

**BUSINESS TECHNICAL ADVISORY PANEL (LIQUOR POLICY)
REPORT AND RECOMMENDATIONS**

FROM: Mark Hicken, Chair – Business Technical Advisory Panel
TO: Deputy Ministers' Committee on Liquor Policy
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A. Introduction

From the perspective of government, the objectives of liquor regulation require a complicated balancing of public safety and public interest concerns with the economic interests of those in the liquor and hospitality industries. Typically, government must give careful attention to multiple factors including:

- The significant economic activity that the liquor and hospitality industries generate (particularly the jobs, incomes and livelihoods provided to those employed in or connected to these industries)¹.
- The public's views on the correct balance of liquor regulation (which include widely varying perspectives and values).
- The significant government revenue that is generated from liquor taxation and markups².
- The negative social and health consequences created by immoderate liquor consumption.

There is no doubt that striking the right balance is challenging for any government. In most jurisdictions that task is made slightly less complex because government acts only as a regulator and is not involved in the business side of the equation. However, in British Columbia (and in other Canadian jurisdictions), the task is even more challenging because government has historically participated in the liquor business through the operation of some or all aspects of the wholesale and retail sides of liquor distribution and sales.

This dual role for government makes the responsibilities of approaching the regulatory

¹ For example, BC's restaurant industry generates \$13 billion in annual sales, constituting 5% of the province's GDP and employing 174,200 people (7.3% of BC's workforce) (see: https://www.restaurantscanada.org/wp-content/uploads/2016/07/British-Columbia_Infographic_June_2017.pdf). The tourism industry contributes almost \$8 billion in GDP, more than any resource industry other than oil and gas (see: <http://www.tiabc.ca/advocacy-policy-development/bctourismatters/tourism-by-the-numbers/>). The B.C. wine industry produces \$2.8 billion in annual economic impact for the province: <http://www.canadianvintners.com/wp-content/uploads/2017/06/BC-Grape-and-Wine-Industry-FACT-SHEET-2015.pdf>

² The LDB contributes over \$1 billion annually to the provincial government, the majority of which comes from its wholesale operations. Additional revenue is provided from provincial sales taxes.

balance even more onerous because not only does government have to determine what the right balance is but it also has to ensure that its business operations are structured in a manner that is consistent with that balance. From industry's perspective, this latter task is vitally important because the liquor and hospitality industries are dependent upon the efficiency of those business operations for their continued health. Industry and government have effectively become business partners in a venture that supports significant economic activity and provides a substantial revenue stream that government uses to fund important public services.

The task of the Panel is to provide suggestions and recommendations that will provide improved efficiency and outcomes in government and business interactions with respect to liquor regulation and policy. The Panel is composed of representatives from the hospitality and liquor industries. As such, and while the Panel was required to, and did, consider many of the broader factors noted above as part of its Terms of Reference, the Panel's expertise rests in the more technical perspective of industry as described above.

Indeed, in this respect, the Panel's work is extremely important for the overall health of the liquor and hospitality industries in B.C. because government regulation and policy directly affect the "lifeline" supply of providing liquor products to market and, quite often, in actually selling those products. If the "lifeline" is not functioning properly or if the regulatory balance of that lifeline is not right, then the entire industry will be affected, and, in extreme cases, some parts might not even survive.

B. Process

The process for producing this report was defined by the Panel's Terms of Reference.

An initial engagement process was conducted by the Panel Chair with the objective of identifying issues of concern to stakeholders. Between December 2017 and February 2018, the Chair held 27 initial engagement meetings with 22 different stakeholder groups in order to do this.

The Panel was convened in February 2018 with the objective of exploring some of these issues in greater detail and of making recommendations that will provide improved efficiency and outcomes in government and business interactions with respect to liquor regulation and policy.

The Panel held full-day meetings to accomplish this from March 13-16 and from April 10-11.

In addition, and in accordance with the Terms of Reference, the Panel Chair held additional engagement meetings and consultations with 4 health organizations, 2 labour organizations and 1 indigenous winery.

The results of the Panel’s deliberations and accompanying recommendations are provided below.

C. Panel Topics and Consultations

1. LDB Wholesale – Distribution System

Background:

The BC Liquor Distribution Act (“LDA”) creates and sustains a statutory government monopoly over wholesale liquor distribution operations within the province. The system started out, many decades ago (following prohibition), as entirely government operated. Nevertheless, over the years, the system has been modified and, while the overall administration of the system remains under the statutory control of the BC Liquor Distribution Branch (“LDB”), certain aspects of its practical operation are now provided by the private sector. In effect, BC now has three distribution systems for liquor: one for those local producers who are allowed to self-distribute their products (direct distribution), one for beer (brewers’ distribution), and one for imported product (the LDB distribution system).

The direct distribution and brewers’ distribution systems are relatively normal distribution systems by global standards in that products are warehoused either by a manufacturer (or in a private warehouse contracted by the manufacturer) prior to distribution directly to a licensee following an order from them. The LDB distribution system differs because its products enter the province through the private warehouse system but are then sent to (and for higher volume products, stocked at) a government LDB warehouse. There are currently two of these warehouses: one in Vancouver and one in Kamloops. These warehouses act as a “middle man” between the private warehouses and the eventual customer (licensee).

For products that are stocked at an LDB warehouse (“LDB Stocked Products”), the licensee can order them and get delivery from the warehouse as part of their regular deliveries. However, a significant number of lower volume products are not stocked at the LDB warehouse. Rather, they are stored in the private warehouses and remain located there until ordered by a licensee (“Non-Stocked Products”). Once a Non-Stocked Product is ordered, it must be shipped from the private warehouse, delivered to and unloaded at the LDB warehouse, and then re-packaged and delivered as part of the delivery to the licensee. The LDB indicates that Non-Stocked Product orders constitute less than 10% of the total volume processed through the distribution centres.

It should be noted that the LDB distribution warehouse in Vancouver is currently operating from a facility that is outdated and under-sized. That older facility will be

replaced at some point later this summer by a newer and larger warehouse that is located in Delta.

Relevant Legal Authority:

- Liquor Distribution Act

Panel Discussion:

Concern with the efficiency and operation of the LDB distribution system was the #1 issue raised during the review process. During the initial engagement process, 50% of stakeholders raised this as an important issue with 40% of stakeholders rating it as a priority issue of concern. Almost all of the stakeholders who use the LDB distribution system (as opposed to those stakeholders who use the alternate systems mentioned above) regarded it as a priority issue.

The most commonly raised issues related to distribution and delivery were the following:

- Concerns related to ordering product, particularly an inability to obtain product that appears to be “in the system”.
- Stock-outs and incomplete orders.
- Deliveries that are either missed or delayed.
- Unnecessary routing of products through the LDB distribution warehouses when they could be delivered via more efficient means.
- Inability to obtain Non-Stocked Products within a reasonable time frame.

The LDB indicated that total order processing times (i.e. time between the customer order and it being shipped to them) for LDB Stocked Products were within 7 days. However, for Non-Stocked Products, there was considerable variation, with the majority taking between 8 and 12 days to ship. Order fill rates at the distribution warehouses (product actually shipped vs. that ordered) were 91% for the fiscal year 2016-17, declining to 88.5% for 2017-18³.

There was consensus from Panel members (and from other stakeholder groups) that LDB Wholesale is not providing the level of service and support to the industry that is common in other jurisdictions and which is required for a smoothly functioning liquor

³ The Panel reviewed comparative benchmarks such as these for distribution centres (not specific to the liquor industry). Average order cycle times: 9.2 hours for wholesaler/distributors, 27.7 hours for retailers. Average order fill rates: 94.8% for distributors, 95.5% for retailers (see <http://archive.tompkinsinc.com/wp-content/uploads/2013/07/dc-customer-satisfaction-core-benchmarks.pdf>). Median order cycle time: 24 hours. Median perfect order completion rate: 96% (see https://www.werc.org/assets/1/Events/Metrics_Benchmarking_10_2014_NTEXAS.pdf).

distribution system. Indeed, the Panel heard that both private sector retail and BCLS Stores were experiencing similar issues with respect to timely and efficient service. Further, the LDB has admitted as such. Its 2016/17 Annual Report indicates that its wholesale customer satisfaction ranking was only 68%. It has also indicated that it aims to improve its level of service following the move to the new warehouse later this year.

The Panel considered that: a) the LDB is currently operating its distribution services from an outdated warehouse, b) that it is moving to a new distribution warehouse later this year, and c) that it aims to improve service from the new warehouse. However, the Panel was of the view that the LDB will likely experience further challenges in the months and years ahead, particularly involving the logistics of the warehouse move and the timing of the move (which will likely occur during the peak summer demand period).

In addition, and although outside the Panel's mandate, Panel members were concerned about the general effects of cannabis legalization on the liquor market, including the additional challenges and work for the LDB which will be required by the expansion of its wholesale distribution services to include cannabis as well as the potential effects on liquor revenue from cannabis sales.

The Panel was particularly concerned about the distribution issues related to Non-Stocked Product which include the following:

- Delivery times are too long for Non-Stocked Products. A delivery system that can take 2 weeks to get product from a warehouse within the lower mainland to a customer in the same area requires improvement.
- The current practice of routing Non-Stocked Products through the LDB's distribution warehouse appears to be unnecessary when the products are simply "in transit" there. These orders could be delivered much more quickly if they were delivered directly from one of the private storage warehouses to the licensee.
- The practice of requiring an unnecessary extra delivery step is also environmentally unfriendly since the carbon footprint for each delivery is approximately double what it would otherwise be.
- Orders for Non-Stocked Products are subject to rules which reduce selection. For example, these products can only be ordered in full cases (usually 12 to a case) and no mixed cases are permitted.
- Some licensee orders for Non-Stocked Products are either not filled at all or are incomplete.
- There is an order tracking "blind spot" once the products leave the private warehouse en route to the LDB distribution warehouse. Neither the importer nor the customer can see where the products are during this part of the delivery process.

Even though the volume of Non-Stocked Product orders is not large, the Panel heard from many stakeholders, particularly smaller restaurants and retailers, that these products comprise an essential part of their businesses. These licensees rely on Non-Stocked Products as their businesses are focused on offering more unique premium liquor product selections that are not available as LDB Stocked Products (which are generally less expensive high-volume products). These stakeholders generally expressed the view that the above problems are causing serious effects on the operation of their businesses and upon their profitability. A typical comment from a restaurant operator was:

“I can order fish from Japan on a Saturday and receive it on Tuesday. I am unable to get a case of wine delivered from Richmond to downtown Vancouver in 2 weeks.”

The Panel concluded that the current problems with the wholesale distribution and delivery system are significant, and particularly so for Non-Stocked Products which experience delivery delays and issues that are problematic in a modern world where licensee customers can generally order any non-liquor products and get delivery within hours or days at most. It is the Panel’s view that B.C. should be able to do better than to have target delivery times of about 2 weeks for products that are transported within the province (for Lower Mainland orders, total distances are frequently less than 50 kms).

The Panel was of the view that the issues related to LDB Stocked Products were not as significant as those related to Non-Stocked Products. While the Panel felt that the order processing times and fill rates should be improved for LDB Stocked Products, the Panel was optimistic that the move to the new warehouse would provide an opportunity for the LDB to provide better service from that location, particularly if industry standard practices and benchmarks were implemented in respect of the new operation.

As a result of the above, the Panel concluded that it would be appropriate for government to introduce some “pressure relief” measures into the system. In order to provide such “pressure relief”, the Panel recommends both that a new alternative distribution system for Non-Stocked Products be established as described below and that the existing brewers’ distribution system should be expanded to include products beyond those that it is currently restricted to (i.e. such expansion to include all products manufactured or imported by the owners of the brewers’ distribution system). Each of these measures would reduce the pressure points in the LDB distribution centres and allow the LDB to concentrate on restoring its distribution centre operations to levels that are commensurate with the systems of other jurisdictions and which can provide more normal and reliable service to industry.

Recommendations:

The Panel recommends:

1. An alternative distribution system should be established to specifically address the delays in distributing Non-Stocked Products. The new system should allow Non-Stocked Products to be delivered directly from the third party warehouse to the retail level licensee (i.e. retail and hospitality customers) without passing through the LDB distribution warehouses. Since the overall volume of these orders is less than 10% of the distribution warehouse volume, there should be minimal negative effect on the operation of the distribution warehouses. Indeed, this change would allow the warehouses to concentrate on providing more efficient service for LDB Stocked Products which constitute the vast majority of system orders.
2. The existing ability for Brewers Distributors Limited (BDL) to deliver beer without going through the LDB distribution warehouses should be expanded to include other products that are manufactured or imported by the companies who own BDL. Consideration should be given to allowing BDL to enter into distribution arrangements with other 3rd party manufacturers (particularly, BDL should not be required to become an agent of a Canadian brewer in order to warehouse and deliver their beer products).
3. Following the completion of the move to the new warehouse, the operations of the LDB's current distribution centres should be made the subject of an external third-party review in order to identify operational issues and to suggest improvements. Particularly, proper logistics industry standards and benchmarks should be established for these warehouses and for the overall order and delivery process, which benchmarks should be tracked and disclosed publicly to provide transparency and accountability both for industry and for taxpayers.

2. Wholesale Data and Reporting**Background**

At various times prior to the April 2015 Changes, the LDB's wholesale division published certain reports that provided information regarding the liquor marketplace in British Columbia.

For example, prior to the changes, the LDB published:

- Annual Report.
- Financial Statements.

- Quarterly Market Review (an 80-90 page report with various statistical information on liquor sales throughout the province including trends by volume, by dollars, and by product type/origin).
- Individual Store Sales showing breakdown by liquor, wine and beer.
- Sales reports by origin (dollars + volume).
- Sales reports by customer type (dollars + volume).
- Provincial price list.
- LTO price schedule.

Some of these reports have continued to be distributed (e.g. the Annual Report and Financial Statements, albeit the latter with less information regarding retail operations). Others (the Quarterly Market Review) have been reinstated after a brief hiatus.

Relevant Legal Authority

- LDB Policy

Panel Discussion:

The Panel was informed that government policy had recently changed in respect of the provision of such data and that the new policy was to favor the sale of data rather than distributing it for free.

One of the benefits of having a monopoly over the distribution of a product is that the monopoly will have comprehensive market data regarding the sales of the products as well as industry trends. Such data and reporting is extremely useful for industry and provides valuable support in order to plan and react to market changes.

There was consensus amongst the Panel members that LDB Wholesale should improve the level of data sharing and reporting to industry.

Recommendations:

The Panel recommends:

4. Since LDB Wholesale is a taxpayer owned government monopoly, the default position with respect to market data should be transparency.
5. LDB Wholesale should, at a minimum, restore the level of data sharing and reporting that existed prior to the April 2015 Changes. In the longer term, such data sharing and reporting should be expanded. All industry stakeholders should have equal access to market data.

3. LDB Governance

a) **Governance Structure**

Background

The structure of the LDB's retail and wholesale divisions is currently governed by the provisions of the Liquor Distribution Act (the "LDA"), which statute's genesis can be traced back to the historical period following the repeal of prohibition in BC (which occurred in 1921). The LDA grants a statutory monopoly over the wholesale distribution and sale of liquor within BC to the LDB. In addition, it provides for the establishment of retail government liquor stores as well as the appointment of a general manager to oversee both the wholesale and retail divisions.

Following its initial introduction and for many decades afterwards, the LDA's structure was logical and posed no internal conflicts because there were no private retail liquor stores within the province. However, over the years, successive governments of all political persuasions have expanded the retail sector to include various forms of private retail operations. Indeed today, while there are just under 200 government liquor stores in BC, there are almost 1500 private retail outlets including private retail liquor stores, private wine stores, grocery stores selling wine, on-site manufacturer stores, off-site manufacturer stores, rural agency stores, and duty-free shops.

The current retail structure creates structural conflict of interest issues because the LDB Wholesale division is the supplier, at the wholesale level, to both its own chain of government liquor stores ("BCLS Stores") and all of the private sector retailers with which BCLS Stores compete. As part of the changes made to LDB operations in April 2015, the LDB was mandated to create separation between its wholesale and retail divisions. However, there is still a common CEO of both divisions and, technically, both divisions remain part of the same branch of government and are subject to the same regulatory structure (under the LDA).

Relevant Legal Authority

- Liquor Distribution Act

Panel Discussion:

Panel members were of the view that the existing LDB Governance structure is not appropriate for the long term since there is an inherent structural conflict of interest present in a system under which LDB Wholesale is the supplier of products to both private retailers and hospitality customers as well as to its own chain of BCLS Stores, which are in direct competition with the private sector.

While the April 2015 Changes created some internal division between the two sides of the business, the Panel is of the view that it is not appropriate in the long term to have a common CEO (no matter how well intentioned or well qualified) for both sides since there is a structural conflict of interest in that role.

The Panel is of the view that eliminating this structural conflict of interest would go a long way to resolving the concerns that lie behind many of the issues discussed in this report. Nevertheless, the Panel is also aware that such a re-organization would be challenging both from a legal perspective (since the existing LDA would have to be re-written) and from a practical one (since the LDB's business operations would have to be further separated).

Consequently, the Panel is also of the view that in the short-term, it would be appropriate to implement a governance advisory mechanism that could provide some comfort to industry within the existing legislative framework.

Recommendations:

The Panel recommends:

6. In the long term, the current management conflict of interest within the LDB should be eliminated. It is not appropriate to have a common CEO managing LDB Wholesale and LDB Retail when the wholesale division serves customers that compete with the retail division.
7. In the long term, an alternate governance structure should be considered with appropriate separation for each division, including that of oversight by a board of directors or other supervisory body.
8. In the short term, an advisory board should be created that could meet quarterly and provide non-binding recommendations in respect of current LDB operations and policy such that there would be increased transparency and oversight within the existing framework.

b) Retail Mandate and Operations

Background

Significant changes were made to BC's retail liquor landscape in April 2015 when the previous government changed the mandate of BCLS Stores and introduced a new wholesale pricing system.

For example, in respect of the general retail marketplace and prior to the April 2015 Changes, there was a clearer delineation between the roles played by various retail sectors. For example:

- The BCLS Stores offered relatively stable and sometimes lower pricing for consumers but were closed on Sundays and holidays and did not offer refrigerated product.
- The licensee retail stores (private stores selling all types of liquor - "LRS") offered greater convenience for consumers in terms of longer operating hours and selling refrigerated product but sometimes charged higher prices.
- The wine stores (private stores selling only wine – including independent wine stores "IWS" and B.C.-only wine stores such as "VQA" stores) offered a greater selection of unique small production wines.
- The rural agency stores (private stores in rural areas – "RAS") offered convenience in rural locations at prices which were generally similar to BCLS Stores.
- There were no grocery store retail sales of liquor.

In respect of pricing, the April 2015 Changes were significant. Prior to the changes, the LDB used a fixed formula to apply taxes and liquor board markup on to supplier prices in order to determine the retail (end-consumer) prices in BCLS Stores. For example, a simplified version of the formula for wine would be: supplier cost + 117% of that cost = end consumer price. BCLS Stores did not purchase their products at a "wholesale" price – rather, the LDB's wholesale and retail margins were combined into the markup amount used by the formula (e.g. 117% in the above example).

Private sector retailers were provided with lower "wholesale" prices at which to purchase products but these prices were not conventional wholesale prices. Rather, they were calculated using a "discount" rate which varied by license type and which was calculated by deducting the discount amount from the LDB retail price (e.g. LRS Stores were given a 16% discount off the LDB retail price, IWS Stores received 30% off). These prices were predictable since they were determined using fixed formulas. Private retailers would then add their own varying "retail level" margins to their wholesale prices in order to create an end-consumer retail price.

As of April 1, 2015, a new system was introduced under which the fixed formula was changed in order to generate a wholesale price rather than a retail price. For example, a simplified version of the new formula for wine is: supplier cost + 89% of that cost = wholesale price. The wholesale price is now common to all classes of retailer, both government and private. Retail prices are no longer determined in BCLS stores by the formula. Rather the BCLS retail division applies its own retail markup (on top of the wholesale price) which may vary from product to product in the same manner that a private sector store would do so.

In addition, changes were made to the operation of the BCLS Stores including the opening of more stores on Sundays and holidays, the installation of refrigeration in many stores and a general propensity to operate the government stores more like a "private sector" retailer including the negotiation of "exclusive" product offerings from

suppliers, more frequent “limited time offers” (discounts) and a greater emphasis on individual store operating margins.

In terms of market share following the changes (2016-17 fiscal year), the BCLS Stores (of which there are less than 200) held 43% by dollars and 33.6% by volume. Private sector retailers (of which there are almost 1500) held 40.2% by dollars and 48.2% by volume. The remainder of the market was served by hospitality licensees.

Relevant Legal Authority

- Liquor Distribution Act

Panel Discussion:

The Panel recognized that B.C.’s “mixed” system of government and private sector retail provides unique challenges and issues for the regulatory structure, particularly in respect of defining the proper role for the BCLS Stores which, as a single chain with a 43% market share, have a dominant market position. As a result of that position, BCLS Stores tend to act as benchmark “price setters” for the entire retail liquor marketplace.

There was consensus amongst Panel members that, while the previous system was not perfect, the April 2015 Changes have resulted in a liquor distribution system and marketplace that is less beneficial to industry and to consumers than the system that existed prior to the changes. For example, stakeholders perceived that there was a more stable liquor marketplace before the changes, including relative predictability with respect to BCLS retail pricing due to the use of the “fixed” markup formulas that generated end-consumer pricing. Particularly, Panel members were concerned about an LDB mandate and approach which appears to focus primarily upon maximizing LDB revenue even where such an approach may negatively impact suppliers, consumers, or even overall government revenue.

A particular issue of interest to the Panel was that of pricing predictability and stability. Prior to the April 2015 Changes, the end-consumer prices in BCLS Stores were generated by a fixed formula producing predictable and stable end-consumer prices. These prices generally dictated the low end for market pricing because the “discount” rates provided to private sector retailers were not sufficient (see discussion above) to create any element of appreciable private sector competition within the marketplace. As a result, prices were generally slightly higher in private sector stores but remained relatively stable in comparison to BCLS pricing.

When the 2015 Changes were introduced and for the first time, the government BCLS Stores started purchasing at the same wholesale prices as the private sector. Theoretically, this placed all retailers on the same footing. However, BCLS Stores were directed not to increase their retail prices. Consequently, and at the time of the

switchover, this effectively meant that almost all retailers were being provided with the same 16% average retail margin, which margin is generally too “thin” for profitability⁴. IWS Stores who had previously purchased at a 30% discount off retail were hit hardest by this change.

Since that time, individual BCLS Stores were mandated to become profitable on their retail operations and, as a result, both retail margins and end-consumer prices have increased. This has caused upward pressure on pricing throughout the system⁵. In addition, the pricing within BCLS Stores has become more complex because the retail level margins used to set end-consumer prices are no longer consistent and may vary significantly from product to product.

The lack of transparency within BCLS Stores in regard to retail price setting is disruptive to industry on a broad scale because of the dominant position that BCLS Stores retain in the marketplace. Suppliers have been significantly affected because end consumer pricing for their products is no longer predictable. For example, it used to be relatively easy for a supplier to choose a particular wholesale price, which would then translate into a relatively predictable end-consumer retail price. In this way, the supplier could ensure that its products were priced similarly to competitors. Panel members heard that this is no longer the case and that suppliers are now unable to predict the correlation between wholesale and retail prices due to wide variance in setting retail margins. Private retailers also have an issue with these practices when the margins are set at levels that they perceive to be unrealistically low (i.e. unprofitable).

A related issue is that of a retailer’s ability to secure exclusive access to a particular product or products and/or to source “private label” products. In both cases, the objective of the retailer would be to enter into an arrangement with a supplier such that the supplier restricts access for that product to a single retailer who can then:

- Require consumers to buy from them since there are no other retail sources,
- May be able to increase the retail margins and prices on the product because there are no competing retailers, and/or
- May be able to force the supplier to reduce the wholesale price for that product based on the volume purchase and exclusive supply arrangement.

The Panel was of the view that it is not appropriate for BCLS Stores to enter into “private label” arrangements since it is a government owned retailer with a dominant market position.

⁴ In its 2014-15 Annual Report, the LDB reported that its operating costs for its retail operations were 17.5% of sales. Costco, one of the most “efficient” global retailers, is generally reported to operate on a 14-15% retail margin. Note: that some of the grocery retailers (BCWI licenses) maintained 30% margins at the switchover.

⁵ While retail margins have increased system-wide causing end-consumer price increases, some price increases may be due to other factors (e.g. supplier price changes, currency fluctuations).

The Panel also expressed concerns over the fairness of the Limited Time Offer (“LTO”) process which provides discounted or sale prices for products during a set period of time. The LTO process is funded by the supplier of the product (importer or manufacturer) who agrees to temporarily reduce its wholesale price for a particular period of time (usually a month) with the intention of creating lower retail discounted prices and spurring increased consumer demand. While this process has existed for many years, the Panel heard that it has recently posed issues for the following reasons:

- Larger retailers, including BCLS Stores, have been purchasing much larger quantities of the product than they normally would, depleting the wholesale channel of supply and thus denying other retailers the opportunity to participate in the LTO.
- Larger retailers, including BCLS Stores, have also been “bridge buying” which means that they purchase sufficient quantities of product to last well beyond the intended LTO time period. In this way, they can stockpile product, wait until the LTO is over, and then sell the product at the non-sale price, thus increasing their retail margins and depriving consumers of the intended discounts.
- Since the supplier is not permitted to limit inventory for an LTO, each of the above strategies can cause the supplier to incur much larger costs for the LTO than they were otherwise expecting.

The Panel was of the view that since the April 2015 Changes, there has been a considerable increase in the marketplace of retailers pursuing the types of arrangements and strategies discussed above. Of particular concern to the Panel was the propriety of the following:

- Should it be permissible for any retailer to effectively be able to negotiate lower wholesale prices through the use of these types of strategies when it is otherwise impermissible for a supplier to provide preferred pricing to a particular customer?
- Should there be limits on the permissibility of these types of arrangements? For example, perhaps it would be okay to enter into “exclusive” arrangements for limited release products that are not subject to price pressure nor widely available but would not be okay for higher volume products that should normally be widely available in the marketplace?
- Do these strategies negatively affect local producers, particularly smaller ones, since a preference for retailing higher margin or exclusive products may reduce selection and shelf space for smaller volume products?
- Should it be permissible for any dominant retailer (particularly one owned by government) to exert its dominant market position to enter into these sorts of arrangements, which may reduce selection in the marketplace, reduce supplier profitability, compete with local suppliers, and/or increase prices?

- Is it appropriate for a government owned retailer which has a dominant position in the marketplace to compete aggressively with private sector retailers who have limited market power and who receive wholesale distribution services from its direct competitor?
- Is it appropriate for there to be a lack of transparency in setting retail prices for a government owned retailer which has a dominant position in the marketplace?

The Panel realized that the issues related to the LDB's retail mandate are complicated. It struggled to define what the proper role was for a taxpayer-owned retailer that also has a dominant market position. In the end, the Panel determined that it would be difficult to generate specific recommendations to address the above issues – although it felt strongly that implementation of the Governance recommendation (above) would go a long way to resolving some of the underlying structural issues which are exacerbated when the dominant retailer is also the wholesale supplier to its competitors. A general recommendation is made below to re-assess the role of BCLS Stores within the marketplace.

Recommendations:

The Panel recommends:

9. The current mandate instructions for the LDB should be reviewed and re-assessed in terms of providing greater benefit for consumers and for industry. Particularly, the LDB's mandate to increase its own revenue should not be a primary objective that is pursued without proper consideration of the consequences and effects on other parts of industry and upon consumers. The mandate should include a proper balancing of the effects on consumers, industry, government revenue, and health/social responsibility.

4. Hospitality and Retail Issues

a) Pricing

Background

Most jurisdictions in the world treat hospitality customers (bars/restaurants/hotels) as "retail level" liquor businesses and their regulatory structures permit them to purchase their liquor products at "wholesale prices" which are usually equivalent to or close to the prices paid by retailers. BC has historically not provided any wholesale prices for liquor products to its hospitality sector (i.e. bars/hotels/restaurants). Instead, these customers have been required to purchase their liquor products at the full retail price that a regular customer would pay.

Since hospitality businesses have to “mark up” all of the products that they sell in order to generate a profit and assuming that the hospitality sector adopts industry standard profit goals similar to elsewhere in the world, the end result of this policy is either that: a) end-consumer prices in BC for liquor products are higher in hospitality licensees than they otherwise would be, or b) that the hospitality licensee is making less profit on liquor than they otherwise would be.

Under the old system (prior to the April 2015 changes), hospitality customers paid the full retail price as calculated by the fixed formulas used by the LDB to determine the end-consumer prices in BCLS stores (see discussion above). These prices were predictable since they were determined using a fixed formula.

Since the April 2015 changes were made, hospitality customers have still been required to pay a full retail price. However, the system is now more complicated. If the product is an LDB Stocked Product, they pay the same price as a retail customer in a BCLS Store. However, if the product is a Non-Stocked Product, then the LDB now generates a “Hospitality Price” by nominally adding an amount of “retail margin” to the wholesale price, which amount of margin may vary from product to product. As a result, the prices paid by hospitality customers are not predictable since the retail margins used in BCLS Stores may be varied at any time and, for Non-Stocked Products, the amount of nominal retail margin added to generate the Hospitality Price may not be consistent and may be varied at any time by the LDB.

Panel Discussion:

There was consensus amongst Panel members that the current liquor pricing system should better accommodate licensees in the hospitality sector, by “normalizing” policies related to wholesale pricing that are almost universally accepted in other jurisdictions and which put B.C.’s hospitality industry at a competitive disadvantage to our immediate neighbours in both Alberta and Washington.

The Panel was particularly concerned about the lack of consistency regarding the hospitality prices which are set by the LDB for Non-Stocked Products. This lack of consistency and predictability causes significant issues for hospitality licensees because variation and changes in end pricing can significantly affect profit margins and require frequent re-printing of menus.

The Panel noted that the inconsistency in hospitality pricing could be solved by providing hospitality licensees with a proper wholesale price since that price would be fixed and predictable. Adoption of this solution would then address both of the issues: provide pricing predictability and the ability to buy at wholesale as is done in other jurisdictions.

The Panel discussed various methods of implementing a wholesale price. The easiest and simplest way to do so would be to provide hospitality customers with the same wholesale price as is provided to retailers. Nevertheless, the Panel is aware that the implementation of this would create some fiscal impact for government because it currently receives the “retail level margin” that hospitality customers pay when buying their liquor products. If it was desired to reduce this fiscal impact, it would be possible to calculate a “cost plus” wholesale price for hospitality customers that would be set by reference to the retailer wholesale price (for example, hospitality customers would pay the retailer wholesale price + 5%).

Recommendation:

The Panel recommends:

10. Hospitality licensees (restaurants/bars/hotels) should be sold liquor products at a proper wholesale price, as they are in other jurisdictions. In order to purchase at the new wholesale price, appropriate minimum purchase quantities and order processes should be established.

b) Sourcing of Product

Background

BC law currently prevents BC private retail stores from selling to other retail level licensees such as restaurants/bars/hotels. Rather, hospitality licensees are required to purchase product either through approved direct distribution channels (e.g. direct from a B.C. winery), a designated single government liquor store or by ordering through the LDB Wholesale system. The latter option is problematic in regard to Non-Stocked Products (see comments above) because delivery times are lengthy and because the system restricts ordering to full case lots which ties up cash flow. As a result, selection and pricing on wine lists is restricted.

Panel Discussion:

There was consensus amongst Panel members that the current prohibitions on hospitality customers purchasing from private retailers should be removed. All of the product distributed through BCLS Stores, LDB Wholesale, private retailers and the direct distribution channels is required to be registered by the LDB and wholesale markup and taxes are collected on these products. As such, the Panel is of the view that hospitality customers should have the freedom and flexibility to source any of these products from any licensed retail source if they choose to do so. This change would be beneficial to consumers because it would create greater product selection and variety within the hospitality sector.

This change would also “level the playing field” in respect of hospitality purchases as between government and private retail. The April 2015 Changes were supposed to create a “level playing field” between the two sectors but did not do so in respect of hospitality purchasing since the LDB retained its status as the exclusive supplier for such sales.

It is recommended that this change be implemented in concert with the implementation of a wholesale price for hospitality customers. By making these changes at the same time, hospitality customers would be able to order larger volume products through LDB Wholesale at the new wholesale price but would have the option of sourcing smaller volume products through government or private retailers where they would not have to meet minimum wholesale ordering quantities.

Relevant Legal Authority

- LDB Policy
- Liquor Control & Licensing Act

Recommendations:

The Panel recommends:

11. Hospitality licensees should not be restricted to buying their liquor products from government retail stores. Such licensees should be able to buy from any licensed source in BC including private retailers. In this way, hospitality licensees will have alternative sources for products where the wholesale system minimums are not met. An appropriate reporting mechanism should be established for such sales in order to ensure that the data relating to sales in this channel is not lost.

5. Social Responsibility & Health Issues

Background

Alcohol is the most commonly used controlled substance in Canada. Unlike tobacco and illegal drugs, alcohol consumption is associated with both costs and benefits. For example, alcohol consumption in moderation has been shown to be compatible with a healthy lifestyle. Nevertheless, immoderate alcohol consumption can cause significant alcohol-related harms. Effective liquor regulation is an essential part of a multi-faceted approach to harm reduction, along with public health interventions, drinking driving counter-measures and targeted education and communications.

Relevant Legal Authority

- LDB Policy
- LCLB Policy

Panel Discussion:

The Panel considered a number of proposals from health advocates and experts, all of which are designed to reduce the harms associated with excessive alcohol consumption.

Panel members were of the view that minimum “floor” pricing is a core priority in regard to achieving industry’s social responsibility objectives. There was consensus amongst Panel members that the current floor prices for liquor products are an appropriate mechanism to discourage problem consumption and decrease the social and health problems related to excessive alcohol consumption. The rationale behind creating floor prices is that the minimum price for alcohol products at the bottom end of the price spectrum should be set at a level that will discourage heavy or high-risk consumption. However, in order for this strategy to be effective over time, the floor prices must keep up with inflation or the deterrent effect will gradually be lost. Panel members were of the view that B.C.’s minimum prices have not been appropriately monitored nor adjusted over the years to take into account the effects of inflation and to achieve the desired health and social responsibility objectives.

As such, the Panel is of the view that the floor prices should be subject to a “one time” adjustment in order to compensate for the effects of inflation since the last time that they were set. In the future, the Panel supported a suggestion that the floor prices should be subject to annual inflationary adjustments in order to ensure that the policy objective of discouraging problem consumption is maintained over time⁶.

The Panel also considered and supported a suggestion, from various health experts, that the minimum prices should not be set using fixed prices for each category as they currently are but instead should be set to take into account the differing levels of alcohol content within a category. This would ensure, for example, that a beer with an alcohol content of 7% would be more expensive than one with a content of 4%. This system discourages consumption and supply of products that are lower priced with higher alcohol content.

The Panel also considered other proposals related to social responsibility including the establishment of a voluntary licensee accreditation program for best practices related to

⁶ The Panel is not in favour of “inflationary adjustments” for purposes that are not related to social responsibility and health (i.e. increases designed for revenue generation purposes such as automatic adjustments to tax rates). Its support of this adjustment is based solely on maintaining the health policy objective.

responsible beverage service (“BestBarNone”) as well as labelling and education initiatives on alcohol products related to responsible consumption and health issues.

There was no support for the idea of creating labels on alcohol products that would relate to minimum drinking guidelines or health issues. The Panel felt that there was insufficient evidence that such labelling would be beneficial and that such a “one size fits all” approach was not targeted properly towards problem consumption. Rather, the Panel expressed support for education-based initiatives that they believe would provide better results. The Panel was particularly supportive of web-based education initiatives, including those involving social media, as it was felt that such initiatives would have a better chance of reaching younger consumers.

Recommendations:

The Panel recommends:

12. The current system of setting minimum floor prices for liquor products based on a fixed price for each category should be changed in favour of a system that takes into account the amount of alcohol contained in products within a category (i.e. based upon alcohol by volume). From a practical perspective, the details of this change should be generated in consultation with industry (e.g. it may be necessary to create ‘bands’ or ‘ranges’ of alcohol content to calculate the new floor prices within a category). The Panel supported the implementation of a system for adjusting those minimum prices to account for inflation in order to ensure that the social responsibility objectives of minimum pricing are maintained over time.
13. Government should support the establishment of and provide partial funding for a privately-run voluntary licensee accreditation program for best practices related to responsible beverage service (i.e. the BestBarNone program currently implemented in Alberta, Ontario, and in the UK).
14. Education initiatives of the LCLB related to responsible alcohol consumption should be expanded, particularly web-based initiatives which have a greater chance of reaching at-risk younger consumers.

6. Manufacturing & Retail Licensing or Policy Issues

Background

a) Regulation of Manufacturing

In most jurisdictions outside Canada, government regulation of liquor licensing, including the manufacturing and the sale of liquor, is centralized with a single liquor licensing authority. Such a structure makes it relatively easy for licensees and prospective licensees to identify the relevant rules and laws applicable to their

businesses and to ensure compliance. From the regulatory side, it also allows for the creation of a specialized and knowledgeable regulatory authority whose personnel can administer the regulatory structure without jurisdictional difficulties.

In British Columbia, the rules and laws related to both the manufacture of liquor and its sale are not centralized in a single authority. Rather, they are divided between the Liquor Control & Licensing Act (“LCLA”), which is administered by the Liquor Control & Licensing Branch (“LCLB”), and the Liquor Distribution Act (“LDA”), which is administered by the Liquor Distribution Branch (“LDB”)⁷.

For example, in respect of the manufacture of wine, the LCLA sets out some basic, fairly straightforward, requirements for the eligibility (and ongoing renewals for) a winery license at s.29 of the *Liquor Control & Licensing Regulation* as follows:

- The winery must manufacture at least 4500 litres of wine annually at the licensed establishment.
- The definition of “manufacture” for wine is set out to include fermentation and at least one other part of the manufacturing process.
- The winery must own or lease equipment to enable it to satisfy the manufacturing requirement.

A prospective winery owner might assume, from a reading of the relevant regulations and statute, that these are the only requirements applicable in order to manufacture wine in British Columbia. However, as part of the licensing process by the LCLB, the winery owner would also be required to enter into a “manufacturing agreement” with the LDB, which agreement is a contractual agreement mandated by the LDB as part of its monopoly control over the distribution of alcohol in B.C. (i.e. even though a manufacturer can “make” wine in B.C. by virtue of its license issued by the LCLB, it cannot distribute its products within B.C. without authorization from the LDB, which authorization is provided by the “manufacturing agreement”).

As part of the process for entering into the “manufacturing agreement”, the LDB categorizes wineries as either being a “land-based winery” or a “commercial winery”. The consequences of such categorization are significant. For example, some of the salient differences in respect of a winery that is making wine from grapes are as follows:

- A “land-based winery” may only use 100% B.C. grapes in its production. A “commercial winery” can use grapes from anywhere.

⁷ Although outside the Panel’s Terms of Reference, there are also labelling rules related to production that are created by the *Wines of Marked Quality Regulation* (issued under the *Food and Agricultural Products Classification Act*), which is administered by the B.C. Wine Authority. In addition, all liquor manufacturers are required to comply with certain federal requirements related to excise tax which are administered by the Canada Revenue Agency.

- A “land-based winery” must have at least 2 acres of vineyards adjacent to its production facility and must use those grapes in its production. A “commercial winery” does not need to have any vineyards adjacent to its production facility and thus could be located in an urban area.
- A “land-based winery” must own or lease sufficient vineyards to supply the grapes for at least 25% of its total production. A “commercial winery” has no such requirement.

The implications of being so classified are far-reaching. For example, a “land-based winery” operates its business in a relatively normal way. A “commercial winery” basically operates as an agent of the LDB, which requires extensive reporting and the maintenance of what is essentially a joint bank account in order to transfer markup directly to them. In addition, the qualification for various types of government support for local production (such as the ability to use direct distribution and markup exemptions) is dependent upon whether or not the manufacturer qualifies as “land-based” or “commercial”.

Similar categorizations and consequences exist for other types of liquor manufacturer (e.g. “craft distillery” vs. “commercial distillery”). None of these criteria, nor the relevant manufacturer agreements, are publicly available on either the LDB or LCLB web sites, which creates transparency issues and compliance obstacles, particularly for new entrants to the market.

A related issue to the above structure is that the categorization criteria and manufacturer’s agreements are not drafted or administered as part of a normal legal regulatory structure. Rather, they are administered as “contractual” obligations administered through a monopoly, which means that the creation of such policies and any changes to them are not subject to the same rigorous and objective rule-making legal process that a normal statutory and regulatory structure would require.

In addition, the LDB’s contractual approach to the imposition of rules and criteria is viewed by stakeholders as being inappropriate in that there is a similar conflict of interest problem as that described above in respect of private retail. While the LDB may impose such rules and criteria as part of its statutory monopoly over the wholesale distribution of alcohol, it is also administering and has control over its own chain of BCLS retail stores, which may be in direct competition with the retail operations of manufacturers (i.e. their on-site retail stores and tasting rooms).

b) Retail Licenses

B.C.’s “mixed retail liquor” model (described above) developed in a piece-meal fashion over the years and now includes many different private retail categories. For example, the major private retailer types consist of:

- Licensee Retail Stores (LRS). Sell all types of liquor.
- Independent Wine Stores (IWS). Sell imported and domestic wine.
- Manufacturer On-Site Stores. Sell B.C. liquor produced by the manufacturer.
- Manufacturer Off-Site Stores. Sell B.C. wines produced by one or more manufacturers. These include the VQA store licenses transferred to grocery (regular shelves).
- Special Wine Store (SWS) Licenses. Sell B.C. wines produced by one or more manufacturers in grocery stores (regular shelves).
- Rural Agency Store (RAS) Licenses. Sell all types of liquor. Operate as agents of the LDB.

As is apparent from the above, there are numerous different types of retail liquor licenses, the differences between which are likely confusing to the consumer. The operations of some of these license types were affected by the April 2015 Changes. For example, the operating margins for IWS Stores were effectively cut in half by those changes and the SWS Store licenses were introduced (by auction) as part of those changes.

c) Direct to Consumer

In June 2012, the federal government amended its laws to permit the interprovincial shipment of direct to consumer (“DTC”) wine purchases. This change aligned Canadian federal law with those of other wine producing countries, which all permit DTC sales. Soon afterwards, British Columbia took a national leading position in support of the wine industry by opening its borders to these shipments. In 2014, the federal government extended the exemption to include beer and spirits. However, most other provinces have not followed BC’s lead. Indeed, most other provinces and/or their liquor boards have either passed laws restricting the import of alcohol from other provinces or have issued “policy statements” that they will not permit such shipments.

The recent decision of the Supreme Court of Canada in *R. v. Comeau* held that such legal restrictions are valid if they are part of a legitimate provincial objective such as controlling the supply of liquor for health and safety reasons. As a result, B.C.’s manufacturers will continue to have difficulty reaching consumers in other provinces. Indeed, it now appears that if progress is to be made in support of B.C. manufacturers, it would have to be achieved through inter-governmental negotiation.

Relevant Legal Authority

- Liquor Distribution Act
- Liquor Control & Licensing Act
- LDB Policy

Panel Discussion:

The Panel considered a significant number of issues related to manufacturing and retail licensing and policy.

The Panel reached consensus in its view that the regulation of liquor manufacturing in B.C. should be centralized under the authority of the LCLB. The Panel agreed with various stakeholder submissions that it is not appropriate for the LDB to be exercising quasi-regulatory functions through the use of manufacturer agreements, both because such rule-making is not part of a normal legal regulatory structure and because the LDB has a potential conflict of interest in exercising those functions.

The Panel heard submissions from numerous local manufacturer groups who were of the view that the present support mechanisms for local products are inequitable and who were each requesting the creation or extension of such support mechanisms to their particular industry in a way that they viewed as being fairer, particularly in regard to their support of B.C. agriculture and/or local economic activity. Stakeholders identified inequities and unfairness in respect of: i) liquor board markups, ii) markup exemptions, iii) categorization rules imposed by the LDB, and iv) production limits that prevent the growth of certain sectors of the local manufacturing industry.

Most of these stakeholder groups expressed the view that the economic viability of their industries was dependent upon the introduction of a fairer approach and that immediate and urgent attention was required by government to address these issues.

Such stakeholder groups included representatives from the Independent Distillers (small distillers categorized as “commercial” by the LDB), the BC Hops Growers, BC Cider Producers, BC Fruit Wine Producers, BC Sake Producers, and the Craft Distillers. A number of other larger manufacturer groups, including those represented by Panel members, agreed that the current systems need to be re-evaluated. An Indigenous winery also supported such a re-assessment.

The Panel determined that these are complex, inter-related issues that should be addressed in a comprehensive manner. There was strong support for a new approach which should be based on: a) more equitable determinations of what constitutes a local product, and b) a harmonization of benefits across sectors with the objective of creating fairness, balance and transparency in any support programs. Recommendation 16 noted below is designed to address this.

The Panel considered the issues related to retail licensing discussed above. It concluded that the current retail licensing structure is overly complicated in many respects and that the existing “patchwork quilt” of retail licenses needs to be updated such that there is greater consistency and harmonization for licensees. In partial pursuance of these conclusions, the Panel made two recommendations related to retail licensing below.

The Panel considered the issue of the continued desire of local manufacturers for government to be involved in and support efforts to access other provincial markets (i.e. DTC sales). The *Comeau* decision was released after the Panel's deliberations on this issue.

The Panel also considered a number of more straightforward issues, some of which were unique to individual stakeholder groups and which resulted in the recommendations below.

Recommendations:

The Panel recommends:

15. The regulation of the liquor manufacturing industry in BC should be primarily, if not exclusively, vested in the Liquor Control & Licensing Branch. To the extent that it is possible, all regulatory functions related to manufacturing should be moved from the LDB to the LCLB. It does not serve industry or consumers well to have two different branches of government imposing regulatory requirements over the same industries. In addition, as the monopoly wholesale distributor of alcohol products within BC, it does not make sense for the LDB to be both operating a wholesale distribution business and exercising quasi-regulatory functions due to potential conflict of interest issues.
16. The Panel heard from many different stakeholder groups who identified inequities in relation to the government policies and programs that provide support for local products. Particularly, the Panel identified inconsistencies in respect of: i) liquor board markups, ii) markup exemptions, iii) categorization rules imposed by the LDB, and iv) production limits that prevent the growth of certain sectors of the local manufacturing industry. It is the Panel's view that such inconsistencies have reached a level of critical importance for the affected sectors. The Panel recommends that the Government undertake an immediate and comprehensive omnibus review of such support programs with a view to creating a more rational and equitable approach to defining what a local product is and for harmonizing support for those products.
17. The BC Government should continue its support for initiatives that support the expansion of "direct to consumer" sales such that BC liquor manufacturers, particularly 'craft' producers, may sell their products to customers located in other Canadian provinces. Following the *Comeau* decision, it appears that the best avenue for this will be through inter-governmental negotiation.
18. In respect of the licensing of manufacturers, there should be a review of the minimum production requirements for breweries. Current production rules have a loophole in that the bulk of production can occur off-site with a larger

contracted manufacturer, defeating the purpose of supporting a small brewing sector through graduated markups based on their own on-site production. Breweries that produce some or most of their products at another site licensed by different ownership should not be able to include that production as part of their qualifying on-site production. There should also be a related review of the rules for those products that are eligible to be served and sold in an on-site tasting room or lounge to ensure that the purposes behind such privileges are being upheld.

19. The current restrictions preventing common ownership of a commercial distillery/winery and of a craft distillery/land-based winery should be eliminated. Ownership rules should be consistent and provide equal treatment between categories.
20. The current restriction preventing craft distilleries from producing refreshment beverages and from selling to duty-free stores should be eliminated.
21. Rural agency store authorizations (currently administered by the LDB) should be converted to a new form of rural license tied to the community of operation and which is regulated by the LCLB. Appropriate rules and restrictions for these licenses should be introduced following consultation with relevant stakeholders.
22. The 12 retail stores that are currently categorized as Independent Wine Stores by the LCLB should be allowed to convert to LRS licenses without regard to the distance separation rules only at their current locations. If the stores convert to LRS licences and then move in the future, then they would be subject to the distance separation rules (one Panel member did not support this recommendation).
23. The current policies related to the licensing of trade events and the purchasing of sample products for those events should be reviewed and re-evaluated.

7. LCLB Fee Re-structuring & Service Guidelines

Background:

The LCLB processes in excess of 5000 license applications annually (some for new licenses, some for changes to existing licenses). The LCLB is aware that certain application types are taking longer to process than is desirable to industry.

The LCLB currently operates on a “cost-recovery” basis in that its entire budget is generated from the fees and revenue that it collects. In order to provide better service, the LCLB had proposed either raising fees somewhat or changing the fee structure such that faster service would entail greater cost.

During the initial engagement process, a substantial majority of those expressing an

opinion were in favor of this proposal. However, support was evenly split between those who were principally in favor and those who were conditionally in favor but who expressed concerns about the effects of increases on smaller businesses and/or also expressed a desire for there to be a “consultation process” on fees such that licensees could see and comment upon the proposed fee structure and service timelines before any decision is made. A small number of stakeholders were opposed to any fee increases, mostly commonly on the grounds that they felt that the fees were already high enough.

Relevant Legal Authority

- Liquor Control & Licensing Act

Panel Discussion:

The Panel considered the issue of the fees and service timelines for the LCLB in respect of the licensing process. The Panel had mixed feelings on the proposal to either raise fees or charge for expedited service. As such, there is no recommendation on that issue.

However, there was consensus that Government should not require the LCLB to operate on a cost-recovery basis. The Panel was of the view that since no other liquor regulatory body in Canada operates this way, then it would be preferable for Government to provide a reliable and stable source of funding for the LCLB such that it is not solely dependent upon the revenue that it raises.

The majority view of the Panel was also that, if the regulatory functions from the LDB were moved to the LCLB (see recommendation above), then an appropriate level of funding from the LDB should be moved to the LCLB.

Recommendations:

The Panel recommends that:

24. Given the amount of liquor revenue that Government currently collects, it should provide a reliable and stable source of funding for the LCLB such that it is not solely dependent upon the revenue that it raises in order to fund its operations. An increase in such funding would enable the LCLB to increase its staffing levels in order to provide better service timelines on licensing applications.

D. Engagement and Feedback from Labour and Health Groups

The Panel’s Terms of Reference required that the Panel Chair engage separately with specified health and labour organizations in order to obtain their perspective on the

issues considered by the Panel and its subsequent recommendations. The input from these groups is summarized in Schedule A, below.

Submitted April 30, 2018.

Mark Hicken

Chair, Business Technical Advisory Panel

Panel Membership

Ken Beattie, BC Craft Brewers Guild

Jeremy Chorney, Canada's National Brewers

Tyler Dyck, Craft Distillers Guild

Jeff Guignard, Alliance of Beverage Licensees

Mark Hicken (Chair), BC Government Liquor Policy Advisor

Ian Tostenson, BC Restaurant and Foodservices Association

Mark von Schellwitz, Restaurants Canada

David Wilson, BC Wine Institute

Colby Woodhead, Rural Agency Store Advisory Society

In-Person Submissions to Panel

Independent Distillers Association

BC Hops Growers

Independent Wine Stores Association

Farm Crafted Cider Association

Import Vintners & Spirits Association

Fruit Wineries Association

Coalition of Local Restaurants

Written Submissions to Panel

Spirits Canada

Sake Producers Group

Canadian Vintners Association

TapaBar Victoria

Fets Whiskey Kitchen

Royal Canadian Legion (BC)

Centre for Addictions & Mental Health

Wine Drops

Sleemans

Union of BC Municipalities

BC Commercial Craft Cider Industry

SCHEDULE A

Engagement and Feedback from Labour and Health Groups

The comments below are included to provide some perspective on this report, and its recommendations, from a number of other expert groups with which the Panel Chair engaged, in accordance with the Panel's Terms of Reference. The other Panel members were not part of these meetings. As neither the Panel itself, nor the Chair, is qualified to provide analysis or detail on these perspectives, the comments are relatively brief. It is expected that these groups may wish to provide more feedback and input directly to government on the report and recommendations in regard to their areas of expertise.

Health Organizations

The Panel Chair held meetings and/or received feedback from four different health organizations: the Provincial Health Officer ("PHO"), the First Nations Health Authority ("FNHA"), the Canadian Institute for Substance Use Research ("CISUR"), and the Centre for Addiction and Mental Health ("CAMH").

Generally, the health organizations expressed the following views:

- It was important for them to continue to be able to obtain LDB data related to consumption patterns (section C.2), particularly within geographic areas, in order to correlate such data with alcohol-related harm.
- There was opposition to government retailers acting more like private sector retailers (LDB's Retail Mandate - section C.3.b), particularly if they are doing so in order to maximize financial returns. It is their view that the principal benefit of government retail is to remove the "profit incentive" from the mandate and for such retailers to focus primarily on social responsibility and health benefits, rather than financial performance.
- There was opposition to any changes that might reduce end-consumer pricing and increase consumption (i.e. if a wholesale price for hospitality licensees caused price reductions - section C.4.a).
- In respect of sourcing of product for hospitality licensees (section C.4.b), one health organization expressed a desire that the integrity of data associated with sales to the hospitality channel should be retained if licensee to licensee sales were permitted.
- There was support for the Panel recommendation to revise the approach to minimum pricing (section C.5) so as to correlate more closely with the alcohol content of products within categories. There was also support for inflationary adjustments for such prices.
- There was some support for the recommendations regarding licensee accreditation programs and increased education (section C.5), although it was

noted that funding needed to be increased in order for educational programs to be effective and that, in certain cases, it would be useful to fund and tailor such programs for specific target audiences/groups.

- There was support for the recommendation to move manufacturing regulation to the LCLB (Section C.6.a).
- There was support for the recommendation to re-evaluate manufacturing rules for breweries (section C.6).
- There was opposition to any changes that could increase the number of retail liquor outlets or the products that such outlets are permitted to carry (section C.6).
- There was support for providing greater resources to the LCLB for its mandate through increased funding. Most groups were in favour of fee increases to accomplish this.

Labour Organizations

The Panel Chair held meetings and/or received feedback from two different labour organizations: Unite Here Local 40, a union that represents many hospitality industry employees, and the BCGEU, which represents many government employees.

Generally, the labour organizations expressed the following views:

- There was opposition to any expansion of the distribution of product other than through the LDB distribution warehouses (section C.1).
- There was opposition to any further separation of the LDB's Retail and Wholesale divisions (section C.2).
- There was support for the introduction of a wholesale price for hospitality licensees (section C.4.a).
- There was opposition to the recommendation that would permit hospitality licensees to purchase product from private sector retailers (section C.4.b).
- There was support for providing greater resources to the LCLB for its mandate through fee increases.