



Reforming BC Liquor Laws



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Introduction




- BC is a ‘control state’ regulating liquor as a ‘controlled substance’
- *BC Liquor Distribution Branch* (“LDB”) controls the wholesale distribution of liquor under the *BC Liquor Distribution Act* in accordance with the federal *Importation of Intoxicating Liquors Act*
- *Liquor Control and Licensing Branch* (“LCLB”) licenses importers and distributors, private liquor stores, restaurants, pubs and enforces the *BC Liquor Control and Licensing Act*
- The BC regulatory system is an outdated byzantine maze – a ‘dog’s breakfast’ of costly and inefficient restrictions, arbitrary rulings and exorbitant taxes
- Both the *LDB* and the *LCLB* fall under the Ministry of Energy & Mines and its Minister, Rick Coleman
- Coleman appears willing to tinker at the margins of regulatory reform, but has yet to embrace fundamental change

Current Policy Drivers



1. Net revenue maximization - \$2.6 billion target over next 3 years
2. Quality work environment – 3,500 unionized employees – annual surveys of employee engagement
3. Customer satisfaction – retail – 98%, wholesale – 82%
4. Operating efficiencies – sales/sq. ft., labour cost/case shipped, line fill rate; benchmarking
5.
 - a. Encourage responsible use of alcohol - ID checking using under-aged agents, and supporting ‘dry grads’
 - b. Minimizing environmental impact - reduction in plastic shopping bag usage

Current Reform Proposals



1. BC has announced (February 21st budget) that it will in the coming months “review the rules that govern liquor sales to modernize liquor standards and create more opportunities for growth”
2. Ministry Service Plan established the following priorities:
 - Target inspections at “high risk” establishments
 - Develop a public safety strategy for special occasion licenses – avoid service to minors, over-service, over-crowding
3. Commence an RFP process within the next two months (in consultation with the BCGEU) to privatize the LCB’s two liquor warehouses (Richmond and Kamloops) by 2015
4. Relaxation of ‘tied house’ rules announced over a year ago but still no details
5. Changes to rules governing the licensing of movie theatres

Suppliers & Manufacturers



- Liquor supplied by 400 suppliers and manufacturers
- This includes licensed BC manufacturers
 - a. 242 wineries
 - i. commercial wineries – agents of the LDB
 - ii. “land-based” wineries - ≥ 2 acres of grapes, 25% of juice from your own land
 - b. 59 breweries
 - c. 17 distilleries
- Social Reference Pricing – minimum bottle prices
- 17,000 SKU's

Distribution of Imported Wine



- BC has 2 entirely separate distribution systems for wine
- All imported wine landed into BC must be processed through the LCB's monopoly wholesale distribution system
 - Importer/agent request LDB to order wine on their behalf from winery
 - Winery ships the wine to a bonded LDB warehouse in Richmond or Kamloops – stored at risk to importer
 - Two week delivery time for in-stock items
 - It takes months from initial order to delivery of wine
 - Spec system for new products – full cases only; slow process
 - Cross-docking – government stores appropriate and redirect supply sourced by private stores

Distribution of Domestic BC Wine



- BC wineries are permitted to ‘direct deliver’ to individual consumers, private stores and restaurants
- ‘Cellared in Canada’ wines qualify for the distribution preference
- Craft distilleries do not

Privatization of Distribution Warehouses

- May be too early to speculate as to impact since full details not available
- Is BC just replacing a government monopoly with a private monopoly?
- Washington recently rejected a similar proposal and instead opted for a full privatization of its liquor distribution system
- No suggestion at this point that BC will license multiple competing distributors or allow retailers to purchase directly from import suppliers – so still no competition
- Unionized workforce will be retained
- Most likely impact is that a logistics company (such as Connect Logistics which provides warehousing and shipping in Alberta or Exel Logistics which lobbied for the BC changes) will enhance operational efficiencies (with consequent benefits to wholesale customers) and reduced costs to government in collection of its liquor revenues
- Suspicious that sale is driven by a hunger for revenues to reduce deficits rather than by a desire to reform the liquor distribution system

Retail Channels (Mixed Model)



1. **Government Liquor Stores** – 197 GLSs (41% of sales)
 - Manitoba – MLCC “Liquor Mart” boutiques within grocery stores
2. **Licensee Retail Stores** - 672 LRSs (34% of sales)
 - A. **Original License Stores** – 12 stores established for Expo '86 - 30% discount
 - E.g. - Marquis, Liberty, Dundarave, Everything Wine, Broadway
 - B. **Licenses granted since 1993** - purchase at 16% discount - sell lottery tickets, cigarettes, pop, chips and nuts;
 - Standalone businesses not visibly associated with other businesses
 - Distance separation rules (*Northland Properties v. BC LCLB*)
 - Can't store in multiple locations,
 - Can't accept sales incentives
 - C. **VQA Wine Stores** – 35 stores – authorized to sell BC wines
3. **Rural Agency Stores** - 221 RASs – sell general merchandise
4. **8,000 bars and restaurants** (16.5% sales)
5. **11 duty-free stores**
6. **Live Performance Venues and movie theatres** – can now obtain license to serve liquor during other events but can't serve while showing of movies
7. **Special occasion licenses**

Restaurants & Bars



- Restaurants must have a ‘food primary’ license – food must be available at all times that liquor is served
- Bars and nightclubs must have a ‘liquor-primary’ license
- Required to purchase all liquor from an ‘assigned’ BC Liquor Store – May also purchase directly from winery (but must pay LDB price)
- Must pay the full retail price (less HST)
- Typical mark-up is double or triple – Average is 2.5 times
- Can't store offsite or move between locations
- Corkage prohibited
- Can't sell corked bottles
- Shift to flat markup from percentage markup would be a huge stimulus to the hospitality and tourist industries without cost to government

Pricing of Imported Wines



Components of Final Price		Example
Landed price		\$10.00
LDB Mark-Up	123% (170% for liquor)	11.11
LDB Fees	Foreign wine cost of service differential/Volume mark-up / Container recycling fee	0.83
Government Taxes	HST / federal customs	3.77
Final Retail Price		\$25.69
Typical Restaurant Price	Typical - 2.5 x	\$64.22

Preferences for BC Domestic Wines



- Direct delivery model
- No LDB mark-up on direct sales – producer’s margin captures the LDB mark-up (less 16% discounts for sales to LRS’s)
- Higher margin for sales through VQA stores than through LDB
- VQA rebate program for sales through LDB – designed to replicate amount winery would make selling through a VQA store.

Vulnerability under Trade Agreements

- Under our major trade agreements, we are required to treat domestic and imported wine equally
- There are potentially serious problems with the current structure of the BC wine industry
- Current system provides preferential treatment for BC wine – LCB markups and distribution
- Successful challenge of our current practices could force a major restructuring of our industry
- EU made a trade complaint under GATT in the '80's – at the time BC applied lower markups to BC wine than to imported wines
- Canada lost the dispute and a settlement was entered into – Canada lost and entered into a settlement agreeing to afford non-discriminatory treatment to imported wine based on practices that existing in 1987
- Significant price differences were supposed to be removed completely by 1995
- Canada/EU Comprehensive Trade Agreement to be settled this year

Washington Initiative 1183 passed in November



- Ends 78 year state monopoly
- Modernizes both wholesale distribution and retail sales
- State role shifts from managing distribution and retail sales to tax collection and enforcement of health and safety regulation
- Estimated \$200 million increase in state revenues and \$200 million increase in municipal revenues over 6 years
- Enhanced enforcement
- Sales of spirits limited to stores over 10,000 sq.ft.

Jurisdictional Comparison

	British Columbia	Alberta (after 1993)	WA (after I-1183)
Retail Structure	Mixed Govt and Private Retail	Full Private, no supermarkets	Full Private, Beer/Wine in Supermarkets & Other Retailers, Spirits restricted to large stores (10,000 sq.ft.)
Wholesale Structure	Government Monopoly	Contracted out by government to private company	Full Private
Annual Liquor Revenue to Prov/State Govt (2009)	\$877 M	\$684 M	\$425 M before I-1183 (estimated to increase about 50% after I-1183)
Per Capita Liquor Revenue to Prov/State Govt	\$194	\$184; Ontario \$144	Forecast 50% increase
Consumption Per Capita	8.6 – 8.7 L	9.1 L	8.8 L
Density of Outlets Selling Spirits by population	1/4152	1/3212	1/4705
Wholesale Pricing Structure	All prices fixed by LDB	Free market competition	Free market competition (except for beer)
Wholesale Distribution Process	All imported wine and spirits go through govt warehouses	Single private company operates wholesale system	Free market except for beer
Retail Competition	Virtually non due to price fixing at wholesale level	Free market	Free market
Prov/State Taxes on \$15 wine	\$7.11 LDB mark-up, \$0.60 LDB fees, \$0.94 sales tax	\$2.59 flat tax mark-up	\$0.20 liquor tax, \$1.11 sales tax
Wholesale Liquor Discounts Given to Restaurants?	Zero	Yes	Yes
Corkage Permitted	No	Yes	Yes
Happy Hours Permitted?	No	Yes	Yes
Est. Restaurant Price for \$10 bottle of wine from California	\$40	\$25-30	\$15-20
Add'l Sales Tax on Bill	12%	5%	8%

Regulatory Risk



- BC wine industry is a business clearly subject to significant regulatory risks
- Regulatory reforms are likely to weaken or threaten existing preferences available to BC domestic wine producers
- Bill C-311 – interprovincial direct shipping – weakens provincial control over pricing
- Privatization of liquor distribution and retailing will weaken the ability of the Province to ‘subsidize’ the local industry
- Vulnerability to attack under trade agreements
- As these forces impact, a substantial restructuring of the BC wine industry is inevitable

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