

Minnesota's Three-Tier System of Liquor Regulation

Liquor is controlled for a number of reasons: to deny access to minors, to limit over-consumption, to ensure public safety via a clean supply, and to allow community control over the type and nature of liquor venues. Liquor is also regulated as an industry, both to compel the industry to meet the public goals of the state and to ensure fair competition.

The three-tier system of regulation The classic model of liquor regulation creates a three-tier system for supply and distribution. This structure was created after Prohibition in order to modulate the pro-consumption system in place before Prohibition. One aspect of that pre-Prohibition system was the existence of “tied houses”—retailers owned by manufacturers and serving as aggressive sales outlets for those manufacturers.

Minnesota has a much-modified version of the three-tier system. In a pure three-tier, manufacturers make spirits, beer, and wine; wholesalers distribute across and within the state to retailers; and retailers sell to the consuming public.

There are other models for regulating the sale of alcoholic beverages. Some states are “control” states, where wholesalers (18 states) and retailers (14 states) are operated in whole or in part by the state. The other 32, including Minnesota, are “license” states, allowing sales for the most part through independent licensed businesses. In Minnesota, municipal liquor stores do exist at the discretion of the municipality.

Exceptions to the three tiers The three-tier system in Minnesota is not pure. The state has granted numerous exceptions, which has created a modified three-tier structure.

Some exceptions apply mostly to manufacturers:

- Brew-on-premises stores: These stores allow consumers to be manufacturers of beer ([Minn. Stat. § 340A.33](#)) or wine ([Minn. Stat. § 340A.34](#)) for private use

Some exceptions apply mostly to wholesalers:

- Nonprimary source state: Minnesota is the only nonprimary source state, which means that a wholesaler does not have to purchase all product directly from a manufacturer, but can instead buy the manufacturer’s product from third parties, essentially other wholesalers, on the global market ([Minn. Stat. § 340A.305](#), subd. 4)

Some exceptions apply mostly to retailers:

- Municipals and nonmunicipals: Minnesota allows municipal liquor stores to operate as a monopoly and also allows local governments to license multiple private stores, creating two different retail systems ([Minn. Stat. § 340A.601](#))

- Bed and breakfast establishments can sell up to two glasses of wine with a stay at their establishment without a license ([Minn. Stat. § 340A.4011](#))
- 3.2 percent malt liquor has separate sales provisions, including allowing sales at grocery stores, convenience stores, etc. ([Minn. Stat. § 340A.403](#))
- Culinary classes are allowed to serve a limited amount of alcohol ([Minn. Stat. § 340A.4041](#))

Some exceptions apply to more than one tier:

- Brew pubs: These retail outlets are allowed to manufacture their own beer, and in some instances, to transport it between multiple locations owned by the same company ([Minn. Stat. § 340A.301](#), subd. 6); they can also sell growlers, or smaller 750-milliliter bottles, for people to take home and consume ([Minn. Stat. § 340A.301](#), subd. 7(b))
- Farm wineries ([Minn. Stat. § 340A.315](#)): A farm winery in Minnesota can give free samples, sell bottles of their product ([Minn. Stat. § 340A.301](#), subd. 8), even on Sundays, and operate restaurants or wine bars that offer their product ([Minn. Stat. § 340A.315](#)); farm wineries may also produce distilled spirits and provide samples of distilled spirits, but may only sell distilled spirits through existing wholesalers ([Minn. Stat. § 340A.315](#), subd. 7)
- Small brewers can now sell growlers at their taprooms ([Minn. Stat. § 340A.301](#), subd. 6d)
- Taprooms and cocktail rooms: Brewers can now sell their beers in a taproom ([Minn. Stat. § 340A.301](#), subd. 6b), and small distillers can sell their liquor in a cocktail room ([Minn. Stat. § 340A.22](#))
- Wine over the Internet: Minnesota law allows the purchase and direct shipment ([Minn. Stat. § 340A.417](#)) of two cases of wine from a winery, over the Internet, and also allows Minnesota wineries to sell two cases to a given consumer, thereby allowing these manufacturers to act as direct retailers

Modification of the three-tier system

The creation of a three-tier system over 75 years ago acted as a “regulatory channel”—directing investment into businesses that thrived within the regulatory tiers that were created. The weakening of the three-tier system has allowed new businesses to come into being. The modification of a regulatory scheme can create business, channel business, and in some instances, weaken business investment. Arguments to modify the three-tier system are as old as the system itself.

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