

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

Cliff #: 38220

Date: October 27, 2016

PREPARED FOR: Deputy Minister Tim McEwan

ISSUE: Liquor Policy Review Recommendation #18

BACKGROUND:

- In 2014, Parliamentary Secretary John Yap completed his final report on the Liquor Policy Review.
- The report contained 73 recommendations in total. #18 relates to tying retail prices to a product's alcohol content (also known as social reference pricing):
LDB should consider tying minimum prices to the amount of alcohol (e.g., a beer with seven per cent alcohol would have a higher minimum price than a beer with four per cent alcohol).

DISCUSSION:

- On April 1, 2015, the LDB implemented a new wholesale pricing model.
- Under the previous model, the LDB had minimum retail prices in place for all liquor products sold in BC Liquor Stores (BCLS) and could have implemented social reference pricing. For private retailers, they were not permitted to sell product for less than the price they purchased it for.
- In addition, the LDB's mark-up sets retail prices, therefore implementing alcohol by volume pricing in the mark-up would have created social reference pricing in BCLSs.
- The final report, including recommendation #18, was completed prior to the implementation of the wholesale pricing model on April 1.
- After April 1, under the new wholesale pricing model, the LDB mark-up no longer sets BCLS retail prices. Now only LCLB has control over end retail prices through the enforcement of its minimum retail price policy.
- Given that the intent of social reference pricing is to reduce excessive and harmful drinking by tying retail prices to alcohol content, only LCLB retains control over social reference pricing.

Prepared by: Melissa Tang, Senior Policy Analyst
Telephone: (604) 252-3159

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

Cliff #: 38196

Date: November 1, 2016

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

DATE AND TIME OF MEETING: Wednesday, November 2, 2016

ATTENDEES: MLA Thornthwaite on behalf of her constituent Mr. Imroz Rupani

ISSUE: 2015 Liquor Reforms

BACKGROUND:

Mr. Imroz Rupani is a Licensee Retail Store (LRS) owner. He has had several correspondence letters with the Liquor Distribution Branch (LDB) and his current MLA Thornthwaite. According to Mr. Rupani's letters, changes to the *Liquor Control and Licensing Act* cause private liquor stores to lose competitive edge making it hard for them to stay afloat.

There have been additional correspondences from Mr. Rupani over the years including the pertinent ones below:

July 15, 2016

- Email from Mr. Rupani requesting information on profitability of both the LDB's Wholesale and Retail, including the breakdown of the expenses.
- He received information detailing that the wholesale division generated 95% of the LDB's total 2015/16 income while the retail division generated less than 5%.
- His request for a further breakdown of that statistic was denied.

October 11, 2016

- Request from MLA Thornthwaite, based on a letter (unknown date) from Mr. Rupani asking that the provincial government review the liquor reforms implemented on April 1, 2015.
- Mr. Rupani's most recent request to MLA Thornthwaite details his concerns about BC Liquor Store (BCLS) prices based on the analysis of the LDB's Annual Report for 2015/16.

DISCUSSION:

- The LDB looks at the following list of factors when setting the retail price for products in government liquor stores:
 - Market trends,
 - Competitive retailing, and
 - Profitability.
- These prices are subject to fluctuation based on the above noted factors and can go up or down.
- BCLS maintains a balance between staying competitive and generating revenue as part of the LDB to support BC programs.

The following list of prices (taxes included) provides a quick comparison across three Canadian jurisdictions:

Product	British Columbia	Ontario	Quebec	Saskatchewan
Crown Royal (750ml)	\$28.84	\$29.45	\$28.95	\$28.97
Smirnoff Vodka (750ml) red label	\$26.54	\$26.75	\$22.95	\$24.99
Budweiser (12 pack bottles)	\$22.72	\$21.95	Not available	\$27.49

- A scan of top selling SKUs demonstrate that BCLS prices are comparable to prices in other jurisdictions across Canada
- LDB's contribution has grown significantly since last year and shows consistent growth upwards. As a result of strong efforts by our wholesale and retail divisions, the LDB exceeded revenue targets in 2015/16 and has helped fund various Government services in BC.
- LDB anticipates meeting revenue targets for its upcoming fiscal year.

Contact: Anita Mlinar, Senior Policy Analyst, Policy and Communications, LDB
Telephone: (604-252-3032)

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

Cliff #: 38201

Date: November 3, 2016

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

DATE AND TIME OF MEETING: TBD

ISSUE: Meeting request from the Import Vintners and Spirits Association (IVSA)

ATTENDEES: Richard Loewen (Executive Director, IVSA); and other IVSA board members.

BACKGROUND:

- The IVSA is a trade association representing the interests of agents, importers, marketing groups, and trade offices of beverage alcohol products in BC and Alberta.
- According to the IVSA, it is a registered not-for-profit society that was formed in 1975 in BC. In 2009, the IVSA consolidated operations with the Beverage Alcohol Importers Council of Alberta (BAICA). Its membership in BC includes 102 Import Agencies, 15 Consular and Hospitality Trade groups and two Warehouse and Distribution associate members.

DISCUSSION:

The IVSA's main concerns, as outlined in their meeting request for the Minister are listed below. The IVSA met with the Minister on April 6, 2016 and have requested a follow up meeting to discuss three key concerns. The IVSA also submitted a proposal to Parliamentary Secretary for Liquor Policy Reform, John Yap, during the stakeholder consultations he held in fall 2015, outlining the same issues.

1. Hospitality Pricing

Wholesale Pricing Model

- The IVSA believes that the mark-up formula for wine is too high, leaving little room for retailer margins and resulting in increased retail/hospitality prices for lower quality products.

- The IVSA requests that government conduct a transparent analysis of the formula, presents the results to industry, and reduces the current 89% mark-up.
- The wholesale mark-up rate for wine is 89% on the first \$11.75 per litre, with a second tier mark-up set at 27% for \$11.76 per litre and above.
- Originally, the second tier mark-up was set at 67% tier. However, this formula was revised in January 2015, prior to the new wholesale pricing model coming into effect, following feedback from industry.

Response:

- Parliamentary Secretary John Yap received proposals from stakeholders during his fall 2015 consultations on the wholesale pricing model, and analysis on those proposals is underway.
- One year has now passed since the new wholesale pricing model came into effect. We will be reviewing the model to determine if any adjustments are required.
- It is important that we strike a balance – ensuring our mark-up rates are fair and competitive, while still ensuring the appropriate amount of revenue is generated for critical programs such as health and education.

BC Liquor Stores Retail Pricing/Fixed Hospitality Mark-up:

- The IVSA states that BC Liquor Stores' retail margins are unsustainable, and that BC Liquor Stores are increasing product prices to ensure margins, which may decrease the perceived value of a product to the consumer.

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Response:

- Hospitality pricing was also a topic Parliamentary Secretary John Yap heard about during his fall 2015 consultations on the wholesale pricing model.
- s.13,s.17
- On July 7, 2016 LDB Wholesale Operations launched its new website that included a special feature for hospitality customers – a new product catalogue. This catalogue assists hospitality customers in accessing the current retail prices of products.
- When it comes to BC Liquor Store retail pricing, on April 1, 2015, BC Liquor Stores were placed on an equal footing with private retailers and are expected to compete in the marketplace. They make business decisions around the pricing of

their products to ensure they remain competitive, while meeting their revenue targets.

2. Import Products Access to Market

Tracking Distribution of Products in BC:

- s.13
- Once ordered, the agent only sees the release purchase order but does not see the account that placed the order s.13,s.17
s.13,s.17
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Response:

- Because agent-stocked wine and spirits are not processed through Retail Accounting Centres (RACs) like import beer, a process is not currently in place whereby the LDB informs suppliers about the end customer that ordered the product and the amount they ordered.
- Wholesale Operations is moving towards increasing visibility for vendors to see the movement of inventory to the accounts that orders are placed through. s.13,s.17
s.13,s.17

○ **Note:** s.13,s.17
s.13,s.17

Liquor Warehouse Program Agreement:

- s.13
- Currently, products are picked (at the agent's cost), transported to the LDB (at the agent's cost) and then received into inventory, allocated and picked through the LDB warehouse.
- For hospitality clients, the products are then shipped to the BC Liquor Store where the hospitality client picks up the order, in most cases.
- s.13

Response:

- The LDB's long-standing policy is that all import products must come through the LDB. All import wine and spirits must also be distributed by the LDB. It is important to note that this is in place to limit liability to the Province.
- Ordering is a two stage process:
 - First, a requisition is completed to bring the product into the province and make it available for sale. This must go through the LDB, as the LDB is the importer of record for the Province.
 - Second, a purchase order (PO) is received from the end customer (BCLS, private liquor store, hospitality customers, etc.) and the product is shipped into BC – through the LDB – to the actual customer for final sale.
- The LDB understands this may be a challenge for the IVSA, as the initial order into BC is not a commitment to sell the product – it is a commitment to offer it for sale within the province, so there is a risk to vendors. However, this is similar to other provinces where the risk is with the importer, not the retailer.
- Deputy Minister, Tim McEwan, responded to a request from IVSA regarding this matter in June 2016. In this response, the LDB indicated that as the sole importer of record in BC, the LDB may order product directly from the supplier in the event that an agent is not yet willing or registered to bring the product into BC. Therefore, LDB is not intending to act as the agent for all import products, rather this ability is being used to raise consumer awareness of products without agency representation – in the hopes that the product will eventually be signed and registered by agents here in BC.
- s.13,s.17

3. Support for Small Business

Grocery store model

- s.13
- To date 11 VQA stores have relocated to grocery and six auctions have been held to determine applicants for the special wine store licence. A further round of 6 auctions is planned.

Response:

- During the Liquor Policy Review British Columbians told us they wanted better access to BC wines.

- s.13,s.21

- Licensee Retail Stores (LRSs) and independent wine stores can also relocate to grocery stores utilizing the store-within-a-store model and s.13,s.17
- There are over 1100 full service liquor retailers in the province where all types of liquor may be purchased so the number of grocery stores selling BC wine on shelves is very limited in comparison.

Previous concerns that have been raised by the IVSA, but were not included in the recent meeting request:

Retail Price for Tastings at BC Liquor Stores:

- The IVSA is seeking a new process for vendor/retailer tastings at BC Liquor Stores – they do not think it is fair that, as of April 1, 2015, they must pay full retail price for products used for tastings in BC Liquor Stores. Previously, they received a discount for these tastings.
- As BC Liquor Stores are accountable for their profitability, a business decision was made that they will no longer subsidize the cost of supplier product during tastings. Product used for in-store tastings must be purchased at the host BC Liquor Store at the retail price.

Product Pricing for Sampling at New Product Salon Events:

- A New Product Salon Event is an event organized by the IVSA where members showcase and offer samples of their products to hospitality and retail customers as a way of promoting their products.
- With the introduction of the new wholesale pricing structure on April 1, 2015, all previous discounts off-of-display were eliminated. Agents now pay the full retail price for products they use for tastings, and pay the wholesale price for products they use at the IVSA New Product Salon events and for donations to registered Canadian charities.

- s.13

- Previously, vendors that purchased product from LDB for sampling purposes received a 30% agent tasting discount that was applied to the products retail price (including taxes).

A number of changes have recently taken place that benefit the IVSA, including:

In-Store Tastings:

- On June 23, 2016, LCLB made changes to allow LRSs and wines stores to conduct two manufacturer tastings at one time. Sample sizes were also increased to 1/2 a standard drink.
 - **Note:** s.13,s.17
s.13,s.17 Signature Stores were already permitted to conduct two tastings at a time.
- A change in LCLB's new regulations, effective January 23, 2017, will allow agents or manufacturers to bring product (purchased from an authorized vendor) into a store to use for tastings (with the store's permission), and take any leftover liquor from a tasting to use at a subsequent tasting.
Note: Agents and manufacturers are still required to purchase product at a BCLS but they are now allowed to remove leftover product from the store. Leftover product may not be used at another BCLS or licensee retail location.

Wholesale Operations:

- The LDB's Wholesale Operations team meets with the IVSA regularly to discuss and address concerns on areas of mutual interest.
- The Wholesale Operations team has reduced new product registration set up time from 3 weeks down to 3 days, partly as a result of responding effectively to vendors, agents and brewers concerns.
- On September 26th LDB hosted an open house for 40 IVSA at the Distribution Centre and provided a warehouse tour and an overview of its operations. Attendees provided positive feedback.
- Wholesale Operations team recently began attending IVSA New Product Salons to meet with vendors. On October 31, 2016, senior staff from Wholesale attended IVSA's Vancouver Salon where the LDB hosted a table to showcase the new hospitality website and to share important information on Wholesale employee contacts and ordering time lines.
- Wholesale Operations hosted IVSA on October 26th to gather and discuss feedback on the wholesale website to ensure it meets the needs of our customers, agents, associations and retailers.

Retail Operations:

- The LDB's Retail Operations team has a meeting scheduled with the IVSA on November 17, 2016. Agenda items for this meeting have not been determined.

Contact: Kam Aujla, Senior Policy Analyst

Telephone: 604-252-2961

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s.14;s.16;s.13;s.17

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

Cliff #: 38287

Date: November 14, 2016

PREPARED FOR: Deputy Minister Tim McEwan

ISSUE: s.12,s.13,s.17

BACKGROUND:

- s.12,s.13,s.17

- Liquor Stores NA does not hold any liquor licences, but is a partial owner in 29 licensed establishments (including 27 private liquor stores and 2 wine stores), with the main chains being Liquor Barn and Liquor Depot.
- s.12,s.13,s.17

- Currently, liquor orders from the LDB are made and fulfilled on a licence-by-licence basis. Licensees can currently transfer up to \$10,000 of stock annually among the same licence type.
- Licensees can store liquor off-site (they must notify the LCLB), but the liquor purchased under each licence must be clearly identifiable (ie. the liquor cannot be co-mingled).
- s.12,s.13,s.17

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s.12;s.13;s.17

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

Telephone: 604-252-3159

Contact: Vince Cournoyer, Senior Policy Analyst, Liquor Control and Licensing Branch

Telephone: 250-952-5746

Contact: Barry Bieller, Senior Policy Analyst, Liquor Control and Licensing Branch

Telephone: 250-952-5755

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

Cliff #: 38204

Date: November 23, 2016

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

ISSUE: Revision to the LDB's beer guidelines

BACKGROUND:

- The LDB intends to revise the guidelines used to classify products as beer versus malt-based refreshment beverages.
- Pending Government approval, the revised guidelines will come into effect for new product registrations on January 1, 2017. See "Transition to revised guidelines" section for more information on how existing product registrations will be transitioned.
- The changes include:
 - Removal of the option to conduct a tasting panel when making classification decisions; and
 - Addition of two new criteria – specifically, around the use of artificial and novel sweeteners and the specific level of sugar content.

DISCUSSION:

Revised guidelines

- The revised guidelines are based, in part, on Beer Canada's recent proposal to the federal government regarding a national beer standard. The BC Craft Brewers Guild has indicated they support Beer Canada's proposal.
- It should be noted that all other Canadian liquor jurisdictions currently use the Canadian Association of Liquor Jurisdiction (CALJ)'s definition of "refreshment beverage", which contains some subjectivity. BC would be the first province to move away from that definition and implement a completely objective process. It is also worth noting that the federal government is concurrently working on its definition of "beer."
- As is the case today, manufacturers will continue to submit their products to LDB Wholesale for registration. Part of the registration process requires manufacturers to choose a product category on their registration form.

- If a manufacturer submits a malt-based liquor product and classifies it as a beer, the Wholesale team will assess the product on the following criteria:
 - Whether the product contains yeast, barley malt and/or wheat malt, water and hops or hops extract;
 - Whether the product contains artificial sweeteners (e.g. aspartame) and/or novel sweeteners (e.g. stevia);
 - Whether the product has any sources of added carbohydrate matter; and
 - Whether the product has less than or equal to 4% of residual sugars.
- The LDB will have discretion to review and, if necessary, re-classify products on an as-needed basis – for example, if it is flagged that a product has been incorrectly classified.
- In the case of sugar content (i.e. the fourth criterion above), the LDB will have discretion to re-test products at any time, if deemed necessary – for example, if a manufacturer has changed a product's recipe and did not inform the LDB.
- For each product's initial classification, the LDB will cover the cost of any sugar tests that arise from applying the new guidelines. Once a product has been classified by the LDB, manufacturers have the option to apply for re-classification, but will need to submit new sugar test results, at their cost, from an approved laboratory.
- Below is more information on each specific criterion. See Appendix A for a diagram illustrating the process and see Appendix B for a copy of the revised policy.

Whether the product contains yeast, barley malt and/or wheat malt, water and hops or hops extract

- These ingredients come from the current definition of “beer” under the federal *Food and Drug Regulations*.
- In order to assess a product on this criterion, the agent/manufacturer will have to provide the Wholesale team with information about whether their product contains the four base ingredients listed above, artificial sweetener or novel sweetener and any added carbohydrate matter.
- If a product does not contain all four base ingredients, it will be classified as a refreshment beverage. If it does contain all four base ingredients, it will go on to be considered under the next criterion.

Whether the product contains artificial and/or novel sweeteners

- Under this criterion, artificial sweeteners include aspartame and sucralose (Splenda). Novel sweeteners include stevia and stevia extracts.¹

¹ These definitions are based on information from the Mayo Clinic and align with the definition used by Beer Canada in their proposal.

- In order to assess a product on this criterion, the agent/manufacturer will have to identify to the Wholesale team whether or not their product contains artificial or novel sweeteners.
- If a product contains artificial or novel sweeteners, it will be classified as a refreshment beverage. If it does not contain artificial or novel sweeteners, it will go on to be considered under the next criterion.

Whether the product has any sources of added carbohydrate matter

- Under this criterion, sources of added carbohydrate matter include ingredients such as cereal grains (e.g. oats, spelt, etc.), honey, maple syrup, agave nectar, fruit, fruit juice, fruit concentrate, sugar, ginger, vegetable matter, etc.
- If a product does not contain any sources of added carbohydrate matter, it will be classified as a beer. This is because it is expected to pass the sugar test and end up being classified as a beer.
- If a product does contain a source of added carbohydrate matter, it will go on to the final criterion – the sugar test.

Whether the product contains less than or equal to 4% of residual sugars

- Under this criterion, residual sugars are defined as fructose, glucose, maltose, sucrose and lactose.
- In order to assess a product using this criterion, the Wholesale team will inform the manufacturer they need to request a sample. The manufacturers can either send in the sample themselves or the Wholesale team can offer to source a sample from the Distribution Centre or BC Liquor Stores, where available.
- The sample will then be sent to a lab to be tested using a high performance liquid chromatography (HPLC) test. This test will determine the amount of sugar found in the product.
- The Wholesale department will bear the costs of these tests for a product's initial classification. As noted earlier, if a manufacturer would like to apply for re-classification of their product (for example, if they have altered their recipe to try and lower their mark-up), they may do so but will be responsible for the costs associated with obtaining a new sugar test from an approved lab.
- The price for an HPLC test ranges from approximately \$175 - \$215, plus tax.
- It is anticipated that testing for sugar content will cost the LDB approximately \$87,500² for the cost to transition to the new criteria and then approximately \$35,000³ annually.

Impact on registration process

- With the addition of sugar testing, the turnaround time for registration will be impacted.

² It is expected approximately 500 samples will be tested. This estimate is based on \$175 per test, as the lab charges less when there is a larger volume of samples from one customer.

³ It is expected approximately 200 samples will be tested annually. This estimate is based on \$175 per test, as the lab charges less when there is a larger volume of samples from one customer.

- Today, when a product requires a taste test, it takes approximately 3 days from the time that a sample is received by the LDB to the time the result is communicated to a manufacturer. With the additional time needed for lab testing, this process will now take approximately 12 to 15 days for those manufacturers that are waiting to have their product classified as either a refreshment beverage or a beer.
- In addition, changes will need to be made to the LDB's Vendor website and product registration form, as additional fields are needed to collect information from manufacturers on product ingredients, presence/absence of artificial and/or novel sweeteners, etc. To avoid manual work-around processes, these changes would need to be made before the date the new guidelines become effective, so external contractors may be required depending on availability of internal IT resources.

Transition to revised guidelines

- As part of the transition to the revised guidelines, the LDB will be reviewing existing classifications under the revised criteria.

Products currently classified as malt-based refreshment beverages

- There are currently 81 registered⁴ malt-based refreshment beverage SKUs. The LDB will reach out to the manufacturers of these 81 SKUs to request the information that is needed to apply the revised guidelines.
- Each product will then be reviewed based on the information provided.⁵ Note that, in the process of developing the revised guidelines, the LDB tested 11 of these 81 SKUs for sugar content. See Appendix C for the results.
- If any products are re-classified as beer, it would be made clear that any mark-up would be assessed on a going-forward basis. The change in mark-up for products being re-classified as beer would take effect at the beginning of the next fiscal period following the re-classification.⁶
- If a manufacturer does not supply the requested information or they do not provide a sample to the LDB for sugar testing, the Wholesale department reserves the right to source and test the products independently.
- It should be noted that a small number of manufacturers may be unhappy as they could have their products re-classified as a refreshment beverage, thus with a higher associated mark-up rate, going forward.
- Additionally, some private liquor retailers may be unhappy with any changes that decrease the mark-up of certain products, with respect to any remaining inventory that they have already paid for. Meaning that, if a product that is currently a malt-based refreshment beverage becomes reclassified as a beer, the wholesale price of that product will decrease. The liquor retailer then has

⁴ This does not include any delisted SKUs.

⁵ Some SKUs may be seasonal, in which case the manufacturer will not have a sample available for sugar testing, if needed. For these SKUs, manufacturers will be informed that their registration will be deactivated and, upon reactivation, a sample will be required.

⁶ This is because the systems cannot accommodate changes to mark-up in the middle of a fiscal period.

inventory on their shelves they paid a higher price for – the exact same product for which they can now purchase at a new, lower wholesale price.

Products currently classified as beer

- There are approximately 11,000 beer SKUs. Given the large volume of SKUs, manufacturers will be asked during the transition to declare to the LDB any of their malt-based liquor products that have artificial/novel sweeteners, and/or sources of added carbohydrate matter.
- Once manufacturers have self-identified, the LDB will reach out to them to request the information that is needed to apply the revised guidelines.
- Again, if any products are re-classified, any mark-up would be assessed on a going-forward basis.
- Because re-classification from beer to refreshment beverage would result in an increase in mark-up being collected, the change in mark-up will take effect in line with the next monthly price change following re-classification. This will provide manufacturers with time to adjust their pricing.
- Manufacturers must submit supplier price changes 45 days prior to the fiscal period in which they want the price change to apply. Therefore, the date of any re-classification from beer to refreshment beverage will take effect in the next fiscal period after which the manufacturer has had time to submit a price change.
- For example, the deadline for supplier price changes for April 2017 is Feb. 23, 2017. If a product were to be reclassified from a beer to a refreshment beverage on Feb. 20, 2017 that would only give the manufacturer three days to recalculate their supplier pricing and submit a price change. Therefore, LDB Wholesale will permit that supplier to keep the lower mark-up until the following fiscal period, giving them time to change their supplier price. The new mark-up would then apply for May 2017.
- As noted previously, any re-classification of beer to refreshment beverage will likely be opposed by the supplier, as it will result in the product being subject to a higher mark-up rate and the direct delivery rules for beer versus refreshment beverages are different. However, it is expected that ensuring the new guidelines are applied consistently and fairly across all products will help to mitigate any concerns raised from suppliers about the overall process.
- If a manufacturer does not self-identify and there is internal knowledge or credible concerns from industry that the new criteria may not be met by a certain product, the Wholesale department reserves the right to re-assess the products independently.

NEXT STEPS:

- Pending Government approval, the LDB will begin transitioning to the new guidelines.
- The planned effective date of the new policy is January 1, 2017.
- The LDB's proposed communications approach for these changes is outlined in Appendix D.

APPENDICES:

Appendix A: Beer vs. Refreshment Beverage Flowchart

Appendix B: Revised Criteria for Classifying Beer Products

Appendix C: Sugar Test Results

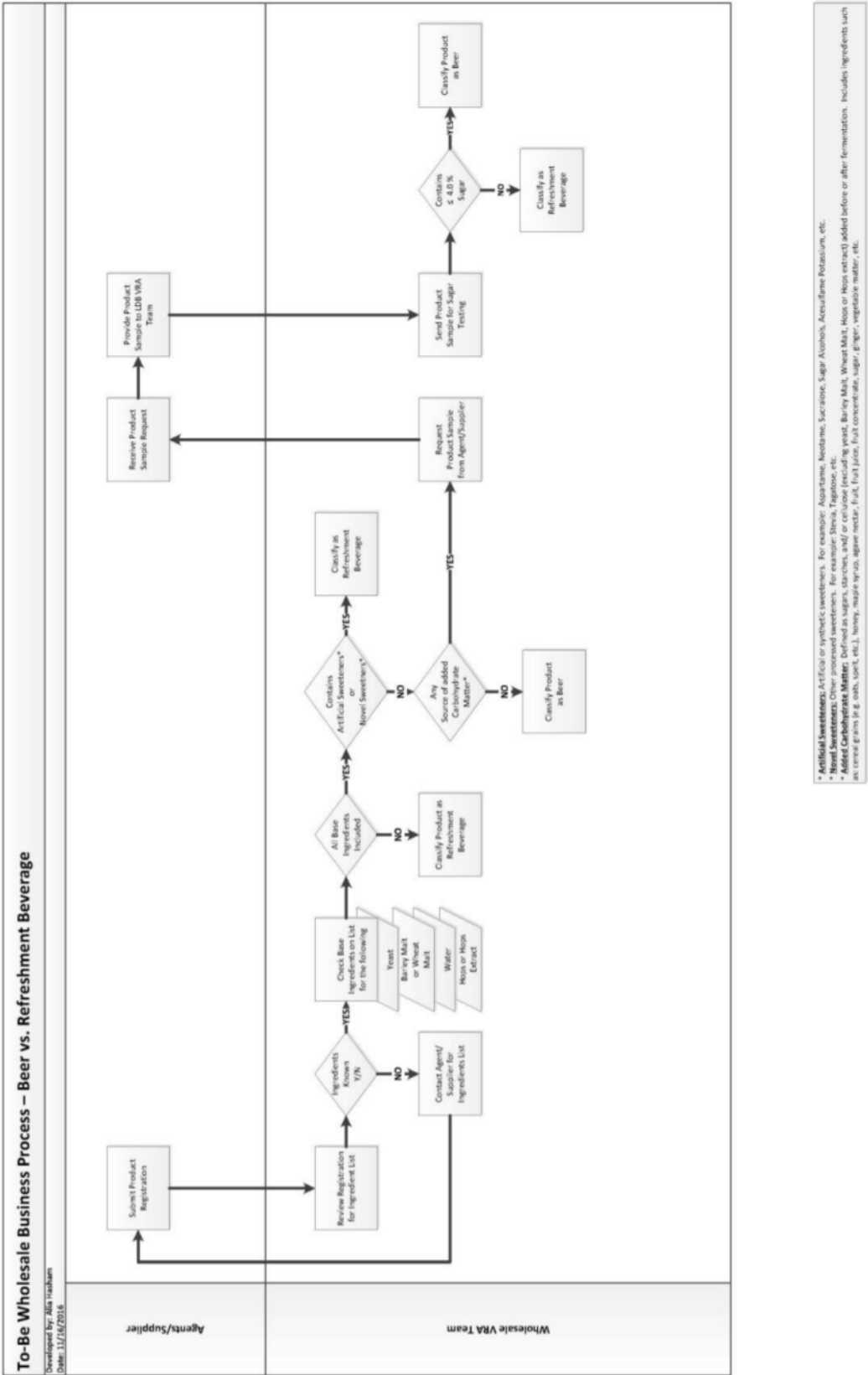
Appendix D: Draft Communications Plan

Prepared by: Melissa Tang, Senior Policy Analyst

Telephone: (604) 252-3159

Reviewed by			
Dir: CT, RS, SF	ED: TC, AH	ADM: BL	DM: TM

Appendix A - Beer vs. Refreshment Beverage Flowchart



Appendix B

Criteria for Classifying Malt-Based Liquor Products – Effective Jan. 1, 2017

Criteria for Classifying Malt-Based Liquor Products (Revised)

1.0 Purpose

To outline the criteria to be applied to liquor products when determining whether or not they will be classified as a beer or a malt-based refreshment beverage.

2.0 Scope

This policy applies to all malt-based liquor products that a manufacturer classifies as a beer during registration.

3.0 Definitions

Artificial Sweeteners	For example, aspartame and sucralose (Splenda).
Carbohydrate Matter	Sugars, starches, and/or cellulose (excluding yeast, barley malt, wheat malt, hops or hops extract) added before or after fermentation. Includes ingredients such as: cereal grains (e.g. oats, spelt, etc.), honey, maple syrup, agave nectar, fruit, fruit juice, fruit concentrate, sugar, ginger, vegetable matter, etc.
Novel Sweeteners	For example, stevia and stevia extracts.
Residual Sugars	Fructose, glucose, maltose, sucrose and lactose.

4.0 Policy

- If a malt-based liquor product is classified as a beer by the manufacturer during registration, the LDB will assess the product based on the following criteria:
 - Whether the product contains yeast, barley malt and/or wheat malt, water and hops or hops extract;
 - Whether the product contains Artificial Sweeteners and/or Novel Sweeteners;
 - Whether the product has any sources of added Carbohydrate Matter; and
 - Whether the product has less than or equal to 4% of Residual Sugars.
- If a product:
 - Contains yeast, barley malt and/or wheat malt, water and hops or hops extract;
 - Does not contain Artificial Sweeteners and/or Novel Sweeteners; and
 - Does not have any added sources of Carbohydrate Matter,it will be classified a beer.
- If a product:
 - Contains yeast, barley malt and/or wheat malt, water and hops or hops extract;
 - Does not contain Artificial Sweeteners and/or Novel Sweeteners;
 - Has added sources of Carbohydrate Matter; and

- Has less than or equal to 4% of Residual Sugars, it will be classified a beer.
- All other products will be classified as malt-based refreshment beverages.
- The Liquor Distribution Branch (LDB) has discretion to review and, if necessary, re-classify products on an as-needed basis, should they discover that a product ought to be re-classified. In the case of sugar content, the LDB has discretion to re-test products at any time, if necessary.
- If the mark-up of a malt-based liquor product changes due to reclassification, the manufacturer will be informed by LDB Wholesale.
 - If the classification changes from refreshment beverage to beer, the new mark-up rate will take effect at the beginning of the next fiscal period following the re-classification.
 - If the classification changes from beer to refreshment beverage, the new mark-up rate will take effect at the beginning of the next fiscal period following the next deadline for submission of a new supplier price.

Appendix C

Sugar Test Results

Product	Percentage of Residual Sugars (g/ 100g)
PARALLEL 49 TRICYCLE GRAPEFRUIT RADLER	s.21
RED RACER RADLER	
BAVARIA RADLER	
STIEGL RADLER GRAPEFRUIT	
TREE BREWING CO GRAPEFRUIT RADLER	
PARALLEL 49 TRICYCLE LEMON RADLER	
PFUNGSTADTER WEIZEN RADLER	
WATERLOO GRAPEFRUIT RADLER	
SCHOFFENHOFER GRAPEFRUIT RADLER	
FRULI (VAN DIEST BEER CO) STRAWBERRY	
MIKE'S HARD ROOT BEER	

*Note that the results above are not solely determinative of which category these products would be classified under, as they would still need to be assessed under the other three criteria.

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

Cliff #: 38068

Date: December 1, 2016

PREPARED FOR: Tim McEwan, Deputy Minister of Small Business and Red Tape Reduction

DATE AND TIME OF MEETING: December 7, 2016, 3:00 pm – 3:30 pm

ISSUE: Meeting request from G&W Distilling Inc. (G&W Distilling)

ATTENDEES: Stephen Goodridge, Founder and Managing Director, G&W Distilling Inc.

BACKGROUND:

- G&W Distilling – classified as a commercial distillery – has requested a meeting to discuss government's policy towards small distilleries that work with the LDB.
- Four of their products: Mapleshade Repose, Sid's Vodka, Tempo Renovo Dry Gin, Nutrl Vodka are listed at BC Liquor Stores (BCLSs).
 - Nutrl Vodka was listed in September 2016, Sid's Vodka was listed in February 2016 and the Tempo Renovo Dry Gin was listed in June 2016.
 - It is important to note that full mark-up is applied on commercial or craft distillery products sold at BCLSs.
- G&W Distilling used to be a craft distillery. Their annual production in 2015 as a craft distillery was ^{s.21}
- s.21

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- Before G&W Distilling converted to a commercial distillery they were informed of the major differences between both classification types, and

the LDB assisted with a sample calculation of mark-up to convey how much mark-up would be applied on their products.

- While they no longer receive the craft distillery benefits (the option to directly deliver their products and mark-up relief), they do receive a 7% commission on direct sales to their on-site store. They also have the option to produce spirit based coolers/refreshment beverages.
- All distilleries with on-site stores are also allowed to sell directly to the public from their licensed distillery and they can apply for an authorization to sell at farmer/artisan markets.

DISCUSSION:

As a commercial distillery, G&W Distilling products fall into the spirit category, and therefore mark-up is applied to their supplier cost on a percentage basis, currently – 124% with graduated mark-up for cost portion over \$21/L.

Mark-Up

Commercial Distilleries Mark-up

- s.13,s.17
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Response:

- Craft distilleries in BC must meet a number of criteria to be classified as a 'craft.'
- The intent of BC's craft distillery policy is to encourage the development of a premium spirits sector in BC that uses traditional spirit-making techniques and local BC inputs.
- Full mark-up is applied on craft distillery products listed at BCLSSs.
- Distilleries designated as craft who sell product to private retailers do not remit mark-up to the LDB on these sales since this is a benefit provided under the craft distillery classification. The retail margin that is added onto the supplier price is at the discretion of the private retailer.
- In regards to craft brewer products, mark-up is applied on all craft breweries products, including those sold through BCLSSs.

Mark-up Exemption on Products sold through the LDB

- In previous interactions with the LDB, Mr. Goodridge asked about "mark-up relief on sales through the LDB".

- In this context he is likely referring to the 50% rebate in place for BC wineries that produce VQA wines – they receive a 50% rebate on the product's duty paid cost on BC VQA wine that is sold through the LDB.
- s.13,s.17

Response:

- BCLSs are open to and supportive of carrying products of local distilleries.
- Parliamentary Secretary John Yap received a number of proposals from stakeholders in the distilling industry during his consultations. A thorough analysis of these proposals continues.

ATTACHMENTS: Appendix A – Craft Distillery Criteria

Contact: Kam Aujla, Senior Policy Analyst

Telephone: 604 252-2961

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Appendix A: Craft Distillery Criteria

Craft Distillery - Criteria

To be a Craft Distillery, as a British Columbia Licensed Manufacturer:

- 1) All of your Product* is fermented and distilled at your Licensed Establishment using 100% BC agricultural inputs.
- 2) Your total annual production of Product is:
 - a) less than 50,001 litres per year and therefore mark-up free/no remittance. If your Licensed Establishment is under common ownership and/or common management with other licensed establishments with distillery licences, the combined production of all distilleries will be used to determine compliance with the 50,000 litres production limit. In order for one to qualify for a Craft Distillery that is mark-up free/no remittance designation, all distilleries under common ownership and /or common management** must meet the criteria. Your Products must be produced utilizing traditional distilled spirit making techniques. Production of spirit cooler products or other highly processed products are not permitted. The use of neutral grain spirits in the production of any Products is not permitted; or
 - b) greater than 50,000 litres per year but less than 100,001 litres and therefore a Transitioning Craft Distillery and mark-up/ remittance will be paid in accordance with the rates set out in Appendix D. If your Licensed Establishment is under common ownership and/or common management with other licensed establishments with distillery licences, the combined production of all distilleries will be used to determine compliance with the Transitioning Craft Distillery production limit. In order for one to qualify for a Transitioning Craft Distillery, all distilleries under common ownership and /or common management** must meet the criteria. Your Products must be produced utilizing traditional distilled spirit making techniques. Production of spirit cooler products or other highly processed products are not permitted. The use of neutral grain spirits in the production of any Products is not permitted.
- 3) Licensed establishments producing liquor that do not meet the above criteria for a Craft Distillery will be classified as a Commercial Distillery subject to the terms and conditions of the LDB's agreement with Commercial Distilleries.

The LDB retains the right, in its sole discretion, to determine if a licensed establishment with a distillery license meets the criteria for a Craft Distillery including a Transitioning Craft Distillery.

* Product* means the Liquor manufactured by you at your Licensed Establishment to its final, finished, saleable state intended for consumption, whether in bulk or packaged form, ready for purchase.

** Common ownership and/or common management, in relation to two or more licensed establishments with distillery licences means:

- Any shareholder holds 20% or more of the common shares of each licensed establishment with a distillery licence and/or;
- The licensed establishments have common directors and/or officers who collectively hold 50% of the votes at any director's meetings or who share two or more senior employees who direct the licensed establishments distillery business and/or;
- A licensed establishment with a distillery licence owns shares in another licensed establishment with a distillery licence.

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

Cliff #: 38371

Date: January 19, 2017

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

DATE AND TIME OF MEETING: January 24, 2017; 11:15am – 12:00pm

ISSUE: Meeting request from the Import Vintners and Spirits Association (IVSA)

ATTENDEES: Richard Loewen, Executive Director, IVSA

BACKGROUND:

- ☐ The IVSA is a trade association representing the interests of agents, importers, marketing groups, and trade offices of beverage alcohol products in BC and Alberta.
- ☐ According to the IVSA, it is a registered not-for-profit society that was formed in 1975 in BC. In 2009, the IVSA consolidated operations with the Beverage Alcohol Importers Council of Alberta (BAICA). Its membership in BC includes 102 Import Agencies, 15 Consular and Hospitality Trade groups and two Warehouse and Distribution associate members.

DISCUSSION:

The IVSA's main concerns, as outlined in their follow-up meeting request for the Minister and in recent correspondence to the LDB, are listed below. Parliamentary Secretary John Yap met with Richard Loewen on November 2, 2016 to go over these concerns. The IVSA also submitted a proposal during the Liquor Policy Reform, outlining the same issues.

1. Holiday Season Feedback

- ☐ On January 18, 2017, LDB Wholesale received a letter from the IVSA expressing challenges regarding the Distribution Centre over the holiday season.
- ☐ LDB intends to respond noting the increased demand and lack of space in the Warehouse for the month of December. Additionally, Wholesale intends to meet with IVSA to address these challenges.

Response:

- ☐ Over the holidays there is usually an increase in demand of product, in terms of cases and bottled picks.
- ☐ In December 2016, there was an 8 per cent increase in cases, and an 11 per cent increase in bottle picks.
- ☐ Strong promotional events exacerbated demand, and the untimely snow falls delayed both inbound and outbound product.
- ☐ The LDB is developing solutions to address the challenges arising during the holiday season. These include:
 - Moving promotional event timing to reduce extreme demand (i.e. November)
 - Increase speculative product promotional activity and shipping in October/November
- ☐ Also, the LDB is exploring options for an Interim Distribution Centre, which would help to improve capacity.

2. Vancouver International Wine Festival (VIWF)

- ☐ VIWF is a privately run, annual event that raises money for charity and promotes BC and international wine to the hospitality trade industry and consumers.
- ☐ The LDB in conjunction with the IVSA have been primary stakeholders of the festival since 1979.
- ☐ Historically, the LDB has waived the wholesale mark-up on festival wines brought in through the consular privilege system each year, as well as out-of-province wines in the years that other Canadian provinces participated.
- ☐ The wholesale markup exemption is applied to wines used for booth samples, events, and auctioning. Wines purchased for retail selling do not receive the wholesale mark-up exemption.
- ☐ To commemorate Canada's 150th birthday, the 2017 festival theme is Canada.
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Response:

- ☐ The LDB provides considerable in-kind support to the VIWF, including an on-site Wine Store that features all of the wines served in the tasting room.
- ☐ Additionally, mark-up exemption is applied on wines used for booth samples, events, and auctioning.

3. Hospitality Pricing

BC Liquor Stores (BCLS) Retail Pricing/Fixed Hospitality Mark-up:

- ☐ The IVSA states that BCLSs' retail margins are unsustainable, and that BCLSs are increasing product prices to ensure margins, which may decrease the perceived value of a product to the consumer.
- ☐ s.13,s.16

Response:

- ☐ Hospitality pricing was also a topic Parliamentary Secretary John Yap heard about during his fall 2015 consultations on the wholesale pricing model.
- ☐ We are exploring and analysing the feedback that was received during those consultations.
- ☐ On July 7, 2016 LDB Wholesale launched its new website that included a feature for hospitality customers – a new product catalogue that includes the BCLS Established Retail Price.
- ☐ When it comes to BCLS retail pricing, on April 1, 2015, BCLSs were placed on an equal footing with private retailers and are expected to compete in the marketplace. They make business decisions around the pricing of their products to ensure they remain competitive, while meeting their revenue targets.
- ☐ BCLS establishes a retail mark-up percentage for products within a wholesale price-point range in each liquor category and sub-category. Products within that price-point range, within the category/sub-category, will typically have the same retail mark-up applied.

LRSs Selling to Hospitality Customers:

- ☐ s.13,s.17
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Response:

- ☐ Government is undertaking a detailed and complex analysis covering a variety of options.

- ☐ Government is fully aware and sensitive to the fact that there are differing views within industry.
- ☐ A decision will be made once the analysis is completed and considered.

Wholesale Pricing Model:

- ☐ The IVSA believes that the mark-up formula for wine is too high, leaving little room for retailer margins and resulting in increased retail/hospitality prices for lower quality products.
- ☐ The IVSA requests that government conduct a transparent analysis of the formula, present the results to industry, and reduce the current 89% mark-up.
- ☐ The wholesale mark-up rate for wine is 89% on the first \$11.75 per litre, with a second tier mark-up set at 27% for \$11.76 per litre and above.

Response:

- ☐ Parliamentary Secretary John Yap received proposals from stakeholders during his fall 2015 consultations on the wholesale pricing model, and analysis on those proposals is underway.
- ☐ It is important that we strike a balance – ensuring our mark-up rates are fair and competitive, while still ensuring the appropriate amount of revenue is generated for critical programs such as health and education.

4. Import Products Access to Market

Tracking Distribution of Products in BC:

- ☐ s.13
- ☐ Once ordered, the agent only sees the release purchase order but does not see the account that placed the order s.13,s.17
s.13,s.17

Response:

- ☐ A process is not currently in place whereby the LDB informs suppliers about the end customer that ordered the product and the amount they ordered.
- ☐ LDB Wholesale is moving towards increasing visibility for vendors to see the movement of inventory to the accounts that orders are placed through.

Liquor Warehouse Program Agreement:

- ☐ s.13

- ☐ Currently, products are picked (at the agent's cost), transported to the LDB (at the agent's cost) and then received into inventory, allocated and picked through the LDB warehouse.
- ☐ For hospitality clients, the products are then shipped to the BCLS where the hospitality client picks up the order, in most cases.
- ☐ s.13

Response:

- ☐ The LDB's long-standing policy is that all import products must come through the LDB. All import wine and spirits must also be distributed by the LDB.
- ☐ It is important to note that this is in place to limit liability to the Province.
- ☐ Ordering is a two stage process:
 - First, a requisition is completed to bring the product into the province and make it available for sale. This must go through the LDB, as the LDB is the importer of record for the Province.
 - Second, a purchase order (PO) is received from the end customer (BCLS, private liquor store, hospitality customers, etc.) and the product is shipped into B.C. – through the LDB – to the actual customer for final sale.

5. Support for Small Business

Grocery store model:

- ☐ The IVSA has previously stated that it is not in favour of the wine-on-shelves grocery model, as it's restricted to 100% B.C. wine and does not provide an opportunity for the marketing of import products.
- ☐ To date a total of 14 wine stores have located to grocery stores (11 VQA and three special wine stores). s.13,s.17
- ☐ A second round of special wine store auctions was held in late 2016 for the right to apply for an additional six special wine store licences.
- ☐ The U.S. government filed a WTO trade challenge on January 18, 2017 arguing that the wine-on-shelves model for B.C. wine discriminates against U.S. wine.

Response:

- ☐ During the Liquor Policy Review British Columbians told us they wanted better access to B.C. wines.
- ☐ The government is issuing no more than 18 licences for the sale of 100% B.C. wine on grocery store shelves (eligibility determined by auction) and the 21 VQA stores are also eligible to relocate to grocery.
- ☐ Licensee Retail Stores (LRSs) and independent wine stores can also relocate to grocery stores utilizing the store-within-a-store model and s.13,s.17
- ☐ There are over 1,100 full service liquor retailers in the province where all types of liquor may be purchased so the number of grocery stores selling B.C. wine on shelves is very limited in comparison.
- ☐ s.13,s.17

Previous concerns that have been raised by the IVSA, but were not included in the recent meeting request:

Retail Price for Tastings at BC Liquor Stores:

- ☐ The IVSA does not think it is fair that, as of April 1, 2015, they must pay full retail price for products used for tastings in BCLSSs. Previously, they received a discount for these tastings.
- ☐ As BCLSSs are accountable for their profitability, a business decision was made that they will no longer subsidize the cost of supplier product during tastings.

Product Pricing for Sampling at New Product Salon Events:

- ☐ A New Product Salon event is an event organized by the IVSA where members showcase and offer samples of their products to hospitality and retail customers.
- ☐ With the introduction of the new wholesale pricing structure on April 1, 2015, all previous discounts off-of-display were eliminated. Agents now pay the full retail price for products they use for tastings, and pay the wholesale price for products they use at the IVSA New Product Salon events and for donations to registered Canadian charities.
- ☐ s.13,s.17

- ☐ s.16

A number of changes have recently taken place that benefit the IVSA, including:

In-Store Tastings:

- On June 23, 2016, LCLB made changes to allow LRSs and wines stores to conduct two manufacturer tastings at one time. Sample sizes were also increased to ½ a standard drink.
 - **Note:** s.13,s.17
s.13,s.17
- Signature Stores were already permitted to conduct two tastings at a time.
- A change in LCLB's new regulations, effective January 23, 2017, will allow agents or manufacturers to bring product (purchased from an authorized vendor) into a store to use for tastings (with the store's permission), and take any leftover liquor from a tasting to use at a subsequent tasting.
 - Note:** Agents and manufacturers are still required to purchase product at a BCLS but they are now allowed to remove leftover product from the store. Leftover product may not be used at another BCLS.

Wholesale Operations:

- The LDB's Wholesale team meets with the IVSA regularly to discuss and address concerns on areas of mutual interest.
- The Wholesale team reduced new product registration set up time from 3 weeks down to 3 days, partly as a result of responding effectively to vendors, agents and brewers concerns.
- On September 26, 2016 LDB hosted an open house for 40 IVSA at the Distribution Centre and provided a warehouse tour and an overview of its operations. Attendees provided positive feedback.
- Wholesale hosted IVSA on October 26, 2016 to gather and discuss feedback on the wholesale website to ensure it meets the needs of our customers, agents, associations and retailers.
- Wholesale team recently began attending IVSA New Product Salons to meet with vendors. On October 31, 2016, senior staff from Wholesale attended IVSA's Vancouver Salon where the LDB hosted a table to showcase the new hospitality website and to share important information on Wholesale employee contacts and ordering time lines.

Retail Operations:

- The LDB's Retail team met with the IVSA on November 17, 2016 to answer some of their questions around BCLS initiatives (e.g. marketing and promotional, policy changes), BCLS pricing standards, product listing and delisting guidelines, and store tastings.
- s.13,s.17

Contact: Kam Aujla, Senior Policy Analyst
Telephone: 604-252-2961

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