

COMMONWEALTH OF PENNSYLVANIA
HOUSE OF REPRESENTATIVES

HOUSE LIQUOR CONTROL COMMITTEE
SENATE LAW AND JUSTICE COMMITTEE
JOINT PUBLIC HEARING

STATE CAPITOL
HARRISBURG, PA

MAIN CAPITOL BUILDING
ROOM 140

WEDNESDAY, SEPTEMBER 29, 2021
9:00 A.M.

PRESENTATION ON
PLCB LIQUOR SUPPLY CHAIN DISRUPTION

HOUSE COMMITTEE MEMBERS PRESENT:

HONORABLE CARL METZGAR, MAJORITY CHAIRMAN
HONORABLE RUSS DIAMOND
HONORABLE MATTHEW DOWLING
HONORABLE VALERIE GAYDOS
HONORABLE BARRY JOZWIAK
HONORABLE JOE KERWIN
HONORABLE ABBY MAJOR
HONORABLE NATALIE MIHALEK
HONORABLE MARCI MUSTELLO
HONORABLE JIM RIGBY
HONORABLE BRIAN SMITH
HONORABLE CRAIG STAATS
HONORABLE JESSE TOPPER
HONORABLE JEFF WHEELAND

HONORABLE DANIEL DEASY, MINORITY CHAIRMAN
HONORABLE DAVID DELLOSO
HONORABLE MANUEL GUZMAN
HONORABLE MARYLOUISE ISAACSON
HONORABLE MALCOM KENYATTA
HONORABLE ANITA ASTORINO KULIK

HOUSE COMMITTEE MEMBERS PRESENT (CONTINUED):

HONORABLE STEVEN MALAGARI

SENATE COMMITTEE MEMBERS PRESENT:

HONORABLE MIKE REGAN, MAJORITY CHAIRMAN

HONORABLE DEVLIN ROBINSON

HONORABLE JIM BREWSTER, MINORITY CHAIRMAN

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*Pennsylvania House of Representatives
Commonwealth of Pennsylvania*

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SUBMITTED WRITTEN TESTIMONY

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(See submitted written testimony and handouts online.)

P R O C E E D I N G S

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3 HOUSE MAJORITY CHAIRMAN METZGAR: I thank
4 everyone for coming today, particularly our Pennsylvania
5 Liquor Control Board and Distilled Spirits Council,
6 Dave Wojnar. We appreciate everyone's time, and we are
7 anxious to get to the bottom of what's one of the most
8 talked about issues in liquor for quite some time. So, I
9 turn it over to my Senate counterpart, Chairman Regan.

10 SENATE MAJORITY CHAIRMAN REGAN: Good morning,
11 everyone. And thank you, Chairman Metzgar, for putting
12 this together. As chairman of the two committees that
13 oversee Liquor and the Liquor Control Board, I believe that
14 it is our responsibility to get to the bottom of the
15 rations implemented by the LCB, and to explore options for
16 improving access to products and consumer convenience.

17 Thank you to our fellow chairs, Senator Brewster,
18 Representative Deasy and all the panelists for joining us
19 this morning. I do appreciate, Mr. Chairman, your
20 consideration and bicameral approach to examining a
21 combined effort to modernizing liquor laws in Pennsylvania.
22 So, thank you for your -- for that, and I look forward to
23 today's testimony. Thank you.

24 HOUSE MAJORITY CHAIRMAN METZGAR: I'll now take
25 an opportunity to recognize my colleague,

1 Representative Deasy. Chair Deasy, if you have some
2 remarks?

3 HOUSE MINORITY CHAIRMAN DEASY: Sure. I'll be
4 brief. I mean, obviously I'm looking forward to the
5 testimony of both groups here today. And I thank the LCB
6 board members as well as the Distilled Spirits Council for
7 their willingness to come here to talk about the issues and
8 the impact of COVID on the alcohol industry. And,
9 obviously you can pick up any newspaper or watch any TV
10 news story, and they talk about shortages throughout all
11 sorts of grocery stores and stores in product and supply
12 chain issues. So, we look forward to hearing what those
13 issues are here and how we can work together to make sure
14 our customers get the products that they're looking
15 forward. And we appreciate the folks being here today, so
16 thank you.

17 HOUSE MAJORITY CHAIRMAN METZGAR: Thank you,
18 Chairman Deasy. And, Chairman Brewster?

19 SENATE MINORITY CHAIRMAN BREWSTER: Thank you,
20 Mr. Chairman. Yeah, very briefly, it's always good to see
21 our friends from the LCB here after another banner year. I
22 enjoy these hearings, because it's an opportunity to talk
23 about how good our employees have done and what you have
24 done in terms of revenue. So, I'll yield the rest of my
25 time, Mr. Chairman for future questions. Thank you.

1 HOUSE MAJORITY CHAIRMAN METZGAR: Yeah, thank
2 you, Mr. Chairman. We are anxious to get to the questions.
3 So without further ado, Chairman Holden, if you and your
4 team want to take it away?

5 MR. HOLDEN: Okay. Thank you, Mr. Chairman. And
6 thank you, Chairmen Regan, Brewster, Metzgar, Deasy and
7 members of both committees for inviting us here today to
8 discuss these issues. On Friday, September 17th the
9 Pennsylvania Liquor Control Board instituted a new
10 two-bottle purchase limit on 43 items, and I want to
11 emphasize: 43 items. The two-bottle limit applies to
12 retail and licensee purchases in stores through
13 finewineandgoodspirits.com and at licensed service centers.
14 The purchase limit is two bottles per customer per day and
15 applies to the list of products accompanying our written
16 remarks submitted to the committees. It is important to
17 note that many of the 43 items on the list are the same
18 product in various bottle sizes. Supplies of these
19 products have been constrained for several months. For
20 some products on the list, the Pennsylvania Liquor Control
21 Board will not receive additional inventory for this
22 calendar year while there is significant uncertainty about
23 future shipments from suppliers on the other items.

24 For example, the PLCB's allocation for one
25 product was more than 12,000 cases, or 42% less than the

1 forecasted demand. Forecasted demand, which is based on a
2 variety of factors including sales history and marketplace
3 conditions is the amount of product we expect to sell.
4 Under normal circumstances, there would be very little
5 deviation between the forecasted demand and the allocation
6 received.

7 The reasons for supply shortages vary by item,
8 according to what our suppliers tell us. Some
9 manufacturers have not been able to obtain the necessary
10 raw materials to manufacture their products, while others
11 cannot obtain sufficient supplies to bottle the items, and
12 still others are facing transportation challenges due to
13 lack of containers and drivers. As a matter of fact, there
14 are dozens of containers off the East and West Coast right
15 now that cannot be unloaded; container ships.

16 These issues are not unique to Pennsylvania nor
17 the beverage/alcohol industry. Global supply chain
18 challenges, production difficulties, fluctuations in
19 demand and labor shortages have impacted business across a
20 diverse range of industries. When the Pennsylvania Liquor
21 Control Board realized it would not have enough inventory
22 to support statewide demand for these products, it
23 proactively decided to institute the bottle limits as a
24 preventative measure to fairly -- and I want to repeat
25 fairly -- distribute product and minimize out-of-stock

1 situations which will vary by location. Reducing the
2 number of Fine Wine and Good Spirits stores that carry
3 these products would have geographically disadvantaged
4 certain customers.

5 While the current supply challenges are not
6 unique to Pennsylvania, we are impacting -- that are
7 impacting markets across the US, the PLCB has experienced
8 product shortfalls before, and we rarely impose bottle
9 limits on products for which we know demand will exceed
10 supply in order to distribute the product as fairly as
11 possible. That's to say simply, this is not the first time
12 bottle limits have been imposed and, in fact, there are
13 hundreds of items subject to bottle limits each year.

14 In-store product signage designates the products
15 to which the bottle limits apply, while language on
16 finewineandgoodspirits.com reflects the same -- a
17 product-by-product basis. Communication between the PLCB
18 and our suppliers regarding these supply issues have been
19 frequent and ongoing. Our supplier partners are navigating
20 a disrupted global supply chain that results in significant
21 uncertainty about future product availability.

22 In some situations we have been able to
23 collaboratively work with suppliers to obtain additional
24 inventory, which prevented additional items from being
25 subject to the two-bottle limit. In other cases suppliers

1 have been generally supportive of purchase limits to
2 provide opportunities for more customers to purchase
3 products impacted by severe supply constraints. While the
4 current two-bottle purchase limits apply to a small number
5 of specific bourbons, champagnes, cognacs, tequilas and
6 whiskies, there remain a wide selection of alternative
7 products in these categories for customers to purchase from
8 Fine Wine and Good Spirits. The PLCB's wholesale operation
9 is prepared to assist licensees in identifying alternative
10 products to serve their patrons.

11 For perspective, at any given time the PLCB
12 stocks more than 7,500 products at its stores, e-commerce
13 fulfillment center and licensee service centers, while tens
14 of thousands more special-order products are available for
15 order. The current supply chain uncertainty
16 anticipated -- is anticipated to last well into 2022; makes
17 it difficult to project how long purchase limits will be in
18 place. As products become more widely available, the PLCB
19 will rescind the purchase limits, evaluating each item's
20 availability based on inventory levels and supplier
21 commitments to future shipments.

22 The PLCB is dedicated to providing a broad range
23 of quality products for our retail customers and licensees.
24 We remain committed to working closely with our suppliers
25 to obtain additional inventory to meet customer demand as

1 additional inventory becomes available. Thank you for this
2 opportunity to appear before you today, and we look forward
3 to answering any questions you might have. Chairman?

4 HOUSE MAJORITY CHAIRMAN METZGAR: Thank you very
5 much. Any other comments from the PLCB at this point?
6 Thank you.

7 MR. HOLDEN: Oh, Mr. Chairman, may I, just for
8 the record, say who is with me today?

9 HOUSE MAJORITY CHAIRMAN METZGAR: Yes, sir.

10 MR. HOLDEN: My fellow board members, Mike Negra
11 and Mary Isenhour, our Executive Director, Michael Demko,
12 our Director of Merchandising, Deborah Rivera. And I go
13 nowhere without my lawyer, Chief Counsel, Rod Diaz. So,
14 thank you.

15 HOUSE MAJORITY CHAIRMAN METZGAR: Smart. So
16 without further ado, I would like to ask if Dave Wojnar,
17 SVP and Head of State Policy for the Distilled Spirits
18 Council, if he could say a few words. Thank you, Dave.

19 MR. WOJNAR: Great. Thank you, Mr. Chairman. As
20 you mentioned, David Wojnar, Senior Vice President and Head
21 of State Public Policy for the Distilled Spirits Council.
22 It's a real pleasure to be here before you once again,
23 albeit by camera. I wish I was there in person, but my
24 passion and enthusiasm are still the same as if I was there
25 in person.

1 Look, we agree with what the Chairman just
2 mentioned. Supply chain issues are running rampant
3 throughout all sectors of the supply chain out there,
4 whether it's food, rubber tires, you name it. On the
5 spirits side, we've been hit particularly hard with glass
6 shortages, so we absolutely concede that and appreciate the
7 partnership with the PLCB.

8 I will say this: from a luxury spirits
9 standpoint, these products are aged and cannot just be, you
10 know, produced on call or on demand, so that's part of it
11 as well. So as you see, I just want you to understand that
12 dynamic. And so while -- look, the PLCB, over the years in
13 the State of -- Commonwealth of Pennsylvania, we think have
14 made some head-scratching decisions over the years, most
15 recently closing stores in 2020. But this one on the
16 rationing of products seems to be reasonable. However,
17 what we do not think is reasonable is that during the
18 pandemic and during an -- admitted supply chain problems,
19 the PLCB continues to levy fines to suppliers for out of
20 stocks and subject them to a waiver process.

21 And so, if we concede that there is a demand
22 issue, we concede that there is a supply chain issue to the
23 point where the PLCB has to proactively ration products, we
24 would ask, on the same -- you know, a parallel move would
25 be to suspend out-of-stock fees like some other control

1 states have done. North Carolina most recently has
2 suspended out-of-stock fees. So, we would ask that this
3 committee examine that and that the PLCB proactively do
4 that. And I'd even go a step further and ask that they
5 consider rebating suppliers for out-of-stock fees that they
6 have levied during this pandemic time. So that's number
7 one.

8 And yes, there's been some splashy headlines
9 about revenue, and Chairman Brewster alluded to that, but I
10 ask that you not get to starry eyed with those headlines.
11 As you recall -- like GameStop. GameStop got a lot of
12 headlines about their revenues and what they were doing in
13 the market. But like GameStop, we think Pennsylvania has
14 equally shaky fundamentals. As we've told you before in
15 recent times, Pennsylvania is well below the national
16 average of control state average for outlets per 10,000
17 residents, with less than one store per 10,000 residents.
18 So, we believe demand to -- you know, supply chain issues
19 aside, where will you be when we come out of this pandemic?
20 What you're seeing as popularity of spirits products, the
21 PLCB is doing what they can to serve the consumer, but we
22 believe they need more outlets.

23 We have been before this committee and before the
24 legislature asking for equal treatment like wine had during
25 Act 39, as a result of Act 39 and having spirits in our

1 licenses. That didn't seem to get traction, so we
2 retreated to spirit-based RTDs, which is the same ABV of
3 malt-based products in wine products, which the legislature
4 last year at this time passed legislation to expand
5 fermented fruit; wine-based RTD products into beer
6 distributorships. So, the will is there of the legislature
7 to make -- to modernize the marketplace to serve the
8 consumer.

9 And lastly, one other issue continues to hang
10 over our head. And to the credit of the PLCB, as Act 39
11 gave the PLCB the authority and power with flexible pricing
12 to adjust pricings -- again to their credit, they have
13 not -- to my knowledge they have not utilized that tool
14 during the pandemic. So we'd ask them to, again, do the
15 same thing on fees -- out-of-stock fees. But that still
16 hangs over our head, flexible pricing, and we would
17 maintain that that -- we would like -- we believe that that
18 should be repealed.

19 So in closing, yes, there are supply chain
20 issues, but I just ask that you remember that your
21 consumers are your voters, are your taxpayers, and they are
22 shareholders in this system. And, we believe that the
23 shareholders want greater access, greater variety,
24 one-stop-stopping opportunities still within the PLCB
25 system. So, you know, again, the LCB is going through a

1 lot of challenges. We want to partner with them, partner
2 with you on ways to serve the consumer, because that's
3 what's most important in Pennsylvania. Thank you for your
4 time. Appreciate it.

5 HOUSE MAJORITY CHAIRMAN METZGAR: Thank you,
6 Mr. Wojnar, and we'll -- without further ado we'll go to
7 questions. Representative Mihalek?

8 REPRESENTATIVE MIHALEK: Thank you, Mr. Chairman.
9 And, thank you, Mr. Chairman. I'm just going to dive right
10 in here, with the understanding that COVID has disrupted
11 nearly every aspect of our lives, and the liquor supply
12 chain being no exception to that, right down to the sand
13 used to make that pretty green glass bottle that I very
14 occasionally like to enjoy my Cabernet from.

15 So, as we are all learning to adjust to the still
16 fluid situation, and you've all learned at some point along
17 the way that there are a few dozen products that have
18 exceeded your forecasted demand, I would like to know from
19 you what factors exactly were used in making that
20 determination that we are going to go ahead and limit the
21 purchases to those two bottles. And, was one of those
22 factors what our surrounding states were doing at the time?
23 And who exactly was involved in making that decision.

24 MR. HOLDEN: Well, thank you. I'm going to yield
25 to Deborah Rivera, our Director of Merchandising, and she

1 can explain the process of how we arrived at where we are
2 right now. I can tell you it was not a snap decision. It
3 was discussed with the board for months that this was
4 coming. And we want to -- and I want -- I keep want --
5 emphasizing this: we wanted fair distribution of the
6 products to all the citizens of the Commonwealth. And, we
7 examined multiple options, and I would now yield to
8 Ms. Rivera to explain how we arrived right where we are.
9 If you -- no, probably not. You take --

10 MS. RIVERA: [inaudible].

11 MR. HOLDEN: There we go.

12 MS. RIVERA: Now it's on. Sure. So, we monitor
13 on an ongoing basis store in-stock percentages [inaudible]
14 well as fill rates of all of our products and our
15 suppliers.

16 So, you know, I've been here since December.
17 Since I've been here we have had supply constrained
18 products that we have been monitoring. Some of them come
19 off of our list of top 20, 30 items, some of them, you
20 know, come off and they go on. So, on an ongoing basis, I
21 would say beginning in probably April or May, we were
22 noticing that there was a high degree of consistency across
23 the items that were on these lists of low store in-stock
24 levels and low fill rates.

25 At that point in time, as these items kept

1 appearing on the list, you know, we were reaching out with
2 our vendor and broker partners to communicate about what we
3 saw happening and our concerns that we had. Working with
4 them, you know, we did a couple different things at that
5 point in time. Some things that we did was, we actually
6 smoothed out the supply that we knew that we would have, so
7 that we could best, you know, meet the consumer demands in
8 the months when the products sell the most. That was our
9 first option, and we partnered with a couple of our vendors
10 on that.

11 When we had no other option, and we knew that in
12 some cases there was literally no additional product coming
13 to us for the balance of the year, that's when we came with
14 a list of these items, the, you know, 43 right now that we
15 recommended that we apply the bottle limits to.

16 REPRESENTATIVE MIHALEK: Do you know --

17 MS. RIVERA: These --

18 REPRESENTATIVE MIHALEK: -- if other states
19 during the same period of time are experiencing the same
20 shortage? And do you expect that number to grow, if you're
21 saying 43 right now?

22 MS. RIVERA: So, I don't know if other states are
23 experiencing the same number of products. I do know that,
24 working with our vendors, these are, you know, company-wide
25 shortages and supply chain-wide shortages. So, you know,

1 they're experiencing them across the board. Our assumption
2 is that other states are also experiencing [inaudible]
3 shortages.

4 REPRESENTATIVE MIHALEK: So it's just an
5 assumption? We don't know if Ohio, West Virginia --

6 MS. RIVERA: By product --

7 REPRESENTATIVE MIHALEK: -- Maryland --

8 MS. RIVERA: -- I do not know that.

9 REPRESENTATIVE MIHALEK: Okay.

10 MR. HOLDEN: [inaudible]. I just came from a
11 conference with 16 other control states in Montgomery
12 County, Maryland, and every one of them has the same
13 difficult we -- same difficulty we have.

14 REPRESENTATIVE MIHALEK: I haven't seen --

15 MR. HOLDEN: Sorry.

16 REPRESENTATIVE MIHALEK: -- anything, and I don't
17 know if -- in your conference if any other state's taken
18 the step of actually rationing those bottles.

19 MR. HOLDEN: I'm not sure if they have a bottle
20 limit on them or not, but I know they have the same
21 problem.

22 REPRESENTATIVE MIHALEK: They do not. They do
23 not have a ration.

24 MR. HOLDEN: I don't know.

25 REPRESENTATIVE MIHALEK: No, I'm just -- I'm

1 telling you that they do not.

2 MR. HOLDEN: Okay.

3 REPRESENTATIVE MIHALEK: I do want to applaud you
4 for the transparency of the 43 bottles. I think it's
5 important for customer satisfaction, for good governance to
6 be communicating with the consumers out there who are
7 Pennsylvanians to let them know this is what we're doing
8 and these are the reasons why. I wish there were other
9 aspects in the Fine Wine and Good Spirits model where we
10 could see that same level of transparency. And just as an
11 example, I think that the online lottery, specifically
12 those, you know, every third Wednesday bourbon lotteries,
13 if we could see that same level of transparency there when
14 they're auctioning on the very archaic Fine Wine and Good
15 Spirits website. I do know that -- I read recently -- and
16 maybe you could have further comments on this, as to the
17 improvements that have been made to limit -- to make sure
18 that we're limiting it to residents within the Commonwealth
19 of Pennsylvania --

20 MR. HOLDEN: Sure.

21 REPRESENTATIVE MIHALEK: -- to ensure that
22 the -- it's not bots that are buying it. And I wonder if
23 we're, you know, taking any steps to make it applicable in
24 this situation for those rationed bottles. How are we
25 ensuring that it is, you know, residents of Pennsylvania

1 and not bots? And I guess to take it -- you know, to maybe
2 give you a scenario in a different situation, I represent a
3 suburban district outside of Pittsburgh, and I think David
4 had mentioned, you know, one store for every 10,000
5 residents. I'm lucky. I have three in my legislative
6 district, so on any given day I could go, and I could
7 theoretically buy six bottles, unless you have, you know,
8 some way of tracking it that I am unaware of on any of
9 these given products that we're only supposed to be buying
10 two of. I don't know if you could comment on that
11 scenario. Or even to take it one step further, or maybe a
12 hundred years back, for our licensees specifically, I think
13 we've maybe created an uncomfortable situation for our
14 licensees, our restaurants, our taverns who have really
15 suffered over the last 18 months. And I mean, at this
16 point they're desperate to just keep their doors open.
17 Keeping their customers happy is, you know, the only way
18 they're going to keep their doors open. So, if these
19 products are so popular that, you know, they have exceeded
20 forecasted demand, are we creating this precarious
21 situation for those licensees to just say, hey, I can -- as
22 a licensee I have the same, you know, buying capability as
23 you. So, you know, this, you know, this waitress, this
24 cook, can you all go get two bottles? Can you get two
25 bottles? Can you get two bottles? Are we creating a

1 bootleg situation for our licensees?

2 MR. HOLDEN: Well, they would not get the
3 discount after their first two bottles, so I don't see them
4 doing that.

5 REPRESENTATIVE MIHALEK: Well, it's different
6 people. They can just say --

7 MR. HOLDEN: But if it's the same license -- same
8 licensee, so they wouldn't get the licensee discount.
9 So --

10 REPRESENTATIVE MIHALEK: They can just send the
11 cook in as a regular --

12 MR. HOLDEN: Yeah, but they won't get --

13 REPRESENTATIVE MIHALEK: -- consumer.

14 MR. HOLDEN: -- the discount, so they won't make
15 as much money --

16 MR. NEGRA: They aren't there [inaudible].

17 MR. HOLDEN: Yeah.

18 MR. NEGRA: So we [inaudible].

19 REPRESENTATIVE MIHALEK: But as an individual
20 consumer you have the same --

21 MR. NEGRA: [inaudible].

22 MR. HOLDEN: Yeah. They could send in all their
23 employees, but they're not getting a discount. So if
24 there's no --

25 REPRESENTATIVE MIHALEK: At a certain point

1 you're going to forego the discount to just keep your
2 customers happy, are you not?

3 MR. HOLDEN: Well, they can do that.

4 REPRESENTATIVE MIHALEK: Can --

5 MR. NEGRA: Where there's a will there's a way.

6 MR. HOLDEN: Yeah.

7 REPRESENTATIVE MIHALEK: Can you comment on the
8 other scenario of just a -- you know, a consumer or whoever
9 going into multiple stores on the same day? Are you
10 keeping track of the two-bottle limit? Is there some way
11 that the PLCB is --

12 MR. HOLDEN: Well, I --

13 REPRESENTATIVE MIHALEK: -- keeping track?

14 MR. HOLDEN: -- think my fellow board member --
15 my -- Mr. Negra just said, where there's a will there's a
16 way. So, you know, we only have certain resources at
17 our -- that we can use. So our -- certainly our -- at
18 the -- one particular store, their staff will know. If
19 somebody wants to drive 15 miles and try for two more? You
20 know, we can't follow people around.

21 MR. NEGRA: We don't have the technology, as to
22 the base of your question, to determine who is buying what
23 at one store [inaudible] whether they go into another
24 store. We don't have that technology. And so yes. Can
25 somebody do that? Yes, they can.

1 REPRESENTATIVE MIHALEK: Thank you.

2 HOUSE MAJORITY CHAIRMAN METZGAR: So just as a
3 follow-up to that, I guess, so what you're telling me is
4 there is no way to enforce this policy.

5 MR. HOLDEN: Well, store by store it would be
6 very easy.

7 MR. NEGRA: Yeah. I mean, I think what we're
8 trying to do here is let everybody know, and there is a
9 certain honor system to it. The alternative to this is not
10 having any sort of restrictions, and hoarding begins
11 because there is considered to be a shortage out there, and
12 that everybody knows about it. So there is a certain
13 amount of an honor system to go out and say, hey, let's --
14 we're going to restrict this. We'd like you to abide by
15 this restriction. Are there ways around it? Absolutely,
16 there's ways around it. And hopefully they won't.
17 Licensees won't. There are alternative products to
18 these -- very, very small list that accounts for less than
19 1% of our SKUs.

20 So, you know, there's other ways that they can
21 serve their customers. We're trying to be as upfront as
22 possible, so that a licensee doesn't come in and expect to
23 find Hennessey when -- for example, and we don't have it.
24 We're trying to stretch this -- our product availability
25 out as long as we can to serve as many consumers as we can,

1 and hopefully our customers -- and licensees are customers
2 -- will understand the predicament that we're -- not only
3 we are in, but other -- but the entire nation and world is
4 in.

5 HOUSE MAJORITY CHAIRMAN METZGAR: So, that really
6 does beg the question. So, every product that you have is
7 finite, right?

8 MR. NEGRA: Every product is finite?

9 HOUSE MAJORITY CHAIRMAN METZGAR: Every product
10 that you have is finite. You only have so many of them,
11 correct? Every one of your products is that way. So --

12 MR. NEGRA: Right. Yes.

13 HOUSE MAJORITY CHAIRMAN METZGAR: -- you said --
14 and I think Chairman Holden said in his testimony that you
15 regularly limit the numbers. So, I guess coming back to
16 that, you have no way to enforce it. All of your products
17 are finite. You do this all the time. So, why make this
18 splash with these particular 43 products? And, what is the
19 effect of that? Wouldn't saying that we're rationing
20 actually cause what you're saying you're trying to avoid,
21 which is the overrun on demand?

22 MR. NEGRA: Well, when we say that there have
23 been other products that have happened, yes, there are.
24 It's not like Tito's has a small amount of vodka. They can
25 turn around and manufacture. To Mr. Wojnar's point, some

1 things need to be aged, and some things don't. So, are we
2 starting the run by letting people know? No, I don't think
3 so. I think that this has been building up. And I can
4 defer to Deborah in terms of what her team has been seeing,
5 and also to Michael in terms of what the stores have been
6 seeing. I don't think we caused it by letting everybody
7 know that this is the issue. I really don't. I think the
8 alternative to that would have been just as damaging, if
9 not more so. Deborah, do you want to --

10 MS. RIVERA: As far as, you know, us causing
11 people to come in and try to hoard these products, the
12 licensees were alerted on the evening before the bottle
13 limits went into effect. So, you know, we did that for a
14 couple reasons, one of which is that we didn't want our
15 store associates to have to be the first people who made
16 the licensees aware that bottle limits were in effect. We
17 didn't think that was fair for our store associates.

18 We also wanted to make sure that we were giving
19 our licensees -- you know, they're heading into their
20 busiest time of year, and we wanted to make sure that we
21 were being very transparent about what we were doing, so
22 that they had plenty of time to address their menus, to
23 work with our wholesale team so that we can find them
24 alternatives, and they actually are aware rather than them
25 being taken by surprise.

1 So we had, you know, their interests in mind
2 certainly. And, you know, our intention is to be as
3 transparent as we possibly can when we have situations like
4 this arise.

5 HOUSE MAJORITY CHAIRMAN METZGAR: Just one
6 follow-up to that. So your -- I guess my concern is, your
7 idea of good communication with your licensees who are
8 paying money to be able to have this service is to tell
9 them the evening before that they are now going to be
10 limited? I -- in the business world that's probably a very
11 difficult timeline to meet when they are now rationed a
12 product. I mean, you know, a lot of these are event
13 centers, things like that where they're having a wedding,
14 and the particular products especially that you've targeted
15 are very important to those ceremonies. I guess I'm a
16 little perplexed at that model and that partnership that's
17 supposed to be between the LCB and the licensees if the
18 evening before is the decision that was made. I --

19 MR. HOLDEN: Mr. Chairman, I -- they might have
20 been notified the evening before, but they were well aware
21 that we were facing difficulty. So they knew something had
22 to be done. I mean, they -- you know, they were going in
23 routinely to our stores and not being able to get the
24 product. So, I'm sure they realized something had to be
25 done.

1 HOUSE MAJORITY CHAIRMAN METZGAR: Chairman Regan?

2 SENATE MAJORITY CHAIRMAN REGAN: Thank you,
3 Mr. Chairman. I don't know. I just want to run this by
4 you. I think it's kind of naïve to think, Mr. Chairman,
5 that a discount is going to inhibit someone from trying to
6 go to ulterior motives to get what they need to satisfy
7 their customers. I think, unfortunately, because of the
8 pandemic, and because of the closures of restaurants and
9 bars, there is an every-man-for-himself attitude out there
10 among bar and restaurant owners.

11 So, I don't know. I just don't think that
12 that's -- I think they're going to do what they have to do.
13 And I think that we're going to have people scrambling
14 around, buying their -- buying up bottles so they can
15 continue to serve. But with that in mind, has the LCB
16 considered promoting and marketing additional Pennsylvania
17 products similar to those that are currently being
18 rationed?

19 MR. HOLDEN: Oh, absolutely, Mr. Chairman. In my
20 opening remarks, I mentioned that our team is ready and
21 available and proactive in telling customers, whether they
22 be licensees or the general public, that there are 7,500
23 other products that are available in our stores in
24 e-commerce and, with special orders, tens of thousands.
25 So, we have a proactive team that will certainly try to

1 assist anyone who wants something as similar as possible to
2 these 43 products. And, I just want to keep emphasizing,
3 43 products, less than 1% of our business.

4 SENATE MAJORITY CHAIRMAN REGAN: Yeah. I would
5 just ask that, you know --

6 MR. NEGRA: Just --

7 SENATE MAJORITY CHAIRMAN REGAN: -- similar
8 products -- I'll get to you. But -- similar products are
9 one thing, but Pennsylvania products --

10 MR. HOLDEN: Oh, yes. We have a --

11 SENATE MAJORITY CHAIRMAN REGAN: -- are another
12 thing.

13 MR. HOLDEN: Our stores have a Pennsylvania-
14 product-only section.

15 SENATE MAJORITY CHAIRMAN REGAN: Okay. I think
16 that's very important. And also, has the LCB considered
17 having additional new product buys to add new inventory to
18 get us through the shortage?

19 MR. HOLDEN: Our marketing and merchandising team
20 is constantly hasting and working with suppliers for
21 alternative products. And if I can yield again to Deborah,
22 if you want to elaborate on the process for listing new
23 products or one-time buys?

24 MS. RIVERA: You know, two different ways that we
25 procure products. One is one-time buy, and one is through

1 the listing process. So the listing process officially
2 occurs two times a year, and those are products that, then,
3 we carry on an ongoing basis and are fulfilled from our DCs
4 [inaudible] in our stores. There is also a one-time-buy
5 process which is much more similar to, you know, maybe how
6 a different industry works, like the apparel industry. So,
7 you know, you can go -- we go to vendors, and we buy things
8 for one delivery or two delivery, and we do that on an
9 ongoing basis. That is not limited to two times a year.
10 That happens every day, every week and every month.

11 In addition, you know, based on what has been
12 happening, we have -- we have worked with the board to
13 expedite our listing of certain items that we feel it's
14 imperative to get to our stores ASAP. So we work with
15 Michael, our Chairman -- our Executive Director, and then
16 he gets approval from the board. So, we have fast tracked
17 that process during these times when we know that there are
18 supply constraints. So, I hope that answers your question.

19 SENATE MAJORITY CHAIRMAN REGAN: Okay. So, but
20 the LCB is not limited to two times a year, buying two
21 times a year. And you can meet more than two times a year.

22 MS. RIVERA: [inaudible] meet all the time.

23 SENATE MAJORITY CHAIRMAN REGAN: Yeah.

24 MS. RIVERA: Yes.

25 SENATE MAJORITY CHAIRMAN REGAN: Okay, okay. I

1 think that's all I have for now. Thank you.

2 HOUSE MAJORITY CHAIRMAN REGAN: Representative
3 Kulik?

4 REPRESENTATIVE KULIK: Thank you. I'm going to
5 speak as a consumer. You know, I more than understand what
6 you're going through. And I personally, as a consumer,
7 have no problem -- and I'm not speaking about the
8 restaurant and other licensees, but I'm speaking strictly
9 as a private consumer. I have no problem with the
10 rationing, because I fully understand how hard it is to get
11 these products in a non-COVID day, let alone a -- you know,
12 when we had supply problems.

13 I mean, when you're talking about Blanton's,
14 Buffalo Trace, Eagle Rare, Elijah Craig, you can't get
15 these products all the time in a normal situation. And,
16 you know, what I as a consumer find disheartening is
17 following Facebook groups in Pennsylvania. And we all know
18 bourbon is very popular at this time. And you follow these
19 groups, and you see people who have said, well, I went to
20 the store, and I bought, you know, four bottles of
21 Blanton's, or five bottles of Buffalo Trace, and you
22 realize, well, then other people don't have a chance to get
23 it.

24 So, you know, personally I have no issue with it,
25 because I think you are now allowing more people to have a

1 shot at getting a bottle of something that they can't
2 normally get. And, you know, I have children in other
3 states, so I was just recently in North Carolina which is a
4 control state and South Carolina which is not. And, I
5 followed my son-in-law one day. We were, you know, running
6 some errands, and we went into stores in both states. You
7 can't find those products there, either. They are not on
8 the shelves. And, you know, the non-control store in South
9 Carolina, the privately owned store that had, you know, a
10 seemingly unlimited supply of, you know, varying liquors,
11 the products on your list were not there. I mean, they're
12 just not there. It's very hard to get them, so I really
13 don't have a problem with the rationing at this point,
14 because I just think it opens up more for other people to
15 get. And, you know, from someone who likes to purchase
16 some of these bottles every once in a while, it's nice
17 that -- to know we at least have a shot at it.

18 And, when you look at other products that have
19 been rationed during COVID -- if you go to Sam's Club or
20 your supermarkets and you weren't able to buy certain paper
21 products, they were limiting how much you bought. I'm not
22 sure that I see any distinction between us limiting alcohol
23 purchase.

24 HOUSE MAJORITY CHAIRMAN METZGAR: Representative
25 Major?

1 REPRESENTATIVE MAJOR: Thank you, Chairman. My
2 question for you is -- regards to demand. I heard you
3 mention a couple times fair distribution and monitoring the
4 stock levels. Are there parts of the state maybe where
5 some of these items may not need to be rationed, or where
6 you could move product to an area where the demand is
7 higher?

8 MS. RIVERA: So, I mean, where we can we've
9 already addressed doing that. So, many of these products
10 [inaudible] know, at this point in time, if they were
11 intended to [inaudible] 585 stores [inaudible] many of them
12 are in significantly less than that already, because
13 [inaudible] supply issues have been going on for so long.
14 If we do [inaudible] work with a vendor partner to limit
15 distribution [inaudible] stores, then, you know [inaudible]
16 back to the stores [inaudible] remaining [inaudible] in the
17 areas, and in [inaudible] the stores in specific that do
18 the largest volume in those items. That's something that
19 we do on an ongoing basis even when there's a not supply
20 chain [inaudible].

21 MR. DEMKO: Just -- sorry. The other thing is we
22 do have our e-com that we can send anywhere in Pennsylvania
23 in usually up to two days, or one to two days. But the one
24 other thing is, of the items, 15 of those, we have larger
25 bottles and smaller bottles of those products, and they are

1 not being limited, too. So again, 15 out of the number,
2 there are different sizes of the same product in our
3 stores.

4 REPRESENTATIVE MAJORS: Okay, thank you.

5 HOUSE MAJORITY CHAIRMAN METZGAR: Chainman Deasy?

6 HOUSE MINORITY CHAIRMAN DEASY: Thank you.

7 Question regarding the inventory process that was mentioned
8 earlier by the Distilled Spirits Council. How does
9 bailment work? Do you charge a warehousing fee like others
10 do in the industry?

11 MR. HOLDEN: Well, yes. I'll start this, then
12 I'll yield to Deborah. First of all, they get free
13 warehousing. They always seem to neglect to say that when
14 they're complaining about bailment. They get free
15 warehousing to begin with. For ten months we charge no
16 bailment penalties whatsoever, because of COVID. We gave
17 three months' notice when we were going to begin the
18 process again. We also have given them the opportunity to
19 explain why they're having bailment problems. We have not
20 charged anyone for overstocking, obviously, during this,
21 but we've given them the opportunity to explain why they
22 have understocked us.

23 We could have charged \$12 million in bailment
24 penalties since we -- this year. We charged 2.2 million,
25 because we accepted almost 10 million -- over \$10 million

1 in their explanation of why they were short. But, I think
2 I will yield to Deborah at this time to elaborate on the
3 whole process of how we are dealing with our vendors and
4 how we are giving them the opportunity to explain their
5 situations.

6 MS. RIVERA: Oh, sure. Is that better. Okay.

7 HOUSE MINORITY CHAIRMAN DEASY: I have a
8 question, before you go any further. David brought up
9 earlier about giving refunds and such. So, a lot of these
10 fees weren't charged in the first place?

11 MR. HOLDEN: Right. And again --

12 HOUSE MINORITY CHAIRMAN DEASY: Okay.

13 MR. HOLDEN: -- they're getting free warehousing.
14 They don't get that in --

15 HOUSE MINORITY CHAIRMAN DEASY: Okay.

16 MR. HOLDEN: -- non-control states -- or
17 non-bailment states.

18 HOUSE MINORITY CHAIRMAN DEASY: And my -- well, I
19 will ask him afterwards. Are other privatized states
20 giving refunds for such costs, if you're --

21 MR. HOLDEN: Not to my knowledge.

22 HOUSE MINORITY CHAIRMAN DEASY: -- if you're
23 aware. Okay.

24 MR. HOLDEN: But they could be.

25 HOUSE MINORITY CHAIRMAN DEASY: Maybe he would

1 know more than you. Okay. Sorry about that. I just
2 wanted some clarification there. So, what he had brought
3 up hasn't taken place, pretty much, anyway; 2 million out
4 of 12.

5 MR. HOLDEN: That's all we collected out of 12.

6 HOUSE MINORITY CHAIRMAN DEASY: Okay. Thank you.

7 MR. HOLDEN: You want to elaborate on the
8 process, Deborah?

9 MS. RIVERA: Sure. So, just so everyone is aware
10 of what bailment is, it's actually vendor-owned inventory
11 that is sitting in our DC that we then pull based on our
12 store demand and have shipped to our stores. So that
13 product, while it's sitting there and we're not charging
14 warehousing, is actually owned by the vendors. We own it
15 as we pull it and ship it to our stores. So, just so
16 everyone is aware of what bailment is.

17 In terms of, you know, the penalties, I think
18 that specifically were spoken about were the fill-rate
19 penalty, so lack of inventory from our vendor partners.
20 You know, we work with them on an ongoing basis. And one
21 of the things -- since we're a business, one of the things
22 that we need to know is, we need to be aware when we are
23 going to have shortages of products, because then we can
24 work with that knowledge, and we can do the best we can to,
25 you know, acquire other products or whatever it is we need

1 to do to make sure that we continue to have good supply in
2 our stores.

3 When we work with a vendor partner who is
4 experiencing supply constraints, the only thing we ask for
5 them is transparent communication about what those
6 shortages will be and what their future view of our
7 allocation will be. So, you know, regardless of the size
8 of that allocation to what our demand is, if they work with
9 us and they supply us with a go-forward allocation and they
10 meet those allocations, we do not charge them a penalty.

11 So, if we have a supplier who is working with
12 us -- and we completely understand this is no one's fault.
13 You know, we certainly wouldn't want to penalize them if
14 they're being transparent with us about their supply
15 shortages. We have had a few instances where either
16 vendors could not or would not supply us with that
17 information, or where they fell significantly short, and in
18 those cases we may have penalized them. However, that
19 being said, we do have a process where they can send us
20 information as to what their specific situation is. And we
21 consider every single one of those from our hundreds of
22 vendors. And, if we feel that their situation is something
23 that, you know, we understand certainly and they could not
24 overcome, we also will probably consider waiving those
25 penalties. We review hundreds and hundreds of waiver

1 requests every single month to make sure that we are
2 looking at each one individually.

3 MR. NEGRA: And I will add that that gets up to
4 the board level. It's not a formal vote, but --

5 MS. RIVERA: Correct.

6 MR. NEGRA: -- but she bring -- but Deborah and
7 her team and -- through Michael bring that up to us. And
8 if we have any questions or concerns, for example the --
9 you know, maybe a boat gets stuck in the Suez Canal, okay?
10 You know, they don't know that six months ahead of time,
11 but they typically should know what sort of product is
12 going to come to us within a six-month timeframe. But,
13 things do happen, okay, especially at the last minute. All
14 they have to do is raise their hand, or get on the phone
15 and say, hey, listen, this is what happened, okay? We're
16 not looking to penalize our partners, but we are also
17 looking just to hear so that we can run our business
18 efficiently. So, that's what we're trying to -- that's
19 what we're trying to do, and that's where the bailment fees
20 come into play.

21 And I'll mention one other thing. Other states
22 charge for when a truck doesn't show, okay? Because maybe
23 there's a shortage of drivers. They charge for that. They
24 don't -- they really don't care what the excuse is. We
25 don't, even though it's very disruptive to our DCs'

1 schedules.

2 So, there's a lot of factors that go into this
3 and how we work with our partners, and I think that we try
4 to do the -- you know, the best that we can to take their
5 issues into account, but not discounting what our needs are
6 to run our business.

7 HOUSE MINORITY CHAIRMAN DEASY: And I think the
8 key word that you mentioned there was partners. And, we're
9 all partners in the industry, and we got to find a way to
10 work with one another. It's a difficult time, and we'll
11 get through it.

12 One question I have regarding the industry -- you
13 know, we talk about glass shortage. I believe it was, Jim
14 Beam is going to a plastic bottle or something like that, I
15 heard. You have to make some concessions if you want to
16 get the product out there, and others are not doing it. I
17 mean, that's something we certainly can't control, correct?

18 MS. RIVERA: You want me to --

19 MR. HOLDEN: Correct. Go ahead.

20 MS. RIVERA: Yeah. Specifically, Jim Beam is one
21 of those vendors. Jack Daniels is another. And, Jim Beam
22 has switched to [inaudible] plastic in order to continue to
23 keep their product out there and in stores. In terms of
24 Jack Daniels, we've had conversations specifically with
25 them. That is not a decision that they chose to make, and

1 I understand why, you know, from their point of view, but
2 because of that their product does continue to be more
3 highly supply constrained.

4 HOUSE MINORITY CHAIRMAN DEASY: Yeah, so that's
5 certainly --

6 MS. RIVERA: That was their decision.

7 HOUSE MINORITY CHAIRMAN DEASY: Yeah.

8 MS. RIVERA: And we have worked with them in
9 other ways to get additional product into Pennsylvania, but
10 understanding that that was a decision that they made.

11 HOUSE MINORITY CHAIRMAN DEASY: Thank you. And,
12 just to comment on -- communication. I think that was the
13 keyword that you had used, Mr. Negra. And that's the way
14 we have to continue moving forward. If the Distilled
15 Council has some suggestions or thoughts, it's important to
16 bring them to the table as well. We're all in this
17 together, and we need to continue those lines of
18 communication. So, thank you. Appreciate the questions.

19 HOUSE MAJORITY CHAIRMAN METZGAR: Chairman Regan?

20 SENATE MAJORITY CHAIRMAN REGAN: Yes.

21 Mr. Chairman's sneaking out there, so I'll just ask the
22 group generally. Rationing: I think Representative Mihalek
23 asked this question, but I couldn't quite hear well enough,
24 being behind her, so I'm going to ask it again. And
25 please, I'm begging your indulgence in case this has

1 already been answered, frankly. But, who made the decision
2 to implement the rationing? Was it a board decision, or
3 did somebody else make that decision?

4 MR. NEGRA: Well, Deborah, you can talk about the
5 process, but ultimately the communication did come to the
6 board, not in a formal vote, but as a decision to move
7 forward. It was Member Isenhour, myself and Chairman
8 Holden, but it was at the request of Deborah and her team,
9 and it was a recommendation from them that we all agreed
10 to. Mary, do you want to add --

11 MS. ISENHOUR: [inaudible].

12 SENATE MAJORITY CHAIRMAN REGAN: So it was not a
13 vote -- wasn't an official vote? It was a -- an informal
14 concurrence?

15 MR. NEGRA: That's correct. You know, it was a
16 policy decision. You know, for --

17 MS. ISENHOUR: [inaudible].

18 MR. NEGRA: -- for us to move forward. Deborah
19 and her team were looking at it, trying to make the right
20 decision. It was brought to us as, what do you think -- is
21 -- do you think that this makes sense? So it wasn't
22 something that we did formally at a board meeting. Mary?
23 Okay.

24 SENATE MAJORITY CHAIRMAN REGAN: Okay. So, I
25 mean, when does it reach that standard? I mean, when a

1 decision like this which is based on what we have just come
2 out of with regard to our bars and restaurants, when does a
3 decision like this reach the level where it takes a formal
4 vote, a formal hearing, a formal vote before it's
5 implemented, not just, okay, you agree, I agree, let's do
6 it? What is the threshold, or isn't there any? It's just
7 up to you as to whether or not you do it?

8 MR. NEGRA: Well, I guess technically it's up to
9 us, but I would call this an operational decision. And, we
10 have delegated those operational decisions to Michael and
11 his team. That's how I would react to that question. I
12 don't know if Rod wants to join in or Mary or Tim, but
13 that's the way that I looked at it. I did not see this as
14 a -- that there was -- it was need -- a need for us to
15 adjudicate, you know, exactly what we were going to do. We
16 did it internally and then determined how we were going to
17 communicate that.

18 SENATE MAJORITY CHAIRMAN REGAN: So there isn't
19 any process involved where a decision made by the board
20 reaches a threshold of importance, or some sort of level
21 where it mandates a vote, not just a --

22 MR. NEGRA: Well --

23 SENATE MAJORITY CHAIRMAN REGAN: -- casual
24 agreeing -- agreement to --

25 MR. NEGRA: Well, there are certain things that

1 mandate that, but from an operational standpoint, I don't
2 know that there is a line. Rod?

3 MR. DIAZ: I don't know that I can really add
4 anything. You know, there are certain things that have to
5 be -- go to a board meeting at the board dot [phonetic].
6 So for example, someone files an application for a license.
7 A decision on whether that license is granted or not
8 granted clearly has to go to the board. Personnel
9 decisions clearly go to a public meeting. Business
10 decisions -- our Supreme Court many years ago said, look,
11 business decisions are different than most government-type
12 decisions.

13 SENATE MAJORITY CHAIRMAN REGAN: Uh-huh.

14 MR. DIAZ: We don't -- we're not going to treat
15 them the same. And I think -- and the board members can
16 correct me -- that they talk about it. They are like,
17 okay, is this so important that we want to send it to the
18 board, A, because we think we need to or, B, because we
19 want to talk about that policy at a public meeting? There
20 are things that we bring up at the board meetings, where
21 we're bringing it up, not because we think we have to, but
22 because we want to kind of put it out there in the public.
23 But business? Again, business decisions -- how many
24 bottles we put in one store versus another isn't something
25 that typically goes.

1 SENATE MAJORITY CHAIRMAN REGAN: Okay, but the
2 word, rationing, that conjures up visions of communism.
3 You know, and when you use the word, rationing -- when you
4 use the word, rationing, I think it's important that
5 decisions are made. Can we have order, please?

6 HOUSE MAJORITY CHAIRMAN METZGAR: Yeah.

7 SENATE MAJORITY CHAIRMAN REGAN: If you
8 can't -- if you can't maintain order, please leave the
9 room. Thank you. So the word rationing, as you know,
10 throughout history has been used in very negative terms.
11 So when -- I think when something like that is used, it's
12 important that there is maybe a formal vote, or some more
13 of a formal process involved in the decision-making process
14 and less casual; just my own feeling. And I'm just --
15 wanted to share it with you. Thank you.

16 MS. ISENHOUR: No. I was just going to say,
17 look, the last year and a half we have been in -- we have
18 been -- we have been working under extenuating
19 circumstances every single day. And I think it is very
20 safe to say -- sorry, Representative -- that it is very
21 safe to say that the three of us have been involved and
22 engaged in nearly every decision that has come about
23 because of the crisis that we have been in for the last 18,
24 19 months. So, you know, this team has done a very good
25 job of calling things like this to our attention and making

1 sure that we're engaged in those decisions.

2 HOUSE MAJORITY CHAIRMAN METZGAR: Thank you.

3 MR. NEGRA: Mr. Chairman, point take --

4 SENATE MAJORITY CHAIRMAN REGAN: Thank you.

5 MR. DIAZ: Point taken. I [inaudible].

6 Mr. Chairman, point taken. And, as we discuss -- as we
7 discuss future issues along those lines, then we'll do a
8 better job of bringing that to a formal meeting and discuss
9 it in that formal meeting. If -- not knowing what the
10 future brings, but I hear you, and we'll try and do a
11 better job as far as that's concerned.

12 MR. HOLDEN: Mr. Chairman, just for the record,
13 the word, rationing, never came from the LCB. Fair
14 distribution, we say.

15 SENATE MAJORITY CHAIRMAN REGAN: Okay.

16 MR. HOLDEN: I read that in the media.

17 SENATE MAJORITY CHAIRMAN REGAN: Uh-huh.

18 MR. HOLDEN: Rationing.

19 SENATE MAJORITY CHAIRMAN REGAN: Thank you very
20 much.

21 HOUSE MAJORITY CHAIRMAN METZGAR: Thank you.

22 And, I would like to take a moment to remind both members
23 and guests that decorum needs to be maintained, and any
24 activity outside of that won't be tolerated.

25 Chairman Brewster?

1 SENATE MINORITY CHAIRMAN BREWSTER: Thank you,
2 Mr. Chairman. I have a different perspective on how you've
3 handled this particular change. As you know, some of us
4 were here when we did the modernization. We saw how the
5 LCB had to pivot and change their philosophy with regard to
6 package reform and what would be sold in some of the
7 restaurants and so on. So I think logically we can all
8 conclude that for states that do not have a state system
9 like we do -- we're fortunate to have that -- that they
10 probably permitted the chain -- supply chain to dictate
11 what was available to the consumer, where in your case it
12 sounds like your administrative staff put together a plan
13 to try and equally distribute what they thought we had in
14 supply, so that there would not be an immediate shortage in
15 any region in the state. I think that's a logical
16 conclusion. Is that --

17 MR. HOLDEN: Correct.

18 SENATE MINORITY CHAIRMAN BREWSTER: -- not the
19 case --

20 MR. HOLDEN: That --

21 SENATE MINORITY CHAIRMAN BREWSTER: --
22 Chairman Holden?

23 MR. HOLDEN: Chairman, absolutely. That's
24 correct. Yes.

25 SENATE MINORITY CHAIRMAN BREWSTER: So -- and I

1 want to take exception. I don't like to take exception to
2 ZOOM presentations because he's not here, but this notion
3 that there is head-scratching decisions made is really
4 disingenuous to our -- all of our folks in this room to our
5 state system. Whether we have different viewpoints as to
6 how it should operate or not is up for discussion. But the
7 fact of the matter is, we represent the citizens of -- 13
8 million people in this state. And I don't know if you said
9 this in your presentation, but what was your recent revenue
10 that's generated from the LCB?

11 MR. HOLDEN: Our -- \$2.91 billion.

12 SENATE MINORITY CHAIRMAN BREWSTER: Yeah. Say
13 that louder, Chairman.

14 MR. HOLDEN: 2.1 -- 2.91 -- \$2.9 billion. And
15 I'm --

16 SENATE MINORITY CHAIRMAN BREWSTER: 2.9 --

17 MR. HOLDEN: -- proud of -- I'm proud of this
18 team. They work very hard. Everybody from our
19 executive --

20 SENATE MINORITY CHAIRMAN BREWSTER: Well, I
21 would --

22 MR. HOLDEN: -- team --

23 SENATE MINORITY CHAIRMAN BREWSTER: -- make the
24 case, Chairman -- you know, not everything that your team
25 has done probably has worked out the way you wanted it to.

1 Not everything that happens in the Senate works out the way
2 I want it to, okay? We're driving by car lots now where
3 there's not one automobile sitting in a car dealership, and
4 I'm going phone calls today go out of business.

5 So this is not unique to liquor, but when we sit
6 here as policy makers and recognize that we've protected an
7 asset -- our states through our system that presented \$2.91
8 billion in revenue, I'd like to think that we would support
9 the decision that was made by your administrators. I'm not
10 sure -- and, Chairman Regan and I work well together --
11 whether or not these things should be risen to the level of
12 board decisions. I think that's a discussion we have to
13 have, but I think we all agree that the pandemic has
14 created a unique situation for all of us.

15 And some of us are sitting here with masks on,
16 some of us are not. So, there's no consistency in how
17 we -- there was no blueprint on how to handle what would
18 happen when there was a supply shortage. And, whether
19 folks want to call it a -- whatever you're calling the
20 system, rationing or whatever, really is irrelevant. You
21 were trying to make available products, specific products
22 throughout the state in a uniform way, so that no one
23 region would be short suited, which would happen in states
24 where there's no state system. Because then the supply
25 would be determined by the supply chain. There's no

1 control point, which we now have.

2 But, getting back to the comment about
3 head-scratching decisions, I guess it depends on your
4 perspective. I can tell you -- and I just speak for our
5 district -- I haven't had one complaint. And as you know,
6 my colleagues in the House and the Senate, we get
7 complaints on everything and everybody every day, and I
8 haven't had any on this issue.

9 Now, does that make your decision the right
10 decision? I guess only time will tell, but you made a
11 decision, and I applaud you for that effort. I applaud you
12 -- again, and I do this routinely. We have these hearings,
13 and there's over 3,000 employees out there working every
14 day to look out for the assets of 13 million people, that
15 being our state through our system. So, I suppose we could
16 have discussion about what decisions should rise to the
17 level of board approval as opposed to directors throughout
18 the organization. That's another conversation, but I think
19 the way it's been handled is appropriate. It's clear that
20 if we compare with other states that we're going to find
21 out that we did the right thing.

22 Now, for those people that aren't getting what
23 they want, enough of it, that's probably going to happen
24 for a little while until the supply chain gets back to
25 normal. So, thank you for the efforts you made, and thank

1 you for appearing today.

2 MR. HOLDEN: Thank you, Mr. Chairman.

3 HOUSE MAJORITY CHAIRMAN METZGAR:

4 Representative Gaydos?

5 REPRESENTATIVE GAYDOS: Thank you, Mr. Chair.

6 For -- so this list of products, it's actually -- it's a
7 pretty comprehensive list here. A couple of quick
8 questions. One is, do any of these companies all have
9 something in common in terms of being owned by a single
10 entity -- or just by a single entity?

11 MR. HOLDEN: No. I don't think so. No.

12 Products? No.

13 MR. NEGRA: There's groups.

14 REPRESENTATIVE GAYDOS: Well, Moet Hennessey.

15 MR. HOLDEN: Moet --

16 MR. NEGRA: Moet --

17 MS. RIVERA: Moet --

18 MR. DEMKO: Moet --

19 REPRESENTATIVE GAYDOS: So Moet Hennessey --

20 HOUSE MAJORITY CHAIRMAN METZGAR: Could I --

21 could I please remind the --

22 MS. RIVERA: And --

23 HOUSE MAJORITY CHAIRMAN METZGAR: -- to use the
24 microphone? Thank you.

25 MS. RIVERA: Sorry, and then Hennessey Cognac.

1 REPRESENTATIVE GAYDOS: So, as a small business
2 owner, I think that certainly this is a great opportunity
3 to redirect instead of putting rations on something that
4 exists, but just to redirect, let the shelf go bare, and
5 let it redirect to Pennsylvania products, as someone else
6 pointed out. So, I think that that's a little bit of an
7 issue.

8 The other question is, do -- have you ever
9 limited supplies or limited sales of any other products
10 prior to this recent incident.

11 MS. RIVERA: Actually, eight of the items on the
12 list have been limited since -- pretty much since I've been
13 here, and maybe before. So, some of those bourbon items
14 that are on the list have been in high demand since before
15 I came to the PLCB, and those bottle limits have been in
16 place for quite a while.

17 MR. DEMKO: Also, I've been here less than three
18 years, and when I came Crown Royal Peach was a limited item
19 that you could only get two. Now -- it's now a stock item,
20 and there is not a limitation on it.

21 MS. RIVERA: The other thing I want to mention
22 is, we do have standards that once those products get to a
23 certain level of supply, or our knowledge of those products
24 coming in to us and how much they -- it will be, then we
25 take those items off the list. So, it's not like those

1 items are on that list and they are going to be there
2 indefinitely.

3 REPRESENTATIVE GAYDOS: So when you decide
4 whether a product gets on the shelf, I guess what is the
5 limit? Or what is the quantity that is required to make
6 sure that it goes on the shelf?

7 MS. RIVERA: I'm sorry, what do you mean by goes
8 on a shelf?

9 REPRESENTATIVE GAYDOS: So, I guess in order to
10 get listed with the L -- the PLCB that the manufacturer is
11 required to have a certain amount --

12 MS. RIVERA: Oh, I thought we were talking about
13 bottle limits. I'm sorry. I don't know that there is any
14 requirement as to the amount of product that a supplier has
15 to have for it to become a listed item. I'm not aware of
16 that.

17 MR. DEMKO: [inaudible].

18 MS. RIVERA: We do. Correct. Okay. Sorry, your
19 question was confusing me a bit.

20 REPRESENTATIVE GAYDOS: Sorry.

21 MS. RIVERA: So obviously, when we work with the
22 vendors to, you know, put their item on listing, we need to
23 make sure -- are you asking for specific numbers of what we
24 need them to have?

25 REPRESENTATIVE GAYDOS: Well, no. I don't need

1 to know specific numbers, but I guess that, you know, for
2 some smaller companies, that if they can't meet the supply
3 and they get sold, it's my understanding that they no
4 longer are carried by the PLCB because they can't meet that
5 demand. And, I was just curious to know if any of these
6 other products have reached that same threshold, and then
7 why are they not removed from the shelf?

8 MS. RIVERA: [inaudible]. Sorry.

9 MR. NEGRA: So --

10 MR. RIVERA: I'm not --

11 MR. NEGRA: -- you're asking, if a smaller
12 company -- okay. If they sell out -- okay -- what do we
13 do, okay? Well, we wait for them to make more, I guess,
14 because we can't make it for them. So, I guess I'm a
15 little confused there --

16 REPRESENTATIVE GAYDOS: If --

17 MR. NEGRA: -- there, too.

18 REPRESENTATIVE GAYDOS: But at some point, it's
19 my understanding that if they can't meet that demand and
20 they can't produce enough product to go across a number of
21 stores that they can --

22 MR. NEGRA: Well --

23 REPRESENTATIVE GAYDOS: -- no longer be listed as
24 a product.

25 MR. DEMKO: I --

1 REPRESENTATIVE GAYDOS: Is that --

2 MR. DEMKO: I --

3 REPRESENTATIVE GAYDOS: That's --

4 MR. DEMKO: No, that's not -- I mean --

5 REPRESENTATIVE GAYDOS: That's not --

6 MR. DEMKO: Since becoming --

7 MR. NEGRA: Right.

8 MR. DEMKO: -- Executive Director, we're

9 evaluating everything. On products that we have small
10 amounts, we will move them to e-com, so they are able to be
11 procured by anyone in the state. So it's -- we do move
12 small amounts where we get small limits putting it on our
13 e-com, because then it's open to all Pennsylvania residents
14 than just limiting it to the stores.

15 And then there's products that sell on the east
16 side of the state versus the west side, and Deborah and her
17 team evaluates all of that. But again, if it's a
18 high-demand product and we can get 100 bottles, we will put
19 that on e-com, because we know it's --

20 REPRESENTATIVE GAYDOS: But in other words, if
21 there's a high demand for a small company product and they
22 can't meet it that they lose their shelf space?

23 MS. RIVERA: No.

24 MR. DEMKO: No.

25 MS. RIVERA: No. So what [inaudible] that

1 vendor. I mean, if the demand is high and their product is
2 selling, we would limit the amount of stores that it's
3 distributed in, to make sure that they can maintain their
4 shelf space.

5 MR. DEMKO: Or e-com.

6 MS. RIVERA: Or e-commerce which Mr. Demko
7 mentioned.

8 MR. HOLDEN: But we do delist products. I mean,
9 if --

10 MS. RIVERA: Sure.

11 MR. HOLDEN: If a product is not selling, whether
12 it was a miscalculation by the manufacturer, and we bought
13 into it, and it didn't sell, and they didn't market it, and
14 it's taking up shelf space and not moving. We do delist
15 products, yes.

16 REPRESENTATIVE GAYDOS: So, but delisting
17 products, one of the criterias [phonetic] is that they
18 can't meet demand?

19 MR. HOLDEN: No, it's --

20 MS. RIVERA: No.

21 MR. HOLDEN: It's volume of sales.

22 REPRESENTATIVE GAYDOS: Okay.

23 MS. RIVERA: It's sales.

24 MR. DEMKO: Sales.

25 REPRESENTATIVE GAYDOS: Okay.

1 MS. RIVERA: Yeah.

2 REPRESENTATIVE GAYDOS: Thank you.

3 MR. DEMKO: And just so you know, we do have
4 vendors coming and telling us they want their products
5 delisted, because they won't produce it anymore. So
6 we -- it works both ways. It -- we look at our
7 sell-through, but we also listen to the vendor if they're
8 taking something off the market.

9 REPRESENTATIVE GAYDOS: Thank you very much.

10 HOUSE MAJORITY CHAIRMAN METZGAR:
11 Representative Guzman?

12 REPRESENTATIVE GUZMAN: Thank you, Mr. Chair.
13 I'm over here. I guess this is where they put all the
14 freshmen legislators over here, behind the podium. I
15 appreciate you all taking the time. I have three specific
16 questions, two for PLCB and one for the Distilled Spirits
17 Council.

18 Chairman Holden, you said in your testimony that
19 the PLCB -- quote/unquote, "The PLCB will not receive
20 additional inventory this calendar year for some specific
21 products." Can you be more clear to this committee? What
22 specific products does the PLCB anticipate not having any
23 inventory for, for the rest of the calendar year going into
24 2022?

25 MR. HOLDEN: Yes. We will get that answered

1 momentarily.

2 REPRESENTATIVE GUZMAN: Awesome. All right.

3 HOUSE MAJORITY CHAIRMAN METZGAR: Great. We'll
4 wait for that answer --

5 MR. HOLDEN: Wait. No, no, we got it right now.

6 REPRESENTATIVE GUZMAN: Thank you.

7 MS. RIVERA: Sorry. So, the one that comes to
8 mind is Hennessey Cognac which is on the bottle limit list.
9 That is actually probably one of the most severely
10 supply-constrained items that we have. We already
11 have -- I don't recall the number of stores that the
12 different sizes of Hennessey was in originally, or when I
13 got here, but we are down to the point where it
14 significantly constrained in the amount of stores that we
15 can keep any inventory in. And some of those products, the
16 vendor themselves has told us that there will be no
17 additional items that they can ship us this year. So, not
18 that we don't certainly want it, but that they are unable
19 to supply it for us.

20 REPRESENTATIVE GUZMAN: Thank you for that. And
21 I can -- you know, I can attest, even before the pandemic
22 that, you know, specifically Hennessey was incredibly
23 difficult even to get, even before the pandemic started.
24 And I can tell you that folks in the Reading community
25 where I represent aren't going to be too happy to hear that

1 Hennessey is going to be one of those items that are not
2 going to be in inventory for the rest of the year, or
3 scarcely limited for the rest of the year. So that's
4 definitely going to be an issue I'm sure I'm going to hear
5 about.

6 In terms of my second question to the PLCB, you
7 know, it seems to me that the board has chosen an approach
8 to allow more equity for consumers versus creating winners
9 and losers by allowing one large retailer or licensee to
10 buy up all the inventory. If the board were not proactive,
11 in your opinion, and placed bottle limits on these few
12 products, in your opinion, how quickly do you think these
13 bottles -- these products will become unavailable to
14 everyday consumers across the Commonwealth?

15 MR. HOLDEN: I am not sure we can give you a
16 timetable, but I can tell you there was a long debate
17 trying to decide what we were going to do with these
18 problems we knew we were going to be facing. And, we came
19 to the conclusion that fair distribution, that this was the
20 way to proceed; try to be as fair as possible to the
21 citizens of the Commonwealth of Pennsylvania and not pick
22 winners and losers.

23 REPRESENTATIVE GUZMAN: So, would it be fair to
24 say that you would anticipate these products running out
25 within weeks, months?

1 MS. RIVERA: No -- sorry. It depends on the
2 store and what their normal supply would have been. We
3 have stores that would have only had one case, so 12
4 bottles, of any of these given items, potentially. So if
5 a, you know, citizen or a licensee could have purchased 12
6 bottles without limits, that store's supply would have been
7 gone. And, you know, 12 bottles is not a lot of product to
8 purchase. So, but it literally depends on the size of the
9 store and what their inventory would have been by each of
10 these codes.

11 REPRESENTATIVE GUZMAN: Thank you. I appreciate
12 that. And, Mr. Chairman, if I can, I'd like to ask a
13 question to the Distilled Spirits Council, if they are
14 still available.

15 HOUSE MAJORITY CHAIRMAN: I -- yes.

16 MR. WOJNAR: Yes, sir?

17 REPRESENTATIVE GUZMAN: All right, thank you.
18 So, sir, in your testimony today you made some pretty
19 contradictory statements. In one part of your statement
20 you mentioned that, quote/unquote, "We can't expect to
21 simply," quote/unquote, "increase production overnight,"
22 end quote, to meet consumer demand. Yet, you claim that
23 there is not enough outlets for your products. What is the
24 point of more outlets if you can't stock the existing
25 shelves?

1 MR. WOJNAR: Well, sir, I was referring to luxury
2 products. And what I was saying is, we believe -- we hope
3 that this supply chain issue is a short-term problem, okay?
4 A short-term problem, but once we get out of this, it is
5 our opinion that the PLCB -- the fundamentals of the PLCB
6 are shaky. Their numbers prove that. Less than one store
7 per 10,000, well below not only the national average but
8 the control state average. And I opened up my testimony by
9 saying, look, we think the PLCB's decision is reasonable
10 given the current times. But, we do not want to -- we are
11 trying to look over the horizon, where we need to be once
12 we get out of this pandemic and the supply chain issues.
13 The demand is there, okay? And the demand is there for
14 additional outlets. The demand is there for different ways
15 to acquire the products. So, I don't believe I was
16 contradictory. As I mentioned, this is a -- we hope is a
17 short-term problem, but once we get out of this, you need
18 to be able to capture the demand and capture the
19 opportunity.

20 REPRESENTATIVE GUZMAN: So, let me be more
21 pointed if I can, because, you know, you bring up the --

22 HOUSE MAJORITY CHAIRMAN METZGAR: Representative?

23 REPRESENTATIVE GUZMAN: -- the idea that this is
24 a --

25 HOUSE MAJORITY CHAIRMAN METZGAR: If I might

1 interject, you know, we give a great deal of latitude to
2 the chairs to speak at length, but we are running up on a
3 short time. So, you've asked -- you have asked now five
4 questions. If we could wrap this up, I would appreciate
5 it.

6 REPRESENTATIVE GUZMAN: Thank you, Mr. Chair.
7 Just very quickly, I'd just -- I'd like to ask the Distill
8 Council, what are the -- what is the industry -- what are
9 you guys doing, yourselves, to help address the problems in
10 supply? You're -- we're talking about all the constraints.
11 What are you doing specifically to help address the
12 problems in supply?

13 MR. WOJNAR: Our suppliers are doing the best
14 they can. Again, we look at this as a short-term problem.
15 We can see that there is a problem. We're doing what we
16 can to serve the consumer. We're doing the best they can,
17 just like in this instance the PLCB is doing the best they
18 can. I am not here to criticize the PLCB for this recent
19 decision. That's not the point here, okay? The point of
20 my comment is to share with you where we think we can
21 improve in order to take care of the demand for the
22 consumer once we get out of this short-term problem.

23 HOUSE MAJORITY CHAIRMAN METZGAR:

24 Representative Diamond?

25 REPRESENTATIVE DIAMOND: Thank you, Mr. Chairman.

1 Chairman Holden, it's good to see you again. In your
2 testimony and in several answers you've given, you have
3 referred to fairly distributing product, or to distribute
4 the product as fairly as possible. Fair is a very
5 subjective term and is not a synonym for equal. So, I'm
6 assuming that we're not going, okay, we've got X number of
7 cases of X product, and we've got X number of stores, so
8 we're going to divide them equally. Can you delineate for
9 us what other metrics or factors you may be using to
10 determine what fair distribution is?

11 MR. HOLDEN: Representative Diamond, on these 43
12 items -- and I want to emphasize 43 items out of 7,500 is
13 where the bottle limitation is placed. It was determined
14 that fair distribution would be not to have it in regions
15 where it would sell more quickly and shut out rural areas.
16 Not to let licensees have an advantage over regular
17 Pennsylvania citizens. And we thought, for these 43
18 products this is the way to have fair distribution, limit
19 it to two bottles per person, per day. On -- maybe
20 somebody would like to elaborate on the second part of his
21 question, which was -- I assume the second part was, how do
22 we treat other products, fair distribution? Is that
23 correct?

24 REPRESENTATIVE DIAMOND: Actually, I didn't
25 really ask about other products. I'm just --

1 MR. HOLDEN: Or --

2 REPRESENTATIVE DIAMOND: -- say, I mean, fair is
3 not equal. So, I just want to delineate the difference
4 between your determination of how you would fairly -- you
5 know, I'd certainly understand, if you've never sold a
6 bottle of Hennessey, whatever, in a particular store, why
7 would you even allocate one under this program -- under
8 this, you know, limitation? Why would you even allocate
9 any of that product? So, I'm just trying to figure out
10 what exactly you're using to determine what fair actually
11 means? And -- I'm just trying to get to the bottom of
12 that.

13 MR. HOLDEN: Go ahead.

14 MS. RIVERA: I mean, essentially what we use is
15 demand in the marketplace, based on history. So in a
16 specific store, how much of that product do we sell on an
17 ongoing basis versus another store? So it's based on the
18 demand.

19 REPRESENTATIVE DIAMOND: So it's strictly demand,
20 then?

21 MS. RIVERA: It would be mainly --

22 REPRESENTATIVE DIAMOND: Historical demand?

23 MS. RIVERA: -- based on demand.

24 REPRESENTATIVE DIAMOND: Yeah, okay. Is there
25 any reallocation of product from one store to another

1 store --

2 MS. RIVERA: Yes.

3 REPRESENTATIVE DIAMOND: -- under this? Is that
4 going on as well?

5 MS. RIVERA: It has not gone on as of yet, but it
6 has been going on leading up to this point.

7 REPRESENTATIVE DIAMOND: Okay. All right. Thank
8 you so much.

9 HOUSE MAJORITY CHAIRMAN METZGAR:

10 Representative Isaacson?

11 REPRESENTATIVE ISAACSON: Thank you. Good
12 morning, now that we're over an hour into this. It's been
13 a fascinating conversation as we're going through a
14 pandemic that we have only had to have 43 products out of
15 7,500, which means we have 7,457 other products still
16 selling and on the shelves, correct? Okay. Good. And,
17 for everyone's information, I come at this from a very
18 interesting angle, that I probably have more liquor
19 licenses for restaurants than any other district here. And
20 I have, I believe, one of the highest grossing liquor, fine
21 wine and spirits shops in my district. So those are the
22 consumers.

23 MR. HOLDEN: I've been there.

24 REPRESENTATIVE ISAACSON: Yeah. It's right up
25 the street from my house. So, I do understand, and I

1 appreciate, and I would like to commend you for trying to
2 be equitable amongst the general public, as well as making
3 sure licensees can get some product as opposed to some
4 licensees taking advantage and getting -- and stocking up
5 and hoarding. And I commend you for that. And I guess one
6 of the things I would like to ask, you know, as we're going
7 through this pandemic and we are dealing with these supply
8 chain issues in every industry, not just the alcohol
9 industry -- and none of us have a rulebook or a textbook on
10 how to get through a pandemic. What -- as we -- as you are
11 the asset of the Commonwealth, is there anything that we
12 could do to help you in this situation as we're going
13 through this, as opposed to asking you all about what are
14 you going to do? Is there anything --

15 MR. HOLDEN: Okay.

16 REPRESENTATIVE ISAACSON: -- any tools that we
17 could be giving you in a toolbox? That's what I'm asking.

18 MR. HOLDEN: I think I'm going to let our
19 Executive Director elaborate on this, but I don't really
20 think we need anything right now from the General Assembly.
21 We appreciate your support, and I appreciate working
22 together in this open line of communication. And I
23 understand why you wanted to have this hearing today, to
24 see what -- why we came to this decision. But off the top
25 of my head, I can't think of anything that we need right

1 now. And, I don't know, Mr. Demko or Mr. Negra or
2 Ms. Isenhour, if you have anything you want to add to that.

3 MR. DEMKO: No, I don't.

4 MR. HOLDEN: Okay.

5 REPRESENTATIVE ISAACSON: That's fine. And
6 that's fine. I just wanted to, you know, put out that
7 olive branch, considering you're such a profitable asset to
8 this Commonwealth, and you've been doing such a good job.
9 Perhaps we should -- I just wanted to make sure that you
10 had the opportunity. So, thank you.

11 MR. HOLDEN: Thank you.

12 HOUSE MAJORITY CHAIRMAN METZGAR:

13 Senator Robinson? Push the button on the --

14 UNK: Just down there.

15 SENATOR ROBINSON: Okay. How's that?

16 HOUSE MAJORITY CHAIRMAN METZGAR: Yeah.

17 SENATOR ROBINSON: I've been in and out of the
18 hearing, so you can stop me if somebody else asked you this
19 question. But, as I'm looking down the list, it seems that
20 these are mostly the same companies that are having the
21 supply chain issues with the bottles. Is that correct?

22 MR. HOLDEN: Again --

23 SENATOR ROBINSON: So it --

24 MR. NEGRA: There's a couple of them.

25 MR. HOLDEN: Couple of them, yeah.

1 SENATOR ROBINSON: Couple of them.

2 MR. HOLDEN: And most of them are imports, and of
3 course the Kentucky bourbon with glass issues.

4 SENATOR ROBINSON: Uh-huh. So my point is, you
5 know, in basic economics we talk about complements. And if
6 you can't find a product, you're going to go for something
7 similar. And, it seems that we're protecting and trying to
8 stop a run on these foreign products and out-of-state
9 products when there's plenty of Pennsylvania products on
10 the shelf as well.

11 MR. HOLDEN: Well, I -- we mentioned -- oh, go
12 ahead, Mike.

13 MR. NEGRA: No, no, go ahead.

14 MR. HOLDEN: Oh. We mentioned that previously,
15 but -- and we'll be glad to repeat it. You know, our staff
16 in store and in our merchandising department, we're
17 actively telling our customers that there are alternatives.
18 And we certainly in every store have a Pennsylvania-only
19 section. So, we are trying to market Pennsylvania products
20 as well as other alternatives to these ones who are being
21 limited.

22 MR. NEGRA: And you get into high-end luxury
23 items. It's very difficult to find a Pennsylvania
24 equivalent to Dom Perignon, okay? Sorry, but it is.

25 SENATOR ROBINSON: Right. Well, I --

1 MR. NEGRA: Okay?

2 SENATOR ROBINSON: -- I understand that. You
3 definitely have other complements to Dom Perignon from
4 France and Italy as well that they could --

5 MR. NEGRA: And --

6 SENATOR ROBINSON: -- try, other products?

7 MR. NEGRA: And we carry --

8 SENATOR ROBINSON: Right?

9 MR. NEGRA: And we carry those.

10 SENATOR ROBINSON: Uh-huh.

11 MR. NEGRA: You know, and our, you know, wine
12 specialist, you know, will guide somebody over to that when
13 they're looking for an equivalent to it.

14 SENATOR ROBINSON: Uh-huh.

15 MR. NEGRA: Okay? And, here, try this since we
16 don't have that. So, that happens every day in our stores.

17 SENATOR ROBINSON: Okay. I just wanted to make
18 the point that, you know, it seems that these companies
19 didn't prepare for post-pandemic demand. And I don't know
20 if it's wise to offer them protection. So thank you.

21 HOUSE MAJORITY CHAIRMAN METZGAR:

22 Representative Jozwiak?

23 REPRESENTATIVE JOZWIAK: Thank you, Mr. Chairman.
24 I originally had a question about the law enforcement, how
25 it was going to enforce this with the state police, the LCE

1 or who, but that was kind of answered earlier on with your
2 honor system. But I guess as I'm listening here, I have
3 few more questions that popped up in my mind.

4 So, you have this list of 43 products. Are any
5 of these products that are similar to these products being
6 sold heavily on your shelves? And do you anticipate your
7 list of 43 products increasing because of people buying an
8 alternative product?

9 MS. RIVERA: It's hard to say. I mean, I don't
10 think so, but again, it's very hard to say what will happen
11 with demand, you know, as supplies continue to potentially
12 [inaudible]. But certainly, you know, right now any
13 alternative to those products we have plenty of inventory
14 to keep our stores full. And our vision from our vendor
15 partners of inventory that will continue to flow in in
16 those products looks good. So we don't see that happening,
17 but again, you know, this is evolving every day.

18 MR. NEGRA: Okay? And --

19 REPRESENTATIVE JOZWIAK: Okay. The other --

20 MR. NEGRA: I'm sorry.

21 REPRESENTATIVE JOZWIAK: I'm sorry, what?

22 MR. NEGRA: If I could add to that, we're up
23 7.3%, I believe, okay? This fiscal year. So, the demand
24 is accelerating through this pandemic, be it pent up demand
25 or that we had a great fiscal year last year. So, it is

1 not only supply issues, and in the case of cognac, you
2 know, that's a wine-based product in that you have to grow
3 the wine and then --

4 REPRESENTATIVE JOZWIAK: Uh-huh.

5 MR. NEGRA: -- ferment it, okay? So there is
6 issues there when growing seasons are impacted by Mother
7 Nature and so forth. There's a lot of different things
8 that get -- that cause supply shortages, and then there is
9 the demand aspect of it as well, okay? Some companies are
10 good at being able to increase their supply in reaction to
11 demand, and some -- in some cases the manufacturing process
12 does not allow that to occur, and you have shortages due to
13 that increased demand.

14 REPRESENTATIVE JOZWIAK: Thank you.

15 Mr. Chairman, may I ask one more question?

16 HOUSE MAJORITY CHAIRMAN METZGAR: Go ahead.

17 REPRESENTATIVE JOZWIAK: Thank you. I noticed on
18 your list there's no wine products. Is your wines fully
19 stocked? I mean, I understand that there's -- and I want
20 to bounce off of Senator Regan's comments earlier about
21 Pennsylvania products. I know in Pennsylvania wine is on
22 the shelves. There are some Pennsylvania wineries can put
23 wine in every store, and there are some wineries are only
24 allowed to put wines in ten stores. Now, Ms. Rivera, you
25 said there was no minimum amounts requirements to stock

1 shelves. So, why is that? And is there a shortage of
2 wines?

3 MS. RIVERA: There is no shortage of wine to the
4 degree of the items that are on the list. So, that means
5 that we have -- if there are listed wines, we have supply
6 in our distribution center. We have supply on our shelves,
7 and we have a go-forward forecast that makes them -- makes
8 us comfortable that the supply that the vendor has for us
9 will fulfill our needs. So they would -- they are not on
10 the list if that is the case.

11 REPRESENTATIVE JOZWIAK: What about the minimum
12 requirements? Some wineries can only have wines in ten
13 stores. Why is that rule?

14 MS. RIVERA: I honest -- I don't know that it's a
15 rule. I would need to look at the specific product.

16 REPRESENTATIVE JOZWIAK: Okay. I'll hook --

17 MS. RIVERA: You know, I --

18 REPRESENTATIVE JOZWIAK: I'll hook up with you on
19 that one.

20 HOUSE MAJORITY CHAIRMAN METZGAR: All right.

21 MS. RIVERA: Yeah.

22 REPRESENTATIVE JOZWIAK: Okay.

23 MS. RIVERA: I mean, I -- it's hard for me to
24 answer that unless --

25 REPRESENTATIVE JOZWIAK: Okay.

1 MS. RIVERA: -- I know exactly what you're
2 talking about, and what history we have with that product,
3 and what conversations we've had with the vendor partners
4 regarding it.

5 MR. HOLDEN: Mister --

6 REPRESENTATIVE JOZWIAK: Thank you, Mr. Chairman.

7 MR. HOLDEN: Mister -- Representative Jozwiak, my
8 neighbor can elaborate on that.

9 MR. NEGRA: Yeah. You're talking about the
10 Pennsylvania Preferred Program, okay? So that -- it's
11 a -- Pennsylvania preferred manufacturer are guaranteed ten
12 stores to put their product into. Now, they have to sell.
13 They have to continue to sell. And if demand is there,
14 then it can increase in terms of the number of stores. If
15 the product doesn't sell, well then it shrinks, you know,
16 to a point where maybe we don't carry it, and we tell that
17 particular manufacturer that they either have to make
18 improvements to the product, but there's no market for it.

19 So, you know, and as far as not having any wines
20 on the list, I mean, champagne is a wine. You know,
21 cognac's -- cognac is basically a -- it's -- it is a type
22 of wine. So, there are some wines that are on that list.
23 It is more spirit based, yes, but champagne, that region
24 certainly seems to be having some issues, and a lot of it
25 is Mother Nature.

1 REPRESENTATIVE JOZWIAK: Thank you, sir. Thank
2 you, Mr. Chairman.

3 HOUSE MAJORITY CHAIRMAN METZGAR: And I would now
4 like to recognize Chairman Deasy for some closing remarks.

5 HOUSE MINORITY CHAIRMAN DEASY: Thank you very
6 much. I appreciate both panels being here today, and I
7 appreciate the chairman bringing all -- us all together to
8 talk about this issue; obviously something that's happening
9 worldwide, unavoidable challenges that a lot of industries
10 are facing. But, I have to commend the LCB. They've done
11 a good job navigating it. It's kind of like when we drive
12 up here on the Turnpike every week to come to Harrisburg.
13 Sometimes there's an accident in Breezewood, and we have to
14 get off and take a detour. There is no roadmap during a
15 pandemic. We have to adjust every day, and I think that
16 the revenue number speaks for itself that has been brought
17 in over the past year and a half. So I commend you for
18 that.

19 Again, I think the keyword that Mr. Negra
20 mentioned was communications. I think we need to continue
21 those communications with our distributors, our licensees,
22 our consumers. That's the key. I think we need to make
23 sure there's communication. We'll get through this
24 together. But, I do appreciate you all being here, and I
25 appreciate the testimony today. So, thank you.

1 HOUSE MAJORITY CHAIRMAN METZGAR:

2 Chairman Brewster?

3 SENATE MINORITY CHAIRMAN BREWSTER: Thank you,
4 Mr. Chairman. And thank you, Mr. Chairman, for calling the
5 meeting as well. Yes, same comments as
6 Representative Deasy. You've had a great year through
7 difficult times. Appreciate you coming to these hearings.
8 These questions are always difficult, but necessary so we
9 can get clarity throughout the House and the Senate. So,
10 thank you for a good year, and good luck in the future.

11 HOUSE MAJORITY CHAIRMAN METZGAR: Chairman Regan?

12 SENATE MAJORITY CHAIRMAN REGAN: Yes, thank you
13 very much for being here today. I -- you know, when we
14 have a hearing like this, typically it's -- the impetus is
15 behind what we're hearing from our constituents, and they
16 wanted answers, and I think you provided a lot of answers
17 for us today, and a I appreciate that.

18 I just think there's something you need to
19 remember in that you are not in a normal free market. The
20 PLCB is a monopoly, and I think because of that you need to
21 be more transparent, and you need to go on record when you
22 make decisions like this that are profoundly impacting to
23 the people of Pennsylvania. I think Pennsylvanians deserve
24 that type of transparency. So, thank you. I appreciate
25 you, and I look forward to seeing you all again. Thank

1 you.

2 HOUSE MAJORITY CHAIRMAN METZGAR: You know, we
3 learned a lot today, and I appreciate that everyone came
4 out to help educate the members of the committee. You
5 know, I keep going back to the -- you know, one thing that
6 we all seem to be able to agree on -- and I like it when we
7 can find that common ground -- is that the pandemic
8 interrupted the supply chain. And that's not necessarily
9 anyone's fault in here. It's a force majeure or act of
10 God, you know, provision that I think we would see in a lot
11 of contracts.

12 But, that brings me back to the fines. And this
13 is something that just -- it really doesn't sit right with
14 me, is that we're fining suppliers. We're -- you know, the
15 Pennsylvania system, we're saying hey, it's not our fault.
16 It's a pandemic. We're -- we have -- we had an issue. We
17 have supply chain disruptions. Well, so did the suppliers.
18 And so for me, fining them for their inability to provide,
19 and no fault of their own due to the pandemic, is probably
20 something that I'm going to have a lot of trouble with.

21 And so, not -- one of the things that I think we
22 need to remember is that it is a monopoly. And so, don't
23 act like it. And that's what I think is one of the things
24 that we should probably look at there, is don't act like we
25 can tell them what to do, and we can fine them to that

1 extent. If -- I think that an understanding and a -- with
2 our suppliers and with that supply chain is something that
3 I would ask you to look at a little more carefully as we
4 move forward. Where -- and again, the Pennsylvanians don't
5 like rationing, and so any way we can work through this
6 together and focus on a good Pennsylvania product, or try
7 and avoid any interruptions to the supply chain, I think it
8 would be beneficial for all of us.

9 So, I thank everyone for their time, and with
10 that the meeting is adjourned.

11
12 (The hearing concluded at 12:18 p.m.)

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