



Testimony submitted by

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Before the General Law Committee in

support of Sections of

H.B. No. 5036 An Act Promoting Craft Breweries

And Distilleries and Price Fairness

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To: Sen. Carlo Leone, Co-Chair
Sen. Kevin Witkos, Co-Chair
Rep. Michael D'Agostino, Chair
Rep. Richard Smith, Ranking Member

This testimony is provided on behalf of the Distilled Spirits Council, a national trade association representing producers and marketers of distilled spirits sold in the United States, regarding the Connecticut statutory wine and spirits pricing fixing requirements commonly known as minimum bottle price. We support the Governor's proposal to provide for changes in how spirits are priced in Connecticut contained in H.B. No. 5036 An Act Promoting Craft Breweries and Distilleries and Price Fairness, specifically the changes contemplated in Section 7, Section 8 (a)(1) and Section 8 (a)(3). Adopting these changes would eliminate minimum bottle pricing and allowing the free market to work as intended.

This would result in many benefits. It would modernize the Connecticut beverage alcohol marketplace, provide for greater marketplace competition, increase consumer convenience, and it would significantly lower spirits and wine prices for Connecticut's consumers. It would also give a substantial revenue boost to the state treasury. The Distilled Spirits Council has advocated for this change for many years.

For those unfamiliar with how minimum pricing works, here is a simple explanation:

Via the three-tier system, distilled spirits and wine products are typically sold by the case from wholesalers/distributors to retail licensees. Just for illustration purposes, let's assume that a case of 10 bottles of wine or spirits sells for \$100 for a retailer cost of \$10 per bottle. The minimum pricing statute also allows a wholesaler to set a single bottle price. Again, for illustration purposes, let's say that single bottle price is set at \$12.50. Current statute means that no retailer can sell that bottle for less than \$12.50 regardless of the per bottle price paid by the case, thus becoming the minimum bottle price. In this example, the state price fixing statute establishes a 25% profit for all retailers, eliminates any pricing competition in the marketplace and increases the price to consumers by as much as \$2.50 per bottle.

Eliminating the minimum bottle pricing would allow retailers to sell products at a price retailers determine rather than at a government-mandated or wholesaler established single bottle price. This change would also serve to make Connecticut more competitive with its surrounding states, provide better pricing for consumers of beverage alcohol and increase revenue to the state by repatriating sales that are today being made across the border.

In addition to restricting a free market and increasing consumer prices by requiring retailers to sell at an artificial minimum price, the minimum pricing law interferes with consumer brand selection. Because price restrictions limit the price at which a retailer

may sell alcohol, shelf prices are higher than in a true free market system and consumers buy to what they can afford rather than what they may desire.

Real-world pricing data from the Connecticut Beverage Journal – the bible of alcohol pricing for the state which contains the entire brand selection available in Connecticut, along with the wholesale case price and the single minimum bottle price – the price below which no retailer can sell – illustrate in black and white that prices of popular products can be as 26% higher than the single bottle case price. With a guaranteed profit of that size, it is easy to understand why retailers are so opposed to any changes to the state mandated price supports which prevent competition in the marketplace.

You have heard proponents of maintaining the current system attempt to divert the discussion about minimum bottle pricing by talking about Connecticut's excise taxes, quantity case discounts and minimum mark-ups in other states. Allow me to briefly address those issues:

1) Taxes:

While perhaps not the highest, the excise tax rate in Connecticut is higher than the rate of the surrounding states. This is further compounded with the fact that Massachusetts, the state most often referenced in discussion, does not apply a sales tax to package alcohol sales. However, while the Distilled Spirits Council is 100% supportive of any reduction in the current beverage alcohol excise tax rate, the fact is much of the taxation that is applied to beverage alcohol is beyond the reach of state policymakers. Only by almost completely eliminating the state excise tax would there be any opportunity for a meaningful reduction in shelf price. In the current budgetary environment that is not likely to happen.

2) Quantity Case Discounts:

This refers to a situation where retailers that buy greater quantities of product get better prices. This practice is prohibited in Connecticut. This means that the price for the first case purchased is the same price as it is for 100 cases purchased. Any discussion of quantity case discounts is simply an attempt to divert attention and has nothing to do with the issue of minimum bottle price. Further, the per-bottle price when bought in cases is meaningless – retailers simply cannot sell it for that price because they must sell no lower than the posted single bottle price, again as much as 26% higher than the case-bottle price.

3) Mark-ups:

Mark-ups refer to the mark-up that is applied in control jurisdictions, those places where the state is in the alcohol beverage business either as a wholesaler, the retailer or both. The "mark up" is the difference between the price charged by the supplier to the retail shelf price and is used in those control jurisdictions such as New Hampshire, Maine, Virginia, Utah and others. Contrary to what you may be told, no other non-control state in the country has a minimum bottle price system. Not one!

Opponents of eliminating the minimum mark-up scheme have previously told you that the state's adoption of Sunday sales would result in the closing of hundreds of stores. They also suggest that Sunday sales did not result in any additional sales, ergo, neither will the elimination of minimum-bottle pricing. We prefer to let the facts speak for themselves:

- 1) Store closings:
According to the Connecticut Department of Consumer Protection there has been no mass closing of package stores since the adoption of Sunday sales. In fact, not one store has closed as a result of the adoption of Sunday sales.
- 2) New Sundays sales revenue:
On the sales front, the Connecticut Department of Revenue Services reported that the adoption of Sunday sales resulted in \$1.3 million in additional excise taxes plus additional sales taxes. DRS further reported that sales of distilled spirits, which can only be purchased in Connecticut package stores, increased by more than 5%, precisely what we suggested would occur when the change was considered.
- 3) Thriving marketplace:
States with no minimum bottle pricing, with the same or no license cap or even more stores per capita than Connecticut have a thriving, competitive marketplace.

We believe the Administration's estimate for new revenue to the state driven by the elimination of minimum bottle pricing are conservative. Our economic analysis – attached - indicates that Connecticut may be losing as much as 12% of spirits, 15% of wine and 16% of beer volumes due to a lack of price competition. While a prediction of certainty is elusive, recovery of even half of these lost sales opportunities from surrounding states could amount to additional revenue to the state of \$150 million in retail revenue equating to nearly \$7 million in new excise and sales taxes. Our conservative estimate is that total new revenue to the state would be between \$5.2 million and \$8.1 million.

In closing, if restrictions on retail pricing were removed, retailers would sell at whatever price they thought would cover their costs and afford them a reasonable profit and more efficient retailers would be more price competitive than their less efficient neighbors. Those are not my words, but those of University of Connecticut economist, Dr. Stanley McMillen, a member of the Competitive Alcoholic Liquor Pricing Task Force, who went on to say that reducing prices to consumers through increased competition encourages growth in an industry at all levels. Dr. McMillen is right.

Eliminating minimum bottle pricing is sensible, will provide expanded opportunities for Connecticut's businesses, enhance Connecticut's competitiveness, and contribute to an improved economy all while simultaneously delivering millions of dollars of new revenue to the state treasury.



Policy Analysis

Minimum Pricing

I. Minimum pricing in Connecticut prevents price competition and causes higher retail prices, reduces retail sales and state tax revenues

The requirement that all Connecticut retailers price their product at or above a posted minimum bottle price in Connecticut eliminates retail price competition in the state. Elimination of price competition means that consumers pay higher shelf prices, leave the state to make purchases or purchase lower cost items.

Various surveys have shown that the total impact of the minimum bottle price requirement increases retail prices for spirits and wine 8-9% above surrounding states. Some surveys have shown even higher prices, with as much as a 26% difference between the per-bottle case-price and the minimum mandated single bottle price.

Higher prices reduce retail sales in two ways. First, higher prices cause people to reduce the amount that they purchase. However, in a state like Connecticut where shoppers have easy access to lower priced stores in neighboring states, many Connecticut citizens simply drive to nearby New Hampshire, Massachusetts and Rhode Island to shop. Unfortunately, when this happens the state loses not only wine and spirits sales, but sales of other products as well and the accompanying tax revenue on all those sales.

Removing the minimum pricing requirement would increase state excise and sales tax revenue by \$5.2 to \$8.1 million annually.

The table below shows what the sales and tax implications would be if the general pricing level fell by between 7 to 11%. A 7% reduction in price would generate nearly \$5.2 million in new sales and excise taxes, while an 11% price reduction would bring in \$8.1 million in new tax revenues

Estimated New Tax Revenue from Removal of Minimum Bottle Pricing in Connecticut

| | | Price Decline | | | | |
|--------------------------|--|---------------|---------------|--------------|---------------|---------------|
| Percent Volume Impact | | 7% | 8% | 9% | 10% | 11% |
| Spirits | | 0.0553 | 0.0632 | 0.0711 | 0.079 | 0.0869 |
| Wine | | 0.0385 | 0.044 | 0.0495 | 0.055 | 0.0605 |
| New Volume (Gal.) | | | | | | |
| Spirits | | 370,107 | 422,979 | 475,852 | 528,724 | 581,596 |
| Wine | | 547,062 | 625,213 | 703,365 | 781,517 | 859,668 |
| Retail Value | | | | | | |
| Spirits | | \$28,468,198 | \$ 32,535,084 | \$36,601,969 | \$ 40,668,855 | \$ 44,735,740 |
| Wine | | \$15,463,551 | \$ 17,672,630 | \$19,881,708 | \$ 22,090,787 | \$ 24,299,866 |
| New Excise Tax | | | | | | |
| Spirits | | \$ 1,998,577 | \$ 2,284,088 | \$ 2,569,599 | \$ 2,855,110 | \$ 3,140,621 |
| Wine | | \$ 393,884 | \$ 450,154 | \$ 506,423 | \$ 562,692 | \$ 618,961 |
| Total | | \$ 2,392,461 | \$ 2,734,241 | \$ 3,076,021 | \$ 3,417,802 | \$ 3,759,582 |
| New Sales Tax | | | | | | |
| Spirits | | \$ 1,807,731 | \$ 2,065,978 | \$ 2,324,225 | \$ 2,582,472 | \$ 2,840,719 |
| Wine | | \$ 981,935 | \$ 1,122,212 | \$ 1,262,488 | \$ 1,402,765 | \$ 1,543,041 |
| Total | | \$ 2,789,666 | \$ 3,188,190 | \$ 3,586,714 | \$ 3,985,237 | \$ 4,383,761 |
| Total | | \$ 5,182,127 | \$ 5,922,431 | \$ 6,662,735 | \$ 7,403,039 | \$ 8,143,343 |

Assumptions:

An average price of \$15.24 per 750 ml of spirits was used along with a wine price of \$5.60 per 750 ml.

Price elasticity of demand for spirits was assumed to be -0.79 and for wine -0.55. Both figures are often cited in economics literature.