines and where shipments can be prepared to Texas consumers for orders placed by the consumer directly with the wineries.

One final point – these permitted warehouses would not compete with the three tier system. Rather, they would simply help wineries fulfill their legal, direct to consumer orders.

The three tier system rightly chooses to distribute wines that are produced in larger volume and are promoted through expensive advertising programs. Retail wine stores can only inventory a limited number of wines. At the same time, this means they do not provide distribution of wines produced by hundreds of smaller wineries which are usually family owned and operated or offer specialty wines produced by larger wineries.

In fact, wines sold and shipped directly to Texas consumers by wineries are almost never the same wines offered to them by the three tier system. The reason for this is simple. Why would a consumer pay the additional costs and delay of shipping if they could buy the same wine from a local retail store?

Again, please let me stress that these warehouses would not be involved in the sale of wines. These warehouses would not be permitted to purchase or own wine or to promote the sale of wines. They would only be providing services to wineries already legally shipping wines directly to Texas consumers. These storage and shipping services are already being provided to out of state wineries by warehouses located outside Texas. This change would allow this to be done within our state.

We respectfully ask that your Commission support the minor changes necessary to current TABC rules to level the playing field between in and out of state businesses. These changes would offer Texas consumers greater choices, provide greater control over shipment of wines to consumers, and result in greater tax revenue to the state of Texas. If requested by the Commission, we can provide more detailed information about these changes.

Thank you for your time today. I would be happy to answer any questions you might have.