



March 30, 2018

Business Technical Advisory Panel
Ministry of Attorney General
Government of British Columbia
Via email to businesstechnicalpanel@gov.bc.ca

Dear Business Technical Advisory Panel:

Re: Submission to the Advisory Panel

As an advisor and consultant with 20 years of involvement in the B.C. and Canadian wine industry, and as a participant in public policy development in British Columbia for nearly as long, I am pleased to provide comments to the Business Technical Advisory Panel on improving the efficiency and fairness of the B.C. liquor regulatory system and marketplace. Most of my comments below are through the lens of the wine industry.

As it presently stands, reform of B.C.'s liquor regulatory system remains incomplete: the modernisation efforts undertaken over recent years have failed to deliver a fully modern, transparent, efficient or fair system. Government's current review and the advisory work by the Business Technical Advisory Panel are welcome, and it is hoped that the Panel's recommendations to government aid in delivering a more efficient and fair system.

Two overarching comments at the outset: I urge the Advisory Panel to acknowledge the differences between wine, spirits and beer and not attempt to bring forward a one-size-fits-all suite of recommendations that may not be workable for widely divergent products at various points in the liquor supply chain. As an overarching theme to its deliberations, I also urge the Advisory Panel to consider its recommendations in light of the tremendous opportunity in the province to further foster a knowledgeable wine culture, and a craft beer and spirits culture.

My comments below are in four general categories. Improvements in each of these areas will contribute to a fairer and more efficient system that will encourage domestic and imported products, and retail and licensee establishments, to compete on a closer-to-level playing field. In turn, a more efficient system and more accurate price signal will help consumers understand the true cost/price relationship for wines they purchase.

- 1. Introduce a wholesale discount for licensees** (restaurants/food primary establishments). These currently purchase inventory for their wine lists at full Government Liquor Store (GLS) retail prices, unlike all other wholesale customers of the Liquor Distribution Branch (LDB). This recommendation was made by many industry stakeholders (including me) to the 2013 Liquor Policy Review. It remains puzzling that it has not been implemented. Licensees are still required to order all of their wine from the LDB regardless of their location in the province or their type of food-primary establishment. This constrains the ordering process, delays deliveries, funnels more revenue through the GLS retail system than would otherwise happen

(inflating revenue performance), and unfairly forecloses a potential sales channel for private retail stores. Efficiency improvements for restaurants and food-primary establishments by this change should be self-evident.

A second, related recommendation in this category is therefore to remove the restriction on licensee ordering, and **allow restaurants/food primary establishments to order from private retail stores**. The immediate benefit to restaurants of the combined changes should also be self-evident: more conveniently available product at lower cost and with fewer administrative steps. Government is still made “whole”: if designed properly, taxation revenue to the Crown will not be compromised. The benefits to consumers should include better selection in restaurants, and possibly less prohibitive mark-ups for wines at some price points.

2. **Level the playing field in distribution, wholesaling and retailing.** The liquor supply chain in this province involves the interconnected steps of wine importing and warehousing, domestic (B.C.) production, distribution from warehouse to retail stores (GLS and various categories of private operator) and ultimately sales to consumers. The relationships between these stages – and the presently uneven treatment of imported and domestic wines – need to be clearly understood and better reflected in government policy and regulations.

World Trade Organisation challenges by the United States and Australia (joined by other leading wine producing countries) against the B.C.’s government’s practices in respect of B.C.-exclusive wine on grocery shelves, direct delivery for B.C. wine, quality enhancement program rebates and other features leave British Columbia exposed in its regulatory structure and the health of the B.C. wine industry, should WTO Panels decide against B.C. (Would we rather be in charge of our own regulatory system or have it dictated by an externally-imposed WTO Panel decision?) The goal of completing the reform of B.C.’s liquor distribution, wholesaling and retailing systems should be a fair, transparent system where government exerts regulatory oversight, collects tax revenue, and operates the GLS system as a fair and equal competitor to private outlets. Features of a fully-reformed system should include:

- a. Improve transparency around wholesale “hospitality” pricing. Even though the contradictory practice of the LDB being both wholesale importer and advantaged retailer has largely ended, importers and agents remain at a disadvantage, as the hospitality pricing system operated by the wholesale division of the LDB remains a “black box” for agents when applying for new product listings. At minimum, the mark-up formula should be consistent, transparent, and readily available to importers and agents – in a timely manner – so they can develop sales strategies and revenue targets on a predictable set of pricing information from the LDB.
- b. The playing field for private retailing in British Columbia should be more level than it is. The history of the issuance of various types of license (LRS, private wine shops, VQA stores, and now grocery), and the various costs and political promises attached to certain types of license make for a complex system. Operators feel the basis for competition by all other private retail categories is unfair and that the retail system is rigged against them. It has not made for a harmonious business environment. The most appropriate way forward for a healthy private retail sector is to further lessen the range of discounts for each type of private retailer, and to more equitably manage the future supply – and type – of licenses. The fiction that there remain dormant VQA licenses should be put to rest once and for all.

c. A level playing field for distribution/direct delivery. Presently, the direct delivery regime for domestic wineries constitutes “favourable treatment” under the rules of Canada’s major international trade agreements. All wines should be delivered directly at a reasonable charge, or none should be; and all wines should be distributed through wholesaling warehouses (may be operated by agencies or private sector contractors), or none should be. (This recommendation remains nearly word-for-word from my 2013 submission. Unfortunately, the international attention that worried wine policy observers then is now a reality with the WTO trade challenges.)

3. Balance the impact to BC wineries of level treatment. The Advisory Panel is urged to recommend a trade-compliant approach to distribution and retailing, which may cause short-term painful adjustments for some less-profitable operators in the B.C. wine industry (for example, many wineries are dependent on direct delivery and some rely on the QEP to underpin revenue). However, if the B.C. industry is as robust and resilient as its champions and leading participants assert, it should be able to compete on a level playing field.

If the Advisory Panel is making recommendations that remove favourable treatment from B.C. wineries in distribution and retail, it is also urged to bear in mind possible industry-building initiatives under the authority of the B.C. Ministry of Agriculture and/or the Ministry of Tourism, Arts and Culture. Other wine regions around the world remain trade-compliant in their supply chain practices while enjoying robust programs supporting aspects of their domestic industries including viticulture, marketing and tourism.

4. Transparent data and statistics produced by the LDB. The production of quarterly Hospitality Liquor Market Reports is welcome. However, these reports are not as comprehensive as the previous Quarterly Market Reports, which were halted prior to the 2015 introduction of the LDB’s wholesale division. The LDB should produce a more complete set of statistics covering all wine sales (including GLS), by volume and value on a quarterly basis. Specifically, the quarterly reports should include a detailed breakdown of Canadian/B.C. wine sales, clearly distinguishing 100% B.C. wines from the new “international blends” (formerly Cellared in Canada) category. As the Crown corporation responsible for liquor and accountable to British Columbians, it should be required to make this information readily available to the public.

Taking steps in these areas of the province’s liquor system will improve efficiency, transparency, fairness, and allow those (often small) businesses who participate in the beverage alcohol industry - whether as restaurants, pubs, lounges, retailers, agents or importers - to serve their customers and compete in the marketplace in a fair way. They will also help the B.C. wine industry mature, and last – but far from least – should improve the consumer experience, wherever she or he purchases wine or other liquor in British Columbia.

Yours truly,

A handwritten signature in cursive script that reads "Karen Graham".

Principal
WineDrops

perspectives on policy and business matters in the Canadian wine industry