

Minnesota's Three-Tier System of Liquor Regulation

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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 sometimes monopolistic and pro-consumption system in place before Prohibition.

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. Seventeen states are “control” states, where wholesalers or retailers are operated in whole or in part by the state. The remaining states, including Minnesota, are “license” states, allowing sales for the most part through independent licensed businesses. However, there may be elements of the control system in a license state. For instance, in Minnesota, municipal liquor stores may exist at the discretion of the municipality, while in Maryland, Montgomery County controls distribution and some retail outlets.

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- and winemaking-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.311](#), para. (c))

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 (Minn. Stat. § 301, subd. 6, para. (d)), obtain a full, on-sale intoxicating liquor license and make off-sales of growlers ([Minn. Stat. § 340A.24](#), subds. 1 and 2)
- **Wineries**
 - Wineries of any size may make on- and off-sales of their own production from the premises ([Minn. Stat. § 340A.301](#), subd. 10)
 - Farm wineries ([Minn. Stat. § 340A.315](#)) may make on- and off-sales of their own production from their premises, operate a restaurant and obtain a full, on-sale intoxicating liquor license, and self-distribute¹
 - Small cideries (2,500 gallons or fewer) may self-distribute
- **Brewers**
 - Brewers brewing 150,000 barrels or fewer may make off-sales in growlers ([Minn. Stat. § 340A.28](#), subd. 2)
 - Brewers brewing 20,000 barrels or fewer may self-distribute ([Minn. Stat. § 340A.301](#), subd. 9, para. (g))
 - Brewers brewing 7,500 barrels or fewer may make off-sales of up to 128 ounces per customer per day in any approved container size, in addition to growler sales
 - Brewers brewing 250,000 barrels or fewer may be issued a license for on-sale of their own product at a brewer taproom
- **Direct ship wine** ([Minn. Stat. § 340A.417](#)): Both in- and out-of-state wineries may ship, for personal use, up to two cases of wine to a Minnesota resident
- **Distilleries** ([Minn. Stat. § 340A.22](#), subd. 1 and 2): Minnesota distilleries of any size may sell cocktails to the public at a cocktail room, and microdistilleries may make off-sales of distilled spirits from their premises ([Minn. Stat. § 340A.22](#), subd. 4)

Modifications 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.



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¹ Due to the federal district court decision in *Alexis Bailly Vineyard, Inc. v. Harrington*, 482 F. Supp. 3d 820 (D. Minn. 2020), the Minnesota-grown requirement for farm wine and commercial winery on- and off-sales is unenforceable under the commerce clause