

MINISTRY OF SMALL BUSINESS AND RED TAPE REDUCTION
AND MINISTER RESPONSIBLE FOR LIQUOR DISTRIBUTION BRANCH
LIQUOR DISTRIBUTION BRANCH
INFORMATION NOTE

Cliff #: 511193

Date: August 10, 2015

PREPARED FOR: Honourable Coralee Oakes, Minister of Small Business and Red Tape Reduction and Minister Responsible for Liquor Distribution Branch

ISSUE: SunRype Products Ltd. is requesting the Liquor Distribution Branch (LDB) revise its definition of cider under the Land-based Winery (LBW) agreement which would permit them to qualify as a LBW using their preferred method of production using fruit juice concentrate.

BACKGROUND:

- The CEO of SunRype, accompanied by two consultants, attended the LDB Head Office to meet with staff and discuss the company's desire to produce cider in the Okanagan on June 12, 2015.
- s.21
- However, their proposed method of production, fermenting concentrate, is contrary to the production method that is included in the definition of a compliant cider under the LDB's LBW Policy. The definition is included as Appendix A below.
- SunRype maintains that the current definition is unnecessarily restrictive and in fact impairs a manufacturer's ability to produce a cider of consistent quality, s.21
- s.21
- It is important to note that the sole purpose of allowing LBWs to keep the mark-up is to acknowledge the significant additional expense involved in operating the winery/cidery under the criteria of the LBW Policy.
- s.21
- The LDB has notified SunRype of the decision by letter.

SUMMARY:

- SunRype is interested in manufacturing cider in the Okanagan by the fermentation of concentrate. They are requesting that they be designated as a LBW.
- The definition of compliant cider under the LDB's LBW Policy does not allow for the use of concentrate.
- The LDB has informed SunRype that given their proposed production method they will not qualify as a LBW, but they could, of course, manufacture their product as a commercial winery.

ATTACHMENTS:

Appendix A

Appendix B

Contact: Vince Cournoyer, Senior Policy Analyst, Liquor Distribution Branch

Telephone: (604) 252-2874

Reviewed by				
Sr PA: VC	GM/CEO: BL	ADM: DS	DM:	MIN:

Appendix A

From the Land-based Winery Agreement Appendix B – Definitions:

"Cider" is a fermented alcoholic beverage made from 100% BC apples or pears and once fermented it may not be diluted to a lower level of alcohol through the addition of water, juice or concentrate beyond a maximum addition of 10% by volume.

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Withheld pursuant to/removed as

s.14;s.13;s.17

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Cliff #: 511592

Date: August 20, 2015

PREPARED FOR: Honourable Coralee Oakes, Minister of Small Business and Red Tape Reduction and Minister Responsible for Liquor Distribution Branch

ISSUE: Background on Hospitality Pricing for Direct-Delivery BC Wine

BACKGROUND:

On April 1, 2015, the model for liquor pricing in BC changed from a “discount-off-of-display” model to a “wholesale pricing” model. The hospitality industry has always paid BC Liquor Stores (BCLS) prices for liquor. However, because of the change in the way retail prices are calculated, manufacturers have lost the control they previously had over the final BCLS retail prices of their products.

This issue is particularly a concern for manufacturers who direct deliver a significant amount of product, primarily BC wineries, as they directly enter into sales agreements with hospitality customers. There is now a lack of certainty about the price that would apply in these agreements, because that price may fluctuate as the applicable BCLS retail margin fluctuates.

The LDB is developing options to address this issue. s.13
s.13

s.13 This briefing note provides high level background on the issue. A more detailed briefing note with options will subsequently be provided for decision.

DISCUSSION:

Prior to April 1

- Prior to April 1, liquor pricing in BC was based on a “discount-off-of-display” model – i.e. other retailers purchased their product from the LDB based on a specified percentage discount off of the BCLS display price (e.g. licensee retail stores received a 16% discount).
- Hospitality customers did not receive a discount. They purchased wine at a price equal to the BCLS display price, minus PST (essentially the BCLS retail price, plus GST).

- The BCLS display price was calculated by applying markup to the duty paid cost (which is determined by the manufacturer) and adding applicable taxes.
- Since wineries knew the formula for how the BCLS display price was calculated, they could alter their duty paid cost and thereby determine and control the final price charged for their products.
- In addition, LDB agreements with these manufacturers were silent as to the price payable by hospitality customers, and because the LDB did not receive markup on the majority of these products, the LDB was not actively engaged in how they set prices for the hospitality industry.

After April 1

- On April 1, the discount-off-of-display model was replaced with the wholesale pricing model. This change saw all liquor retailers in BC purchase liquor at the same wholesale price.
 - s.13,s.17
 -
- As a result, hospitality customers now purchase wine at the LDB established retail price, plus GST.
- However, the LDB established retail price is now calculated using a two-step process:
 1. Markup is applied to the duty paid cost to calculate the LDB wholesale price.
 2. A retail margin is applied to the LDB wholesale price to calculate the LDB established retail price. The retail margin is set by BCLS Category Managers and is subject to change by period.
- Given wineries are not involved in setting BCLS retail margins, they can no longer control or accurately predict the final price that hospitality customers are charged for their products.

Commitment to the BCWI

- The BCWI raised this issue during a meeting with Minister Anton on June 25, 2015.

- They feel that the new formula creates an unknown outcome and may lead to a situation where the LDB established retail price is changed *after* a winery and a hospitality customer have already negotiated an agreement containing terms about price.
- They also argue there is a potential conflict of interest as the BCLS chain is a direct competitor for hospitality sales and has the ability to manipulate prices in its favour.
Note that the BCLS should not be considered a competitor for hospitality sales given it is really a distribution network for wholesale sales.
- Minister Anton committed to reviewing the pricing model applicable to BC wines that are directly delivered to hospitality customers. **The time frame was as soon as possible depending on the LDB's ability to fully assess the implications and execute a solution.**
- In an email sent to Minister Anton on June 29, 2015, the BCWI confirms her advice that a return to the pre-April 1 procedure would be implemented for direct delivery products (i.e. wineries would once again have the flexibility to set their own prices for direct delivery products). See Appendix A for a copy of the BCWI's **letter**.

Considerations in Changing Hospitality Pricing Model

- Given space limitations in the LDB warehouse, the majority of products that are not directly delivered must be sold through the BCLS retail channel.
- Due to systems limitations, at the present time, BCLS must continue to sell all listed products at the same price to both retail customers and hospitality customers.
- Therefore, a pricing solution for all hospitality products is not an option at this time. Any solution must focus on direct delivery products only.
 - s.13,s.17
- The LDB currently categorizes wineries into the following groups:
 - Land-based wineries: in order to be designated as a land-based winery, a licensed winery must meet certain criteria. See Appendix B for the land-based winery criteria.
 - Land-based wineries are not required to remit markup on their direct delivery sales.
 - Commercial wineries: these are licensed wineries that do not meet the land-based winery criteria.
 - Commercial wineries selling BC VQA wine receive a full rebate on their direct delivery sales.
- Both land-based wineries and commercial wineries can produce BC VQA wine.

- s.13,s.17
 - s.13,s.17
- s.13

NEXT STEPS:

- A Note outlining all potential options and their implications is forthcoming.

ATTACHMENTS:

Appendix A: BCWI's email to Minister Anton dated June 29, 2015

Appendix B: Land-based Winery Criteria (Excerpt from Land-based Winery Agreement)

Contact: Melissa Tang, Senior Policy Analyst, Liquor Distribution Branch

Telephone: (604) 252-3159

Reviewed by				
Sr PA: MT	Dir: RS	GM/CEO: BL	DM:	MIN:

Appendix A

BCWI's email to Minister Anton dated June 29, 2015



June 29, 2015

Via Email Only to: Suzanne.Anton@gov.bc.ca
Attention: The Honourable Susanne Anton
Minister of Justice and Attorney General
PO Box 9044, Stn Prov Govt
Victoria, B.C. V8W 9E2

Dear Minister Anton:

Re: BC Wine Industry Hospitality Pricing

Thank you again for meeting with us last week to discuss the detrimental effects current BC Liquor Distribution Branch hospitality pricing policy has on the BC Wine Industry.

We appreciate your Ministry's understanding of the unintended risk and potential harm the policy change has to winery direct delivery pricing and impact to the competitiveness of our industry.

We were specifically encouraged by your reassurance of the maintenance of a BC winery ability for setting the retail price of all direct delivery BC VQA wine products to all customers, and have assured industry that the policy will be imminently restored to reflect the previous procedure.

Again, thanks to you and Government for continued collaboration to ensure the BC Wine Industry will continue to drive the growth of the agricultural sector and economic contribution within British Columbia.

Sincerely,

A handwritten signature in dark ink, appearing to read "Miles Prodan".

Miles Prodan
President/CEO

cc: The Honourable Norm Letnick, Minister of Agriculture (Norm.Letnick@gov.bc.ca)
Linda Larson, Parliamentary Secretary for Accessibility to the Minister of Social Development and Innovation, Deputy Whip & MLA Boundary-Similkameen (Linda.Larson.MLA@leg.bc.ca)
Blain Lawson, General Manager & CEO, BC Liquor Distribution Branch (Blain.Lawson@BCLDB.com)
Doug Scott, General Manager, Liquor Control & Licensing Branch (Douglas.S.Scott@gov.bc.ca)
Shaun Everest, Chair, BC Wine Institute (Shaun@Tinhorn.com)
Josie Tyabji, Past Chair, BC Wine Institute (Josie.Tyabji@CBrands.com)
Chris Wyse, Burrowing Owl Estate Winery, Okanagan Estate Winery Association (CWyse@BurrowingOwlWine.ca)

Appendix B

Land-based Winery Criteria (Updated 2015-07-28) (Excerpt from Land-based Winery Agreement)

To be a Land Based Winery, as a Licensed Winery;

- All of your Products are made from grapes, fruit, honey or rice - 100 % of which is grown/produced in British Columbia;
- At your Licensed Winery Site you have 2 acres of grapevines if you produce grape wine; and/or 2 acres of fruit orchards if you produce fruit wine or cider*; or 2.5 acres of rice paddy if you produce sake. You farm and use this acreage for the manufacture of your Product.
- If you produce honey wine you have a minimum of 50 bee colonies, the honey from which must be extracted and fermented at the winery site.
- A minimum of 25% of the grapes or fruit or honey or rice used in your Licensed Winery's production is from acreage and bee colonies owned or leased by you.
- Your Product must be produced utilizing traditional wine, cider or sake making techniques.
- You may use wine, juice, honey or sake acquired from other Land Based Wineries in the manufacturing of your product but may not use wine, juice or honey acquired from a Licensed Winery classified by the LDB as a Commercial Winery.
- You do not share common ownership or management with a Licensed Winery classified by the LDB as a Commercial Winery;
- Licensed Wineries that do not meet the above criteria for a Land Based Winery will be classified as a Commercial Winery and subject to the terms and conditions of the LDB's agreement with Commercial Wineries.

* Cider is defined as: "a fermented alcoholic beverage made from 100% BC apples or pears. Cider once fermented may not be diluted to a lower level of alcohol through the addition of water, juice or concentrate beyond a maximum addition of 10% by volume".

The LDB retains the right, in its sole discretion, to determine if a Licensed Winery meets the Land Based Winery Criteria.

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Cliff #: 511709

Date: August 21, 2015

PREPARED FOR: Honourable Coralee Oakes, Minister of Small Business and Red Tape Reduction and Minister Responsible for Liquor Distribution Branch

ISSUE: Changes to BC Liquor Store Retail Prices for period 6 (August 30 to September 26, 2015)

SUMMARY:

- Overall, in period 6, 4.72% of stock keeping units (SKUs) at BC Liquor Stores increased in retail price (943 SKUs), 92.88% (18,537 SKUs) remained the same, and 2.40% (478 SKUs) decreased in retail price. There are a total of 19,958 SKUs.
- Of the SKUs that increased in price:
 - 8.27% of the increases are less than 1% (78 SKUs)
 - 38.71% of the increases are between 1% and 5% (365 SKUs)
 - 20.57% of the increases are between 5.01% and 10% (194 SKUs)
 - 32.45% of the increases are more than 10% (306 SKUs)
- Reasons for increases in price:
 - 44.11% (416 SKUs) of the overall increases are due to Wholesale Price Promotions (WPP) that ended in period 5. As a result, these SKUs will no longer be sold at a decreased WPP price, but will be sold at the LDB established retail price.
 - 27.36% (258 SKUs) of the overall increases are due to increases in supplier price. These increases will cause a corresponding increase in the LDB established retail price.
 - 28.53% (269 SKUs) of the overall increases are due to the application of margin rules (i.e. rules that ensure that the LDB receives a minimum retail margin. These rules vary by product and by product category) **or** the application of price ending rules (for example, SKUs priced at \$29.99 or lower must end with 0.29, 0.49, 0.79 or 0.99).
- Reasons for decreases in price:
 - Approximately 85.15% (407 SKUs) of the overall decreases are due to WPPs that will begin in period 6. As a result, these SKUs will be sold at a decreased

WPP price, causing a corresponding decrease in the LDB established retail price.

- Approximately 7.74% (37 SKUs) of the overall decreases are due to decreases in supplier price. These decreases will cause a corresponding decrease in the LDB established retail price.
- Approximately 6.90% (33 SKUs) of the overall decreases are due to decisions made by Category Managers to decrease the price.
- Approximately 0.21% (1 SKUs) of the overall decreases are due to new products being priced at clearance pricing.

DISCUSSION:

- By product category:

Wines

- 2.45% (383 SKUs) increased in price, 95.81% (14,946 SKUs) stayed the same, and 1.74% (270 SKUs) decreased in price. There are a total of 15,599 wine SKUs.
- Of the wine SKUs that increased in price:
 - 1.83% of the increases are less than 1% (7 SKUs)
 - 16.71% of the increases are between 1% and 5% (64 SKUs)
 - 24.28% of the increases are between 5.01% and 10% (93 SKUs)
 - 57.18% of the increases are more than 10% (219 SKUs)
- Reasons for increases in price:
 - 70.23% (269 SKUs) of the overall increases are due to WPPs that ended in period 5.
 - 6.53% (25 SKUs) of the overall increases are due to increases in supplier price.
 - 23.24% (89 SKUs) of the overall increases are due to the application of price ending rules or margin rules.

- Examples of retail price changes this period for the top ten-selling¹ wine SKUs in BC Liquor Stores:

Product Name	Last period's retail price	This period's retail price	Difference	Reason
SAUVIGNON BLANC – OYSTER BAY MARLBOROUGH	\$15.99	\$17.99	\$2.00	WPP ending
CALIFORNIA RED – APOTHIC WINEMAKERS BLEND	\$13.79	\$14.99	\$1.20	WPP ending
RIESLING GEWURZTRAMINER – HARDYS STAMP SERIES	\$9.99	\$9.99	-	No change
CHARDONNAY – LINDEMANS BIN 65	\$8.99	\$10.99	\$2.00	WPP ending
AUSTRALIA RED – MCGUIGAN BLACK LABEL	\$9.59	\$9.59	-	No change
SAUVIGNON BLANC – KIM CRAWFORD MARLBOROUGH 2014	\$18.99	\$18.99	-	No change
BRIGHTS – 74 APERA	\$5.79	\$5.99	\$0.20	Application of price ending rules
MALBEC – ALAMOS	\$11.79	\$13.29	\$2.00	WPP ending
CABERNET SAUVIGNON – J LOHR SEVEN OAKS	\$21.79	\$21.79	-	No change
VIOGNIER – CONO SUR	\$9.79	\$9.79	-	No change

BC Wines

- 22.19% of the total increases in wine SKUs affect BC wines.
- 8.96% (85 SKUs) increased in price, 84.19% (799 SKUs) stayed the same, and 6.85% (65 SKUs) decreased in price. There are a total of 949 BC wine SKUs.
- Of the BC wine SKUs that increased in price:
 - No increases are less than 1%
 - 11.76% of the increases are between 1% and 5% (10 SKUs)
 - 9.41% of the increases are between 5.01% and 10% (8 SKUs)
 - 78.83% of the increases are more than 10% (67 SKUs)

¹ The top ten-selling SKUs in each section are based on sales information from 2015 Q1 (April – June, 2015).

- Reasons for increases in price:
 - 87.06% (74 SKUs) of the overall increases are due to WPPs that ended in period 5.
 - 12.94% (11 SKUs) of the overall increases are due to increases in supplier price.
- Examples of retail price changes this period for the top ten-selling BC wine SKUs in BC Liquor Stores:

Product Name	Last period's retail price	This period's retail price	Difference	Reason
PELLER ESTATES - PROPRIETORS RESERVE PINOT GRIGIO	\$33.99	\$33.99	-	No change
JACKSON TRIGGS PROPRIETOR'S SELECTION CABERNET SAUVIGNON	\$34.99	\$34.99	-	No change
JACKSON TRIGGS PROPRIETOR'S SELECTION MERLOT	\$34.99	\$34.99	-	No change
DOMAINE D'OR WHITE	\$28.79	\$28.79	-	No change
DOMAINE D'OR - RED	\$28.79	\$28.79	-	No change
NAKED GRAPE - PINOT GRIGIO	\$26.99	\$26.99	-	No change
JACKSON TRIGGS PROPRIETOR'S SELECTION PINOT GRIGIO	\$31.29	\$34.99	\$3.70	WPP ending
MISSION RIDGE - PREMIUM DRY WHITE	\$29.99	\$29.99	-	No change
JACKSON TRIGGS PROPRIETOR'S SELECTION SAUVIGNON BLANC	\$34.99	\$34.99	-	No change
JACKSON TRIGGS PROPRIETOR'S SELECTION SHIRAZ	\$31.79	\$34.99	\$3.70	WPP ending

- During the period of April 5 – August 19, 2015, sales for BC wines have increased, when compared to the same fiscal dates from last year.

Beer

- 22% (292 SKUs) increased in price, 72% (937 SKUs) stayed the same, and 6% (81 SKUs) decreased in price. There are a total of 1,310 beer SKUs.

- The majority of increases in price are due to a 2.6% increase in supplier price implemented by Labatt and Molson.
- Of the beer SKUs that increased in price:
 - 2% of the increases are less than 1% (7 SKUs)
 - 66% of the increases are between 1% and 5% (192 SKUs) (see note above regarding the 2.6% increase in Labatt and Molson's supplier prices)
 - 16% of the increases are between 5.01% and 10% (46 SKUs)
 - 16% of the increases are more than 10% (47 SKUs)
- Reasons for increases in price:
 - 16% (47 SKUs) of the overall increases are due to WPPs that ended in period 5.
 - 83% (242 SKUs) of the overall increases are due to increases in supplier price (see note above regarding the 2.6% increase in Labatt and Molson's supplier prices).
 - 1% (3 SKUs) of the overall increases is due to the application of price ending rules.
- Examples of retail price changes this period for the top ten-selling beer SKUs in BC Liquor Stores:

Product Name	Container Size	Pack Size	Last period's retail price	This period's retail price	Difference	Reason
LABATT - BUDWEISER CAN	0.36L	24	\$30.49	\$32.29	\$1.80	Supplier price increasing
LABATT - BUDWEISER CAN	0.36L	15	\$19.99	\$20.49	\$0.50	Supplier price increasing
COLUMBIA - KOKANEE CAN	0.36L	24	\$31.79	\$32.29	\$0.50	Supplier price increasing
MOLSON - CANADIAN CAN	0.36L	24	\$31.79	\$32.29	\$0.50	Supplier price increasing

Product Name	Container Size	Pack Size	Last period's retail price	This period's retail price	Difference	Reason
CORONA EXTRA	0.33L	12	\$22.49	\$23.49	\$1.00	Supplier price increasing
STROH CANADA - OLD MILWAUKEE CAN	0.36L	15	\$17.29	\$18.29	\$1.00	WPP ending
COLUMBIA - KOKANEE CAN	0.36L	15	\$19.99	\$20.49	\$0.50	Supplier price increasing
MOLSON - CANADIAN CAN	0.36L	15	\$18.99	\$20.49	\$1.50	Supplier price increasing
MOLSON - COORS LIGHT CAN	0.36L	24	\$31.79	\$29.99	(\$1.80)	Supplier price decreasing
LABATT - BUDWEISER CAN	0.36L	6	\$8.49	\$8.79	\$0.30	Supplier price increasing

BC Craft Beer

- For the purposes of this section, BC craft beer SKUs are those that are produced by BC breweries with an annual production of less than or equal to 15,000 hectolitres, with the exception of a very small number of SKUs.
- 2% of the total increases in beer SKUs affect BC craft beer.
- 3% (6 SKUs) increased in price, 93% (161 SKUs) stayed the same, and 4% (7 SKUs) decreased in price. There are a total of 174 BC craft beer SKUs.
- Of the BC craft beer SKUs that increased in price:
 - No increases are less than 1%
 - No increases are between 1% and 5%
 - 50% of the increases are between 5.01% and 10% (3 SKUs)
 - 50% of the increases are more than 10% (3 SKUs)

- Reasons for increases in price:
 - 100% (6 SKUs) of the overall increases are due to WPPs that ended in period 5.
- Examples of retail price changes this period for the top ten-selling BC craft beer SKUs in BC Liquor Stores:

Product Name	Container Size	Pack Size	Last period's retail price	This period's retail price	Difference	Reason
DRIFTWOOD - FAT TUG IPA	0.65L	1	\$5.39	\$5.39	-	No change
STEAMWORKS - PALE ALE TALL CAN	0.50L	1	\$1.99	\$1.99	-	No change
LIGHTHOUSE - SHIPWRECK IPA	0.36L	6	\$11.49	\$11.49	-	No change
FERNIE - SUMMER SAMPLER CAN	0.36L	12	\$20.99	\$20.99	-	No change
STEAMWORKS - MASH UP MIX PACK	0.36L	12	\$21.29	\$21.29	-	No change
BOMBER BREWING - MIXED PACK CAN	0.36L	12	\$19.99	\$18.49	(\$1.50)	WPP starting
RED TRUCK LAGER CAN	0.36L	6	\$10.79	\$10.79	-	No change
STEAMWORKS - PILSNER TALL CAN	0.50L	1	\$1.99	\$1.99	-	No change
RED TRUCK CRAFTMASTER 12 MIXER PACK	0.36L	12	\$20.49	\$20.49	-	No change
BIG SURF - LAID BACK LAGER CAN	0.36L	6	\$7.29	\$7.29	-	No change

- During the period of April 5 – August 19, 2015, sales for BC craft beer have increased, when compared to the same fiscal dates from last year.

Spirits

- 9.13% (249 SKUs) increased in price, 87.50% (2,386 SKUs) stayed the same, and 3.37% (92 SKUs) decreased in price. There are a total of 2,727 spirit SKUs.
- Of the spirit SKUs that increased in price:
 - 37.35% of the increases are less than 1% (93 SKUs)
 - 37.35% of the increases are between 1% and 5% (93 SKUs)
 - 19.28% of the increases are between 5.01% and 10% (48 SKUs)
 - 6.02% of the increases are more than 10% (15 SKUs)
- Reasons for increases in price:
 - 32.53% (81 SKUs) of the overall increases are due to WPPs that ended in period 5.
 - 8.03% (20 SKUs) of the overall increases are due to increases in supplier price.
 - 59.44% (148 SKUs) of the overall increases are due to the application of margin rules or price ending rules.
- Examples of retail price changes this period for the top ten-selling spirit SKUs in BC Liquor Stores:

Product Name	Container Size	Last period's retail price	This period's retail price	Difference	Reason
SMIRNOFF RED	1.75L	\$49.99	\$49.99	-	No change
SMIRNOFF – RED LABEL PET	0.75L	\$21.99	\$21.99	-	No change
BACARDI – SUPERIOR WHITE	1.75L	\$48.49	\$48.49	-	No change
CROWN ROYAL	1.14L	\$32.80	\$34.99	\$2.20	WPP ending
SMIRNOFF – RED LABEL PET	1.14L	\$32.49	\$32.49	-	No change
ABSOLUT	1.14L	\$33.79	\$32.29	(\$1.50)	WPP starting
CROWN ROYAL	1.75L	\$54.49	\$54.99	\$0.50	Application of price ending rules

Product Name	Container Size	Last period's retail price	This period's retail price	Difference	Reason
ABSOLUT	0.75L	\$21.39	\$22.99	\$1.60	WPP ending
SMIRNOFF – RED LABEL	0.375L	\$11.49	\$11.49	-	No change
CROWN ROYAL	0.75L	\$23.49	\$21.99	(\$1.50)	WPP starting

Refreshments

- 13% (42 SKUs) increased in price, 83% (268 SKUs) stayed the same, and 4% (12 SKUs) decreased in price. There are a total of 322 refreshment SKUs.
- Of the refreshment SKUs that increased in price:
 - No increases are less than 1%
 - 31% of the increases are between 1% and 5% (13 SKUs)
 - 9% of the increases are between 5.01% and 10% (4 SKUs)
 - 60% of the increases are more than 10% (25 SKUs)
- Reasons for increases in price:
 - 38% (16 SKUs) of the overall increases are due to WPPs that ended in period 5.
 - 60% (25 SKUs) of the overall increases are due to increases in supplier price.
 - 2% (1 SKUs) of the overall increases are due to the application of price ending rules.
- Examples of retail price changes this period for the top ten-selling refreshment SKUs in BC Liquor Stores:

Product Name	Last period's retail price	This period's retail price	Difference	Reason
TWISTED TEA HARD ICED TEA CAN	\$22.99	\$22.99	-	No change
TWISTED TEA HALF & HALF CAN	\$22.99	\$22.99	-	No change
HEY Y'ALL - HARD ICED TEA CAN	\$10.99	\$10.99	-	No change

Product Name	Last period's retail price	This period's retail price	Difference	Reason
LONETREE CIDER CAN	\$9.99	\$9.99	-	No change
PALM BAY RUBY GRAPEFRUIT SUNRISE SPRITZ CAN	\$8.99	\$8.99	-	No change
BULMER - STRONGBOW TALL CAN	\$11.29	\$11.29	-	No change
BULMER - STRONGBOW TALL CAN	\$19.49	\$19.49	-	No change
PALM BAY - TROPICAL ICED TEA MANGO LEMON CAN	\$9.99	\$9.99	-	No change
LONETREE GINGER APPLE DRY CIDER	\$9.99	\$9.99	-	No change
PALM BAY PINEAPPLE MANDARIN ORANGE SPRITZ CAN	\$8.99	\$8.99	-	No change

Contact: Melissa Tang, Senior Policy Analyst, Liquor Distribution Branch
Telephone: (604) 252-3159

Reviewed by				
Sr PA: MT	Dir: RS	GM/CEO: BL	DM:	MIN:

MINISTRY OF SMALL BUSINESS AND RED TAPE REDUCTION
AND MINISTER RESPONSIBLE FOR LIQUOR DISTRIBUTION BRANCH
INFORMATION NOTE

Cliff #: 511710

Date: August 21, 2015

PREPARED FOR: Honourable Coralee Oakes, Minister of Small Business and Red Tape Reduction and Minister Responsible for Liquor Distribution Branch

ISSUE: Changes to Wholesale Prices for period 6 (August 30 to September 26, 2015)

SUMMARY:

- Overall, in period 6, 3.65% of registered stock keeping units (SKUs) increased in wholesale price (1,424 SKUs), 94.22% (36,729 SKUs) remained the same, and 2.13% (828 SKUs) decreased in wholesale price. There are a total of 38,981 SKUs.
- Of the SKUs that increased in price:
 - 7% of the increases are less than 1% (92 SKUs)
 - 37% of the increases are between 1% and 5% (531 SKUs)
 - 17% of the increases are between 5.01% and 10% (248 SKUs)
 - 39% of the increases are more than 10% (553 SKUs)
- Reasons for increases in price:
 - 60% of the overall increases are due to increases in supplier price. These increases will cause a corresponding increase in wholesale price.
 - 37% of the overall increases are due to Wholesale Price Promotions (WPP) that ended in period 5. As a result, these SKUs will no longer be sold at a decreased WPP price, but will be sold at the LDB's regular wholesale price.
 - 3% of the overall increases are due to a combination of both an increase in supplier price and a WPP that ended in period 5.
- Reasons for decreases in price:
 - Approximately 33% of the overall decreases are due to decreases in supplier price. These decreases will cause a corresponding decrease in wholesale price.
 - Approximately 67% of the overall decreases are due to WPPs that will begin in period 6. As a result, these SKUs will be sold at a decreased WPP price in period 6.

DISCUSSION:

- By product category:

Wines

- 2.79% (720 SKUs) increased in price, 95.16% (24,594 SKUs) stayed the same, and 2.05% (531 SKUs) decreased in price. There are a total of 25,845 wine SKUs.
- Of the wine SKUs that increased in price:
 - 7% of the increases are less than 1% (51 SKUs)
 - 23% of the increases are between 1% and 5% (165 SKUs)
 - 18% of the increases are between 5.01% and 10% (128 SKUs)
 - 52% of the increases are more than 10% (376 SKUs)
- Reasons for increases in price:
 - 51% of the overall increases are due to increases in supplier price.
 - 47% of the overall increases are due to WPPs that ended in period 5.
 - 2% of the overall increases are due to a combination of both an increase in supplier price and a WPP that ended in period 5.
- Examples of wholesale price changes this period for the top ten-selling¹ wine SKUs through the wholesale channel:

Product Name	Last period's wholesale price	This period's wholesale price	Difference	Reason
CALIFORNIA RED - APOTHIC WINEMAKERS BLEND	\$11.33	\$12.42	\$1.09	WPP ending and supplier price increasing
SAUVIGNON BLANC - OYSTER BAY MARLBOROUGH	\$12.60	\$14.60	\$2.00	WPP ending
SAUVIGNON BLANC - KIM CRAWFORD MARLBOROUGH 2014	\$15.67	\$15.67	-	No change
CABERNET SAUVIGNON - J LOHR SEVEN OAKS	\$18.28	\$18.28	-	No change

¹ The top ten-selling SKUs in each section are based on sales information to all wholesale customers, excluding BCLS, as well as information on BCLS sales from 2015 Q1 (April – June, 2015).

Product Name	Last period's wholesale price	This period's wholesale price	Difference	Reason
RIESLING GEWURZTRAMINER - HARDYS STAMP SERIES	\$7.98	\$7.98	-	No change
PROSECCO FRIZZANTE - VILLA TERESA ORGANIC	\$13.22	\$13.22	-	No change
SHIRAZ - YELLOW TAIL	\$9.31	\$9.31	-	No change
JACKSON TRIGGS PROPRIETOR'S SELECTION MERLOT	\$29.37	\$29.37	-	No change
PELLER ESTATES - PROPRIETORS RESERVE PINOT GRIGIO	\$27.86	\$27.86	-	No change
SAUVIGNON BLANC - STONELEIGH	\$13.09	\$13.09	-	No change

BC Wines

- 23% of the total increases in wine SKUs affect BC wines.
- 1.84% (165 SKUs) increased in price, 96.73% (8,696 SKUs) stayed the same, and 1.43% (129 SKUs) decreased in price. There are a total of 8,990 BC wine SKUs.
- Of the BC wine SKUs that increased in price:
 - 10% of the increases are less than 1% (17 SKUs)
 - 22% of the increases are between 1% and 5% (36 SKUs)
 - 15% of the increases are between 5.01% and 10% (24 SKUs)
 - 53% of the increases are more than 10% (88 SKUs)
- Reasons for increases in price:
 - 47% of the overall increases are due to increases in supplier price.
 - 51% of the overall increases are due to WPPs that ended in period 5.
 - 2% of the overall increases are due to a combination of both an increase in supplier price and a WPP that ended in period 5.

- Examples of wholesale price changes this period for the top ten-selling BC wine SKUs through the wholesale channel:

Product Name	Last period's wholesale price	This period's wholesale price	Difference	Reason
JACKSON TRIGGS PROPRIETOR'S SELECTION MERLOT	\$29.37	\$29.37	-	No change
PELLER ESTATES - PROPRIETORS RESERVE PINOT GRIGIO	\$27.86	\$27.86	-	No change
JACKSON TRIGGS PROPRIETOR'S SELECTION CABERNET SAUVIGNON	\$29.37	\$29.37	-	No change
COPPER MOON - MALBEC	\$22.79	\$22.79	-	No change
COPPER MOON - SHIRAZ	\$22.79	\$22.79	-	No change
COPPER MOON - PINOT GRIGIO	\$22.79	\$22.79	-	No change
NAKED GRAPE - PINOT GRIGIO	\$22.79	\$22.79	-	No change
NAKED GRAPE - PINOT GRIGIO	\$11.30	\$12.30	\$1.00	WPP ending
DOMAINE D'OR WHITE	\$24.08	\$24.08	-	No change
JACKSON TRIGGS PROPRIETOR'S SELECTION SAUVIGNON BLANC	\$29.37	\$29.37	-	No change

Beer

- 5.92% (479 SKUs) increased in price, 92.33% (7,467 SKUs) stayed the same, and 1.75% (141 SKUs) decreased in price. There are a total of 8,087 beer SKUs.
- The majority of increases in price are due to a 2.6% increase in supplier price implemented by Labatt and Molson.
- Of the beer SKUs that increased in price:
 - 2% of the increases are less than 1% (10 SKUs)

- 70% of the increases are between 1% and 5% (333 SKUs) (see note above regarding the 2.6% increase in Labatt and Molson's supplier prices)
- 10% of the increases are between 5.01% and 10% (48 SKUs)
- 18% of the increases are more than 10% (88 SKUs)
- Reasons for increases in price:
 - 80% of the overall increases are due to increases in supplier price (see note above regarding the 2.6% increase in Labatt and Molson's supplier prices).
 - 17% of the overall increases are due to WPPs that ended in period 5.
 - 3% of the overall increases are due to a combination of both an increase in supplier price and a WPP that ended in period 5.
- Examples of wholesale price changes this period for the top ten-selling beer SKUs through the wholesale channel:

Product Name	Container Size	Pack Size	Last period's wholesale price	This period's wholesale price	Difference	Reason
LABATT - BUDWEISER CAN	0.36L	24	\$25.69	\$27.67	\$1.98	WPP ending and supplier price increasing
LABATT - BUDWEISER CAN	0.36L	15	\$17.06	\$17.46	\$0.40	Supplier price increasing
STROH CANADA - OLD MILWAUKEE CAN	0.36L	15	\$13.89	\$14.89	\$1.00	WPP ending
LABATT - BUDWEISER CAN	0.36L	12	\$13.74	\$13.74	-	No change
LABATT - LUCKY LAGER CAN	0.36L	15	\$15.45	\$16.83	\$1.38	WPP ending and supplier price increasing
LABATT - BUDWEISER CAN	0.36L	6	\$7.26	\$7.43	\$0.17	Supplier price increasing
MOLSON - CANADIAN CAN	0.36L	24	\$27.04	\$27.22	\$0.18	Supplier price increasing
COLUMBIA - KOKANEE CAN	0.36L	24	\$27.04	\$27.67	\$0.63	Supplier price increasing
MOLSON - CANADIAN CAN	0.36L	15	\$16.06	\$17.39	\$1.33	WPP ending and supplier price increasing
CORONA EXTRA	0.33L	24	\$35.66	\$39.04	\$3.38	WPP ending and supplier price increasing

BC Craft Beer

- For the purposes of this section, BC craft beer SKUs are those that are produced by BC breweries with an annual production of less than or equal to 15,000 hectolitres, with the exception of a very small number of SKUs.
- 6% of the total increases in beer SKUs affect BC craft beer.
- 0.8% (28 SKUs) increased in price, 98.92% (3,490 SKUs) stayed the same, and 0.28% (10 SKUs) decreased in price. There are a total of 3,528 BC craft beer SKUs.
- Of the BC craft beer SKUs that increased in price:
 - No increases are less than 1%
 - 25% of the increases are between 1% and 5% (7 SKUs)
 - 21% of the increases are between 5.01% and 10% (6 SKUs)
 - 54% of the increases are more than 10% (15 SKUs)
- Reasons for increases in price:
 - 71% of the overall increases are due to increases in supplier price.
 - 29% of the overall increases are due to WPPs that ended in period 5.
- Examples of wholesale price changes this period for the top ten-selling BC craft beer SKUs through the wholesale channel:

Product Name	Container Size	Pack Size	Last period's wholesale price	This period's wholesale price	Difference	Reason
DRIFTWOOD BREWING - FAT TUG IPA	50L	1	\$180.00	\$180.00	-	No change
DRIFTWOOD - FAT TUG IPA	0.65L	1	\$4.75	\$4.75	-	No change
RED TRUCK LAGER	50L	1	\$156.09	\$156.09	-	No change
STEAMWORKS - PALE ALE TALL CAN	0.5L	1	\$1.75	\$1.75	-	No change
LIGHTHOUSE - SHIPWRECK IPA	0.36L	6	\$10.13	\$10.13	-	No change
HOYNE BREWING - HOYNER PILSNER	50L	1	\$168.69	\$168.69	-	No change
BIG SURF - LAID BACK LAGER CAN	0.36L	6	\$6.31	\$6.31	-	No change
STEAMWORKS - PILSNER TALL CAN	0.50L	1	\$1.75	\$1.75	-	No change

Product Name	Container Size	Pack Size	Last period's wholesale price	This period's wholesale price	Difference	Reason
RED TRUCK LAGER CAN	0.36L	6	\$9.43	\$9.43	-	No change
RED TRUCK ALE	0.36L	6	\$9.43	\$9.43	-	No change

Spirits

- 3.60% (155 SKUs) increased in price, 93.33% (4,015 SKUs) stayed the same, and 3.07% (132 SKUs) decreased in price. There are a total of 4,302 spirits SKUs.
- Of the spirit SKUs that increased in price:
 - 20% of the increases are less than 1% (31 SKUs)
 - 19% of the increases are between 1% and 5% (30 SKUs)
 - 31% of the increases are between 5.01% and 10% (48 SKUs)
 - 30% of the increases are more than 10% (46 SKUs)
- Reasons for increases in price:
 - 48% of the overall increases are due to increases in supplier price.
 - 49% of the overall increases are due to WPPs that ended in period 5.
 - 3% of the overall increases are due to a combination of both an increase in supplier price and a WPP that ended in period 5.
- Examples of wholesale price changes this period for the top ten-selling spirit SKUs through the wholesale channel:

Product Name	Container Size	Last period's wholesale price	This period's wholesale price	Difference	Reason
SMIRNOFF - RED LABEL	1.14L	\$27.19	\$26.41	\$(0.78)	Supplier price decreasing
SMIRNOFF RED	1.75L	\$41.74	\$42.64	\$0.90	Supplier price increasing
SMIRNOFF - RED LABEL PET	0.75L	\$18.36	\$17.36	\$(1.00)	WPP starting
SMIRNOFF - RED LABEL	0.375L	\$9.40	\$9.40	-	No change
CROWN ROYAL	1.14L	\$29.32	\$29.32	-	No change
CROWN ROYAL	0.75L	\$18.29	\$19.79	\$1.50	WPP ending
ABSOLUT	1.14L	\$26.70	\$28.20	\$1.50	WPP ending

Product Name	Container Size	Last period's wholesale price	This period's wholesale price	Difference	Reason
SMIRNOFF - RED LABEL	0.75L	\$18.38	\$17.38	\$(1.00)	WPP starting
BACARDI - SUPERIOR WHITE	1.75L	\$40.62	\$40.62	-	No change
ALBERTA PURE	0.375L	\$8.69	\$8.69	-	No change

Refreshments

- 9.37% (70 SKUs) increased in price, 87.42% (653 SKUs) stayed the same, and 3.21% (24 SKUs) decreased in price. There are a total of 747 refreshment SKUs.
- Of the refreshment SKUs that increased in price:
 - No increases are less than 1%
 - 4% of the increases are between 1% and 5% (3 SKUs)
 - 34% of the increases are between 5.01% and 10% (24 SKU)
 - 62% of the increases are more than 10% (43 SKUs)
- Reasons for increases in price:
 - 40% of the overall increases are due to increases in supplier price.
 - 57% of the overall increases are due to WPPs that ended in period 5.
 - 3% of the overall increases are due to a combination of both an increase in supplier price and a WPP that ended in period 5.
- Examples of wholesale price changes this period for the top ten-selling refreshment SKUs through the wholesale channel:

Product Name	Last period's wholesale price	This period's wholesale price	Difference	Reason
TWISTED TEA HARD ICED TEA CAN	\$18.89	\$18.89	-	No change
TWISTED TEA HALF & HALF CAN	\$18.89	\$18.89	-	No change
BULMER - STRONGBOW TALL CAN	\$9.20	\$9.20	-	No change
PALM BAY RUBY GRAPEFRUIT SUNRISE SPRITZ CAN	\$7.37	\$7.37	-	No change

Product Name	Last period's wholesale price	This period's wholesale price	Difference	Reason
LONETREE CIDER CAN	\$8.13	\$8.13	-	No change
TWISTED TEA HARD ICED TEA THE ORIGINAL	\$8.43	\$9.93	\$1.50	WPP ending
HEY Y'ALL - HARD ICED TEA CAN	\$8.77	\$8.77	-	No change
PALM BAY PINEAPPLE MANDARIN ORANGE SPRITZ CAN	\$7.37	\$7.37	-	No change
PALM BAY - TROPICAL ICED TEA MANGO LEMON CAN	\$8.13	\$8.13	-	No change
BULMER - STRONGBOW TALL CAN	\$16.19	\$16.19	-	No change

Contact: Melissa Tang, Senior Policy Analyst, Liquor Distribution Branch
Telephone: (604) 252-3159

Reviewed by				
Sr PA: MT	Dir: RS	GM/CEO: BL	DM:	MIN:

MINISTRY OF SMALL BUSINESS AND RED TAPE REDUCTION
AND MINISTER RESPONSIBLE FOR LIQUOR DISTRIBUTION BRANCH
INFORMATION NOTE

Cliff #: 511852

Date: September 1, 2015

PREPARED FOR: Honourable Coralee Oakes, Minister of Small Business and Red Tape Reduction and Minister Responsible for Liquor Distribution Branch

ISSUE: LDB Response to Commercial Distillers' Request

BACKGROUND:

- Charles Tremewen and Peter Hunt met with the LDB on July 9, 2015 to express concerns about the viability of their commercial distillery businesses after the April 1 changes.
- Their main concern is the loss of the 30 per cent commission distilleries received from the LDB on the sale of product to counter customers at the distillery site. This was replaced with a 7 per cent commission on the wholesale sale from the distillery to its on-site store.
- This change primarily impacted a small number of commercial distilleries (ie. less than 5).
- Mr. Tremewen and Mr. Hunt asked that the previous 30 per cent retail commission (or its equivalent under the current pricing structure) be re-instated.
- They further proposed that sales conducted through a distillery's tasting rooms be 100% markup-free.
- The LDB has drafted a response to communicate that the retail commission will not be re-instated and any consideration of markup-free tasting rooms will be deferred to the government's annual review process.
- The LDB's response will be sent to Mr. Tremewen and Mr. Hunt on September 4, 2015. A copy of that response is included in Appendix A.

DISCUSSION:

Response to Request to Re-instate Retail Commission

- As stated in the response:

As you know, prior to April 1, commercial distilleries received a 7 percent commission on sales to wholesale customers and a 30 percent commission on retail sales. As of April 1, manufacturers and suppliers are no longer selling products to retail customers as agents of the LDB. Therefore, the 30 percent commission on retail sales was replaced with a 7 percent commission on the sale to your onsite store (the wholesale sale). A manufacturer's retail sales are now like any other private

retailer's sales – they can now set their retail prices according to the marketplace and keep their retail profits. Since a manufacturer no longer sells retail products as an agent of the LDB, they no longer receive a retail commission for these sales.

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Response to Proposal for Markup-Free Tasting Rooms

- Mr. Tremewen and Mr. Hunt proposed that sales conducted through a distillery's tasting rooms be markup-free.
- As this would fall under the scope of the government's annual review process for liquor related concerns, any consideration of this proposal will be deferred to that review.

NEXT STEPS:

- The response found in Appendix A will be sent to Mr. Tremewen and Mr. Hunt on September 4, 2015.

ATTACHMENTS:

Appendix A: LDB Response to Commercial Distillers' Request

Contact: Melissa Tang, Senior Policy Analyst, Liquor Distribution Branch
Telephone: (604) 252-3159

Reviewed by				
Sr PA: MT	Dir: AW	GM/CEO:	DM:	MIN:

Appendix A

LDB Response to Commercial Distillers' Request

Dear Charles and Peter,

Thank you for your email below, clarifying your concerns.

As we discussed at our meeting on July 9, and prior to that, government has announced an annual review process for liquor related concerns and specifically markup issues. An annual review of that nature will allow government to assess all proposals together and in context with each other. Therefore, the LDB must defer consideration of your proposal for markup free tasting rooms to that review. Although the specific details of the annual review are still being finalized, I understand that they will be announced publicly within the coming weeks. In order to facilitate the review, the LDB will ensure that government is provided with all of the information they need to make a determination on your request for markup free tasting rooms as expediently as possible.

We also discussed the change in commission structure that occurred on April 1, 2015. As you know, prior to April 1, commercial distilleries received a 7 percent commission on sales to wholesale customers and a 30 percent commission on retail sales. As of April 1, manufacturers and suppliers are no longer selling products to retail customers as agents of the LDB. Therefore, the 30 percent commission on retail sales was replaced with a 7 percent commission on the sale to your onsite store (the wholesale sale). A manufacturer's retail sales are now like any other private retailer's sales – they can now set their retail prices according to the marketplace and keep their retail profits. Since a manufacturer no longer sells retail products as an agent of the LDB, they no longer receive a retail commission for these sales.

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I understand that you do not consider the LDB reinstating the retail commission rate of 30 per cent (or its equivalent under the current pricing structure) would adequately address the concerns of BC commercial distilleries in any event. However, I understand that it will be open to you to raise that issue in government's annual review should you decide you would like it considered further.

Thank you for discussing these issues with us further. I hope that the information set out above provides useful clarification about the rationale for current policy. We will ensure that you are kept apprised as further details about the annual review become available.

Kind regards,

Renee Shrieves