LITIGATION UPDATE

COALITION FOR FREE TRADE

The Wine Industry's Legal Solution For Laws Prohibiting Consumer Choice And Fair Trade

Happy New Year from **CFT**!

FREE TRADERS FIGHT FOR WINE IN FEDERAL COURT Wineries and Consumers Barrel Over Bureaucrats in Virginia Courthouse

The first civil rights case to be filed by both winery and consumer plaintiffs was argued on Friday, January 19, 2001 in the U.S. District Court for the Eastern District of Virginia, Richmond Division. This test case, filed in federal court, alleges that Virginia's ban against residents receiving wine direct from out-of-state purveyors violates the plaintiffs' rights under the Commerce Clause of the U.S. Constitution. Oral argument was presented before Magistrate Judge Dennis W. Donhal in the matter of Bolick, et al v. Roberts, et al. challenging state prohibitions against private citizens receiving wine direct from out-of-state purveyors.

"Laws that prohibit direct shipping hurt my business. I get calls from people all over the United States who want to purchase my wines. Tourists also come to Hood River to visit my winery. Sometimes they ask me to ship wine back home for them. Consumers don't want to risk ruining the wine by letting it sit in the back of their rental car for a week. They also don't want the hassle of lugging around a case of wine at the airport. I am happy to sell the wine but sometimes I just don't want to sell to them because of the legal hassles a state may put me through," lamented Bernie Lerch, owner of Hood River Vineyards in Oregon and a plaintiff in the Virginia lawsuit.

Professor Daniel Ortiz of the University of Virginia School of Law argued the case on

behalf of Virginia wine consumers Robin Heatwole and Clint Bolick and out-of-state wineries Hood River Vineyards of Hood River, Oregon, Dry Comal Creek Vineyards of New Braunfels, Texas and Miura Vineyards of Calistoga, California. Professor Ortiz has been at UVA-Law since 1985. He clerked for Judge Breyer in the First Circuit and for U.S. Supreme Court Justice Powell. A wine connoisseur and constitutional law professor, Dan believes that as a wine consumer in Virginia, choice is limited to in-state wines or wines that are distributed by state-mandated wholesalers. "Whether liberal or conservative, the debate over consumer-direct wine sales is one that all parts of the political spectrum can agree upon," said Professor Ortiz.

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"I support CFT because I want to force a revolution in wine distribution so suppliers can have a meaningful choice."

— Fred Reno The Henry Wine Group CFT Vice President & Investor

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Seven Suits Filed in Federal Court

To date, seven direct shipping cases have been filed in federal court. Decisions in the Texas and Indiana trial courts ruled anti-direct shipping statutes unconstitutional. The Indiana case was appealed to the Seventh Circuit Court of Appeals and was reversed. The consumer challenge originating in Indiana was indicative of the need for both winery and consumer involvement when challenging state laws which ban both the personal importation of wine to consumers <u>and</u> regulate the business practices of out-of-state purveyors of wine. The Virginia case is the first to reach the courts with a complete set of facts that we believe will be crucial to all direct shipping cases that follow.

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Summary of Proceedings

Suit was filed on November 15, 1999. Immediately thereafter, the Virginia Wine Wholesalers Association (VWWA) filed for, and was granted, intervenor status.

The state then moved for dismissal under FRCP 12(a) on jurisdictional grounds. The intervening wholesalers joined in this motion which was denied. Therafter, the case then went through an extensive discovery period.

For over eight months all parties endured grueling discovery. The winery owners traveled to Virginia to have their depositions taken at the courthouse, under the supervision of the magistrate judge. What turned up? Tired winery owners in the middle of harvest **AND** over \$1.5 million in wholesaler political contributions over the past three elections cycles.

Late in the proceedings, the judge ordered additional legal briefs from both parties as to the direct shipment of other alcohol beverages since the Virginia statute being challenged pertains to wine, beer and spirits.

During the final phase of the case, the Wine and Spirits Wholesalers Association submitted an amicus brief in support of the defendants and defendantintervenors.

Prior to the proceedings, the entire record of the case was placed upon the judge's bench. As Judge Donhal entered the room and sat down, the courtroom burst out in laughter: under the mountain of over 15,000 pages of official documents, the attorneys could barely see the top of Judge Donhal's head. A great sense of humor did not detract from the judge acknowledging the importance of this case to the American wine industry.

"Judge Donhal took everything under submission. It was clear that he had jumped into the case, and understood the nature of the issue," said Professor Ortiz. "This is by far the most heavily litigated direct shipping case to date. No legal issue or procedural matter went uncontested. This case was fought tooth and nail by both sides," said Bill Kinzler, CFT's general counsel. "State trade barriers cannot withstand the forceful determination of vintners and wine consumers who wish to engage in the lawful activity of buying, selling or drinking wine. A simple matter of supply and demand will lead to the inevitable shift in state laws to accommodate the interests of its citizens," he added.

Professor Ortiz, in an objection to the state attorney general's argument that the plaintiffs were indifferent to issues of access to alcohol by minors, emphasized that while underage drinking is a very serious social problem, the state did not prove any correlation between out-ofstate direct marketing and underage drinking.

While the state allotted most of its time to the facts of the case, the intervening wholesalers' attorney argued most of the 21st amendment and the dormant commerce clause issues. "The wholesalers raised not only the Twenty-First Amendment, but also, the traditional 'three-tier system' as a defense in their arguments. Incidentally, in over half a century of Virginia's official legislative history that surfaced during discovery, there was a notable lack of reference to the phrase 'three-tier system'," said CFT's Executive Director, Vivienne Nishimura.

CFT supported the plaintiffs by filing its own amicus brief that detailed the history of the Twenty-First Amendment and Webb-Kenyon Act. In the amicus brief, CFT stated,

"The purpose of the Webb-Kenyon Act and the Twenty-first Amendment, its constitutional successor, was not to allow the States to foster a three-tier system, protect alcoholic beverage wholesalers, or to engage in any other exercises of its police powers than to enact and enforce prohibitionary alcoholic beverage laws. Rather, their respective legislative histories reveal that their animating intent was to allow "dry" states to remain "dry" by creating a means by which States that wanted to maintain prohibition (either on a state-wide or local option basis) could close their borders to all alcoholic beverages without running afoul of the negative Commerce Clause."

"We think this case is going to blow some of the cobwebs off of the 21st Amendment and reveal its limitations as a source of protectionist legislation," added Kinzler.

A ruling is expected sometime in the spring.

COALITION FOR FREE TRADE

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> Vivienne Y. Nishimura, Executive Director William C. Kinzler, General Counsel

The Coalition for Free Trade is a non-profit, mutual benefit organization. As such, it operates solely on **voluntary** contributions from members of the American wine industry and consumers. As a tax-exempt organization, under Section 501(c)6 of the Internal Revenue Code, CFT does not charge fees for its services. Contributions are 100% tax-deductible as a business expense. If requested, contributor information is kept **strictly confidential**.

CFT publishes quarterly newsletters and supplemental updates as a service to its contributors and to educate the public on the movement to legalize consumer-direct shipments of wine. This litigation update is not intended to provide legal advice. CFT disclaims all responsibility for liability that may result from reliance on the information contained herein. Please contact the CFT office at info@coalitionft.org or (707)-747-1556 for any additional information regarding the material presented in this newsletter. CFT © 2000, 2001.

State Shipping Statutes



(Continued from page 1)

Litigation Summary

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Bridenbaugh, et al. v. Freeman-Wilson, et al.

Attorney: Bob Epstein Epstein & Frisch One Virginia Ave., Ste. 200 Indianapolis, IN 46204 Jurisdiction: U.S. District Court, Northern District of Indiana Case No. 98-cv-464 Filed: 08/28/98 Decided: 12/10/99 Jurisdiction: 7th Circuit Court of Appeals Case Nos. 00-1044 & 00-1046 Appealed: 12/31/99 Decided: 09/13/00 Motion for Rehearing: Denied

Status: This case has been remanded to the district court with instructions for reversal of the original opinion. The consumer plaintiffs may attempt to appeal this case to the U.S. Supreme Court.

Summary: Suit was filed by consumer plaintiffs including wine writer Russ Bridenbaugh and cartoonist Jim Davis. The Wine & Spirits Wholesalers of Indiana (WSWI) successfully intervened in this case. Parties filed cross motions for summary judgment and the district court thereafter declared the statutes in issue to be in conflict with the Commerce Clause. The Attorney General and intervenors (WSWI) appealed to the Seventh Circuit. The following filed amicus briefs in support of the defendants: Wines & Spirits Wholesalers of America, National Alcohol Beverage Control Association, and E. & J. Gallo Winery. Coalition for Free Trade and Family Winemakers of California filed amicus briefs in support of the plaintiffs. Oral Argument was heard in the 7th Circuit Court of Appeals. In a puzzling opinion, the appeals panel reversed the lower court judgment and the case was remanded back to the district court with instructions. Plaintiffs sought a rehearing/rehearing en banc. The court requested an answer from the defendants but denied a rehearing. This case will now head back to the district court for reversal as per the 7th circuit ruling OR the plaintiffs may choose to appeal this case to the U.S. Supreme Court.

TEXAS

Dickerson, et al. v. Bailey, et al.

| Attorneys: | Mark Harwell | Sterling Steves |
|---------------|---------------------|--|
| U | Cotham, Harwell a | nd Evans Law Office of Sterling Steves |
| | West Memorial Pa | rk 6115 Camp Bowie Blvd., Suite 200 |
| | 8550 Katy Fwy., St | te. 128 Ft. Worth, TX 76116 |
| | Houston, TX 7702 | 4 |
| Jurisdiction: | U.S. District Court | t, Southern District of Texas |
| | Case No. 99-cv-124 | 47 |
| | Filed: 04/26/99 | Decided: 02/11/00 |
| a 191. | | |

Status: This case is pending a decision on a motion for reconsideration. It may be appealed to the 5^{th} Circuit.

Summary: Plaintiffs plead under 42 U.S.C. 1983 requesting declaratory and injunctive relief from Texas statutes that prohibit consumer direct wine shipments from out-of-state sources. Local wholesalers did not attempt to intervene. There was no discovery in this case. Parties filed cross motions for summary judgment. With no oral argument, the judge issued a forty-six (46) page memorandum and order granting the plaintiffs motion for summary judgment. The state thereafter filed objections to the plaintiffs' proposed judgment regarding declaratory and injunctive relief and filed a motion for reconsideration. As of January 22, 2001, there has been no movement on the case, a frustrating situation for the attorneys who have been waiting for almost one year for resolution. There has been discussion of introducing legislation in the upcoming session to correct the statutes in question, which would render this case "moot."

"The discriminatory character [of alcohol beverage statutes] eliminates the immunity afforded by the Twenty-first Amendment"

> U.S. Supreme Court Justice Scalia, concurring in part and concurring in judgment, Healy v. Beer Institute, 491 U.S. 324, 344

"... a series of actions orchestrated by the socalled 'Coalition for Free Trade' ... to challenge liquor distribution regulations in states around the country."

> From the Opposition Brief of the Intervening Wholesalers and Reverend Calvin Butts In Sweedenberg v. Kelly (New York)

NEW YORK

Bolick. et al. v. Roberts. et al.

Bainbridge, et al. v. Bush, et al.

| Attorneys: | Clint Bolick, Deb Simpson, Marnie (LAST NAME) | |
|----------------------------|---|-----------------------------------|
| • | Institute for Justice | |
| | 1717 Pennsylvania Ave | nue, NW Suite 200 |
| | Washington, D.C. 200 | |
| Website: http://www.ij.org | | |
| Jurisdiction: | | the Southern District of New York |
| Case No. 00 Civ 778 (RMB) | | RMB) |
| | Filed: 02/04/00 | PENDING |

Status: In discovery.

Summary: The plaintiffs in this suit include both New York consumers and wineries from Virginia and California. The complaint attacks both New York's anti-solicitation statute and the statute prohibiting consumers from receiving wine directly from out-of-state purveyors. The complaint alleges violation of the plaintiffs' rights under the First Amendment, Commerce Clause and the Privileges and Immunities Clause (U.S. Const. art. 4, sec. 2, cl. 1). Seven wholesalers intervened. Judge Berman issued a 23-page decision denying the defendants' motion to dismiss. In an unusually detailed analysis, he emphasized the impact of technological advancements in wine commerce via the Internet. Judge Berman also referenced the *Bridenbaugh* and *Dickerson* opinions in which judges from Indiana and Texas ruled that state statutes prohibiting interstate shipments of wine were in conflict with the constitution. This case is in the discovery phase.

VIRGINIA

Professor Daniel R. Ortiz Matthew Hale Attorneys: "Invest in your bottom line — University of Virginia Hale & Associates selling wine through School of Law 1679 Jamestown Rd. 2-A conventional methods puts 580 Massie Road Williamsburg, VA 23185 shoes on your kids' feet. Going Charlottesville, VA 22903 PHN: (757)-229-6060 direct will buy the new PHN: (804)-924-3127 crusher-stemmer..." Jurisdiction: U.S. District Court, Eastern District of Virginia Case No. 99-cv-755 *— Bo Barrett* Filed: 11/15/99 PENDING A DECISION Chateau Montelena Winery CFT Trustee & Investor See lead story on page one. Summary:

FLORIDA

Attorney: Bob Epstein, Epstein & Frisch

Jurisdiction: U.S. District Court, Middle District of Florida (Tampa) Case No. 8:99cv2681 Filed: 11/24/99 PENDING Status: Consumers and wineries filed suit under 42 U.S.C. 1983 request

Status: Consumers and wineries filed suit under 42 U.S.C. 1983 requesting declaratory and injunctive relief, challengins Florida's ban on interstate direct shipments of wine. This case is still in the preliminary stages. Some of the would-be intervenors have filed an appeal on the denial of their intervention to the 11th circuit court of appeals.

"Some of the wines plaintiffs want to drink are not carried by Indiana resellers. That establishes injury in fact. Anyone who has held a bottle of Grange Hermitage in one hand and a broken corkscrew in the other knows this to be a palpable injury."

> --from the opinion of Judge Frank Easterbook Bridenbaugh, et al. v. Freeman-Wilson, et al.

NORTH CAROLINA

MICHIGAN

Attorney:Bob Epstein, Epstein & FrischJurisdiction:U.S. District Court, Eastern District of Michigan (Detroit)Case No. 00-CV-71438Filed: 03/22/00Filed:03/22/00PENDINGStatus:This case was originally filed by a group of wine consumers and wine writers.The plaintiffs amended their complaint twice. At one point, two winery plaintiffs wereadded to the suit.Without prejudice, stipulations were made on 01/09/2001 tovoluntarily dismiss MalvadinoVineyards from the suit. Nine Michigan universitiesmotioned for and were granted leave to file an amicus brief.They were joined as amiciby the Michigan Interfaith Counsel on Alcohol Problems' who filed their own brief.Final oral argument for cross-motions for summary judgment is scheduled to be heardbefore Judge Bernard A. Friedman on January 31, 2001.

Beskind, et al. v. Hunt, et al.

Heald, et al. v. Engler, et al.

 Attorney: Bob Epstein, Epstein & Frisch

 Jurisdiction:
 U.S. District Court, Western District of North Carolina (Charlotte)

 Case No. 00-CV-258

 Filed:
 06/05/00

 PENDING

Status: This case was originally filed by a group of wine consumers. On 8/8/00 plaintiffs amended their complaint, adding Oakstone Winery as a new plaintiff. The case is still in the discovery stage which is scheduled to be completed by the end of January 2001.

The CFT Litigation Program

CFT's litigation program challenges the constitutionality of state statutes that prohibit consumers from purchasing and receiving wine from out-of-state sources such as wineries, e-commerce sites and traditional "brick and mortar" wine shops. CFT coordinates with attorneys and legal foundations across the country who file test cases (i.e. cases of first impression). CFT's legal advisors are law professors, wine industry attorneys and federal litigation experts that are volunteering their expertise in the interests of free enterprise, fair trade and a good bottle of wine!

The lawsuits filed assert the civil rights of consumers and their out-of-state purveyors to participate in interstate commerce, whether through e-commerce or traditional methods. They seek to restore the ability of both consumers and businesses to engage in wine sales and deliveries under the Commerce Clause of the U.S. Constitution.

Each suit requests the court to have declared unconstitutional the applicable state statute that prohibits direct shipments to consumers by out-of-state businesses. This particular type of litigation is usually referred to as a "declaratory relief action." The lawsuits also seek a court order enjoining enforcement of the offending statute and allows for the recovery of attorneys' fees and costs from the state sued. Each lawsuit is filed under 42 U.S.C. 1983 (i.e. Section 1983) which was originally entitled the Civil Rights Act of 1871.

The CFT Mission

"OUR SYSTEM, FOSTERED BY THE COMMERCE CLAUSE, IS THAT EVERY FARMER AND EVERY CRAFTSMAN SHALL BE ENCOURAGED TO PRODUCE BY THE CERTAINTY THAT HE WILL HAVE FREE ACCESS TO EVERY MARKET IN THE NATION... LIKEWISE, EVERY CONSUMER MAY LOOK TO THE FREE COMPETITION FROM EVERY PRODUCING AREA IN THE NATION TO PROTECT HIM FROM EXPLOITATION BY ANY. SUCH WAS THE VISION OF THE FOUNDERS; SUCH HAS BEEN THE DOCTRINE OF THIS COURT WHICH HAS GIVEN IT REALITY."

FROM THE U.S. SUPREME COURT OPINION
 H. P. HOOD & SONS, INC. V. DU MOND,
 336 U.S. 525, 539 (1949)

The Coalition for Free Trade (CFT) is a legal advocacy group with a singular mission: CFT seeks judicial relief from state laws which prohibit consumer choice and fair trade. Specifically, CFT aims to level the economic playing field for wine producers by opening state borders to consumer-direct, interstate shipments of wine. CFT accomplishes its goals through education, research and the development of affirmative litigation strategies. CFT also supports consumer and winery litigation by filing amicus curiae briefs in select test cases.

SUPPORTING THE COALITION FOR FREE TRADE

Year 2001 Contribution Form

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