INDUSTRY ADVISORY

Instructional Tasting License for Off-Sale Licensees

Recently enacted legislation (Assembly Bill 605, Statutes 2010, effective January 1, 2011) created sections 23396.6 and 25503.56 of the Business and Professions Code. In addition to providing for a new license, these sections include carefully crafted exceptions to California’s three-tier system of alcohol regulation. As such, they are nuanced and contain many detailed provisions, not all of which are specifically addressed in this advisory.

Section 23396.6 provides for a new “instructional tasting license” to be issued to holders of certain, qualified off-sale retail licensed businesses. Off-sale premises where motor vehicle fuel is sold and those with a total of less than 5,000 square feet of interior retail space are generally not eligible to apply for the instructional tasting license.

Application procedures for an instructional tasting license will be similar to those currently established for other retail businesses, although some ABC Act provisions (such as those related to numbers limitations within counties and public convenience or necessity) are not applicable. The premises of the instructional tasting license will be recognized as being the same area designated and approved for the accompanying off-sale license, although areas used for instructional tasting events will need to be appropriately separated and posted while events are taking place. Eligible off-sale retailers will be able to apply for the instructional tasting license at the Department’s district and branch offices beginning Monday, January 3, 2011, and applications shall be subject to a $300 original fee and $261 annual renewal fee. The license has been designated as “Type 86” by the Department.

An application for the Type 86 license should be prepared using forms required for an original retail license (available on the Department’s website at www.abc.ca.gov) and submitted, along with all required fees, to the appropriate District Office. As the license is to be issued to an off-sale licensee...
“at the premises” of the underlying off-sale license, form ABC-257 will not be required at the time of application. Forms ordinarily required for the purpose of establishing the qualification of a person or entity (ABC-208, ABC-243, ABC-256, ABC-256-LLC, ABC-140) need not be submitted at the time of application for a Type 86 license. However, in cases where such information is deemed necessary for completion of a full licensing investigation, any of the above described forms and any other supporting documents or information may be subsequently requested by District Office licensing staff.

Section 25503.56 authorizes certain, qualified suppliers (i.e.; “authorized licensees”) or their designated agents to conduct “instructional tasting events” at off-sale retail locations holding the instructional tasting licenses, and to provide tastes of alcoholic beverages to consumers under very specific conditions, restrictions and limitations. Some provisions related to supplier participation at instructional tasting events are similar to those for existing “consumer instruction” activities at on-sale premises. However, other supplier allowances and limitations are unique to the Type 86 license.

A unique aspect of the instructional tasting license is that, while it will be applied for and held by a retail licensee, its core privileges require the involvement or participation of a qualified supplier. With that in mind, suppliers and retailers alike should be fully aware of existing tied-house laws that otherwise restrict or limit business relationships between the supply and retail tiers. A supplier shall in no way, directly or indirectly, pay, reimburse, or assist a retail licensee with any efforts associated with obtaining a type 86 license, nor shall instructional tasting events be used to, in any way, circumvent existing tied-house laws. Any payment made by a supplier to or on behalf of a retailer, directly or indirectly, in connection with an instructional tasting event, except as authorized or required for alcoholic beverage products to be used during the tasting event, shall be considered a violation of tied-house laws.

Off-sale retailers interested in applying for instructional tasting licenses and suppliers interested in conducting instructional tasting events should familiarize themselves with all details of the applicable statutes, paying close attention to provisions related to licensee eligibility and operating requirements, restrictions and limitations. The Department believes that it is the responsibility of all participating parties to be fully aware of the detailed provisions set forth in Assembly Bill 605 and to conduct instructional tasting events in full compliance with the ABC Act.

The following addendum to this advisory highlights some of the unique aspects and restrictions associated with the Type 86 license and instructional tasting events. The full text of the chaptered bill and detailed legislative analysis is available at www.leginfo.ca.gov.

December 1, 2010
Addendum (detailing specific provisions set forth in Business and Professions Code sections 23396.6 and 25503.56):

- Type 86 licenses shall not be issued to off-sale licensees at locations where motor vehicle fuel is sold, unless the licensee operates a fully enclosed off-sale retail area encompassing at least 10,000 square feet, nor to off-sale licensees at locations with a total of less than 5,000 square feet of interior retail space, unless the calendar quarterly gross sales of alcoholic beverages at the licensed location comprise at least 75 percent of the total gross sales of all products sold at the licensed premises. A licenseholder that is issued an instructional tasting license pursuant to this paragraph shall maintain records that separately reflect the gross sales of alcoholic beverages and the gross sales of all other products sold on the licensed premises.

- “Authorized licensee” means a winegrower, California winegrower’s agent, beer and wine importer general, beer and wine wholesaler, wine rectifier, distilled spirits manufacturer, distilled spirits manufacturer’s agent, distilled spirits importer, distilled spirits importer general, distilled spirits rectifier, distilled spirits general rectifier, out-of-state distilled spirits shipper’s certificate holder, distilled spirits wholesaler, brandy manufacturer, brandy importer, California brandy wholesaler, beer manufacturer, or an out-of-state beer manufacturer certificate holder.

- “Authorized licensee” shall not include an entity that solely holds a combination of a beer and wine wholesale license and an off-sale beer and wine retail license or holds those licenses solely in combination with any license not listed in this paragraph.

- No charge of any sort shall be made for tastings at an instructional tasting event.

- A person under 21 years of age shall not serve, or be served, wine, beer, or distilled spirits at the instructional tasting event.

- Unless otherwise restricted, an instructional tasting event may only take place between the hours of 10 a.m. and 9 p.m.

- The type 86 license shall not authorize any on-sale retail sales to consumers attending the instructional tasting event.

- The type 86 licenseholder shall not permit any consumer to leave the instructional tasting area with an open container of alcohol.
• A type 86 licenseholder that permits a person under 21 years of age to enter and remain in the instructional tasting event area during an instructional tasting event is guilty of a misdemeanor. Any person under 21 years of age who enters and remains in the instructional tasting area during an instructional tasting event is guilty of a misdemeanor and shall be punished by a fine of not less than $200.00, no part of which shall be suspended.

• At all times during an instructional tasting event, the instructional tasting event area shall be separated from the remainder of the off-sale licensed premises by a wall, rope, cable, cord, chain, fence, or other permanent or temporary barrier. The type 86 licenseholder shall prominently display signage prohibiting persons under 21 years of age from entering the instructional tasting event area.

• An instructional tasting event shall be limited to a single type of alcoholic beverage. “Type of alcoholic beverage” means distilled spirits, wine, or beer.

• A single tasting of distilled spirits shall not exceed one-fourth of one ounce and a single tasting of wine shall not exceed one ounce. No more than three tastings of distilled spirits or wine shall be provided to any person on any day. The tasting of beer is limited to eight ounces of beer per person per day. The wine, beer, or distilled spirits tasted shall be limited to the products that are authorized to be sold by the holder of the type 86 license under its requisite off-sale license.

• No more than one “authorized licensee” or its designated representative may conduct an instructional tasting event that includes the serving of tastes of wine, beer, or distilled spirits at any individual type 86 licensed premises per day.

• All tastes shall be served by an employee or the designated representative of the “authorized licensee.”

• The “authorized licensee” or its designated representative shall either supply the wine or distilled spirits to be tasted during the instructional event or purchase the wine or distilled spirits from the holder of the type 86 at the original invoiced cost.

• The “authorized licensee” or its designated representative shall purchase beer to be tasted during the instructional event from the holder of the type 86 at the original invoiced cost.

• Any unused wine, beer, or distilled spirits remaining from the tasting shall be removed from the off-sale license licensed premises by the “authorized licensee” or its designated representative.

• If the instructional tasting event is conducted by a designated representative, the designated representative shall not be owned, controlled, or employed directly or indirectly by the holder of the type 86 on whose premises the instructional tasting event is held.
A beer and wine wholesaler may conduct an instructional tasting event but shall not serve tastes of beer unless the beer and wine wholesaler also holds a beer manufacturer’s license, an out-of-state beer manufacturer’s certificate, or more than six distilled spirits wholesaler’s licenses.

The holder of the type 86 may conduct an instructional tasting event that includes the serving of tastings only when an “authorized licensee” or its designated representative is unable to conduct an instructional tasting event previously advertised pursuant to Section 25503.56 and scheduled by the authorized licensee or its designated representative, provided the holder of the type 86 supplies the wine, beer, or distilled spirits in the instructional tasting event and provides or pays for a person to serve the wine, beer, or distilled spirits. Instructional tasting events conducted by the holder of the type 86 pursuant to the applicable subdivision of Section 25503.56 are subject to the provisions of Sections 25503.56 and 23396.6.

A holder of a type 86 license that also holds an on-sale beer and wine license, an on-sale beer and wine eating place license, or an on-sale general license shall not allow an “authorized licensee” or its designated representative, to conduct an instructional tasting event on the same day and at the same location as any instructional tasting event held pursuant to subdivision (b) of Section 23386, Section 25503.4, subdivision (c) of Section 25503.5, or Section 25503.55.

A holder of a type 86 license shall not condition the allowance of an instructional tasting event upon the use of a particular designated representative of an “authorized licensee”.

An “authorized licensee” or its designated representative, in his or her absolute discretion and with permission of the holder of the type 86 license where the instructional tasting event will be held, may list in an advertisement to the general public the name and address of the type 86 licensee, the names of the alcoholic beverages being featured at the instructional tasting event, and the time, date, and location of, and other information about, the instructional tasting event, provided that BOTH of the following apply:

1. The advertisement does not contain the retail price of the alcoholic beverages.
2. The listing of the type 86 licensee’s name and address is the only reference to the type 86 licensee in the advertisement.

NOTE: Pictures or illustrations of the type 86’s licensed premises and laudatory references to the type 86 licensee in these advertisements are not authorized. An “authorized licensee” or its designated representative cannot share in the costs, if any, of the type 86 licensee.

A type 86 licensee may advertise an instructional tasting event to the general public. The costs of this advertising shall be borne solely by the type 86 licensee. Permitted advertising includes flyers, newspaper ads, Internet communications, and interior signage.
• Except as otherwise provided in the ABC Act or rules of the department, no premium, gift, free goods, or other thing of value shall be given away by an “authorized licensee” or its designated representative in connection with an instructional tasting event that includes tastings of an alcoholic beverage.

• The type 86 licensee or the “authorized licensee” or its designated representative are authorized to perform set up and break down of the instructional tasting event area.

• The “authorized licensee” or its designated representative may provide, free of charge to the type 86 licensee, the equipment, materials, and utensils as may be required for use in connection with the instructional tasting event.

• The type 86 licensee shall not require, or enter into a collusive scheme with an “authorized licensee” or its designated representative to conduct one or more instructional tasting events as a condition of carrying or continuing to carry a brand or brands of the “authorized licensee” or as a condition for display or other merchandising plan which is based on an agreement to provide shelf space.

• An “authorized licensee” or its designated representative shall not require any preferential treatment or benefit from, or enter into a collusive scheme with, a holder of a type 86 license as a condition of conducting one or more instructional tasting events, require to carry or continue to carry a brand or brands of the “authorized licensee” as a condition of conducting one or more instructional tasting events, or condition display or other merchandising plans that are based on agreements for the provision of shelf space on the conducting of one or more instructional tasting events.

• Any agreement, whether written or oral, entered into by and between a type 86 licensee and an “authorized licensee” or its designated representative that precludes the conducting of instructional tasting events on the licensee’s type 86 premises by any other “authorized licensee” is prohibited.

• A type 86 licenseholder or “authorized licensee” or its designated representative, shall not use an instructional tasting event to circumvent any other requirement in the ABC Act.