

UPDATED FAQ – CROSS-TIER INTERESTS

This updates the subject content in the general FAQ document.

What are the Rhode Island restrictions in relationships and dealings between different tiers in the three-tier system?

There are three tiers for liquor regulation: manufacturer (brewery, distillery, winery, etc.), wholesaler, and retailer (liquor store, restaurant/bar, etc). There are certain limitations on “direct or indirect interests” between the three tiers. R.I. Gen. Laws § 3-6-15 prohibits certain “direct or indirect interests” between businesses in the manufacturer tier and wholesaler tier;¹ and R.I. Gen. Laws § 3-7-22 prohibits certain “direct or indirect interests” between businesses in the manufacturer/wholesaler tier (“upper tiers”) and retail tier.² However, there are also a number of statutory exceptions and scenarios not covered by the specific language of the relevant statutes.³

The Department frequently receives inquiries regarding interests between tiers. These issues are fact-specific and nuanced, requiring a case by case review. It is not prudent for the Department to answer hypotheticals in a vacuum. Rather, the inquiring party must provide the names of the entities and individuals involved, the exact extent of their financial interest, the exact nature of their control over the business, etc. It will be the inquiring party’s burden to show that the cross-tier interest at issue does not violate the applicable statute(s).

Applicants filing out new applications and renewal applications are required to answer questions about ownership interests in other liquor businesses. Licensees should report new cross-tier ownership and control interests before they occur to avoid divestiture in the event the cross-tier interests are later determined to be prohibited.

¹ § 3-6-15. Manufacturer's interest in business of wholesaler prohibited.

No manufacturer of distilled spirits or wines whose principal place of manufacture is outside of this state shall hold a wholesaler's license issued under this title or shall have any interest in a wholesaler's license, either directly or indirectly, as an owner or part owner, or through a subsidiary or affiliate, or by any officers, directors, or employees of the manufacturer, or by stock ownership, interlocking directors, trusteeship, loan, mortgage or by being a guarantor, endorser or surety of any obligation of a wholesaler.

² § 3-7-22. Manufacturer's or wholesaler's interest in retailer.

(a) Except as otherwise provided, it shall be unlawful for any holder of a manufacturer's or wholesaler's license to have any direct or indirect interest in any retailer's license or in the business carried on under a retailer's license. If by operation of law the holder of a manufacturer's or wholesaler's license acquires an interest in a retailer's license, or in the business carried on under a retailer's license, he or she shall within thirty (30) days after acquiring that interest report the interest to the department and shall dispose of that interest in accordance with the directions of the department. Any person willfully violating the provisions of this section shall forfeit his or her manufacturer's license and his or her interest in the retailer's license.

(b) The holder of a license issued pursuant to § 3-6-1.1, et seq., located at 162 West Main Road, Little Compton, Rhode Island may have a direct or indirect interest in a Class B license, provided, that the holder shall remain obligated to comply with § 3-7-18 and § 3-5-11.1.

³ See § 3-6-15 (only specifically applies to wine and spirits, out of state manufacturers); R.I. Gen. Laws § 3-7-7.2(a) (allows brewpub to also hold a B-V); R.I. Gen. Laws § 3-7-22(b) (exempts a particular establishment).

This is a complex area for which inquiring parties/applicants/licensees would be well-advised to retain a private attorney and discuss business investment strategies with an accountant.

Does Rhode Island have “trade practices” laws that regulate commercial dealings between tiers, absent an ownership/control interest?

The Department frequently receives questions about the permissibility of volume discounts, promotional products and displays, etc. Such business dealings have case by case variations, but in general, the Rhode Island cross-tier interest statutes are interpreted as being directed at financial and management interests such as ownership, financing, common business manager, etc. (not customary trade practices).

Licensees must follow federal law regarding "trade practices." More information can be found on the website of the Alcohol and Tobacco Tax and Trade Bureau (referred to as "TTB"): <https://www.ttb.gov/trade-practices>. You may also wish to consult with a private attorney or liquor compliance consultant.