

Introduction

The legislature established the Competitive Alcoholic Liquor Pricing Task Force pursuant to Section 14 of Public Act 12-17. The task force must: 1) examine, review, and analyze Connecticut alcoholic liquor taxes, quantity and volume discounts, existing liquor permit restrictions, minimum pricing and price posting; 2) compare its findings to those in the surrounding states; and 3) note the impacts, both positive and negative, on Connecticut's (a) consumers and (b) alcohol industry. The task force must submit its report to the General Law Committee by January 1, 2013.

In order to efficiently deploy the Task Force's resources and meet the requirements of the statute, subcommittees formed to address (1) alcoholic beverage taxes, (2) alcoholic beverage permit restrictions, (3) minimum bottle pricing and price posting and quantity discounting. In addition, the task force examined related issues such as bottle bill states, the nature of the laws in such states and alcoholic beverage consumption patterns across the states as well as the history of alcoholic beverage consumption in Connecticut.

Introduction

Much has been written about the alcoholic beverage industry and the issues surrounding consumption, pricing, distribution and regulation are complex and not easy to compare and contrast across the fifty states. Since the 21st Amendment repealed Prohibition in 1933 and the states were given the power to regulate the production, distribution and final sale of alcoholic beverages, the form of these regulations have evolved into states that monopolize the distribution and sale of alcoholic beverages and those that license distributors and retailers to move the product. Today, there are 18 states that have a monopoly on distribution and final sale ("control states") while the remainder are "license states". Appendix A provides a compendium of the laws governing the distribution and sale of alcoholic beverages in the 50 states.

As we construct this report, it will be helpful if we keep in mind what public policy objectives the current structure of Connecticut laws and regulations attempts to achieve. Among these are obviously public health and safety. In addition, the report attempts to

describe what we might achieve if the structure were changed. This report describes some aspects of Connecticut's current structure and compares and contrasts it with other states' structures where feasible¹ while mentioning the challenges states face today from legal challenges to post and hold laws and the distribution of certain alcoholic beverages from the World Trade Organization (WTO) among others. The report attempts to illuminate the possibilities for legislative change and proposes specific recommendations that could make Connecticut more competitive to surrounding states, increase our state's consumer wellbeing, spur growth in the alcoholic beverage and related industries as well as increase public health and safety.

The Three-Tier System

A three-tier system consisting of the production, distribution and final sale of alcoholic beverages evolved after the repeal of Prohibition and exists in various forms in the states today. A producer must sell to a distributor who must then sell to a retailer. Producers include brewers, wine makers, distillers and importers. States have various exceptions to this rule, the most prevalent one being the case of a brewpub, which is simultaneously a producer and retailer and has no requirement to sell to a distributor. Some states allow an entity to have a part in two of the tiers, letting small breweries act as their own distributor, for example. In the wine industry, many states permit wineries to sell bottles of wine on-site to customers, and some states, such as Oregon, permit intrastate shipments of wine directly from the producer to the customer. Usually producers give a distributor exclusive rights to market their product within a geographical area, so that there will not be, for example, two distributors of Anheuser-Busch products competing against each other. Rules vary according to what kind of relationships each of the tiers can enter in to with the other two tiers. For example, a producer may not be allowed to give promotional items or services to a retailer. A beer distributor might be responsible for setting up and maintaining draft lines in a restaurant, or may be legally prohibited from doing so, depending on the state.

¹ The region we analyze in this report consists of the six New England states, New York, New Jersey and Pennsylvania and is consistent with the 2011 OLR Research Report 2011-R-0252 (revised). These states' web of laws and regulations is exceedingly complex and difficult to portray simply.

The distributor must establish a relationship with a retailer. The distributor may not purchase shelf space or exclusivity, furnish equipment such as draft coolers, offer loans or create a feeling of obligation or offer discriminatory promotional pricing. Distributors are supposed to provide all retailers the same pricing. Distributors maintain large refrigerated warehouses to store beer and fine wine and fleets of trucks to ship product around the state. This reduces the inventory a retailer needs to carry and some distributors can quickly and efficiently provide a huge variety in any quantity to retailers.²

Alcoholic Beverage Consumption

How does Connecticut compare with other states in the consumption of alcoholic beverages? The National Institute of Alcohol Abuse and Alcoholism produces an annual report on the apparent per capita consumption of beer, wine and spirits in the states.³ The 25th annual surveillance report from August 2011 is based on alcoholic beverage sales data collected directly by the Alcohol Epidemiologic Data System (AEDS) from the states or provided by beverage industry sources. Population data for persons older than 14 provided by the U.S. Census Bureau provide the basis for per capita rates. The following are highlights from the current report, which updates consumption trends from 1977 through 2009:

- In the United States, per capita consumption of ethanol from all alcoholic beverages combined in 2009 was 2.30 gallons, representing a 0.9 percent decrease from 2.32 gallons in 2008.
- Between 2008 and 2009, changes in overall per capita consumption of ethanol included
- increases in nine states, decreases in 34 States and the District of Columbia, and no change in seven states.
- Analysis of overall per capita alcohol consumption by census region between 2008 and 2009 indicated decreases of 0.4% in the Midwest, 0.9% in the South, and 1.2% in the West, with no change in the Northeast.

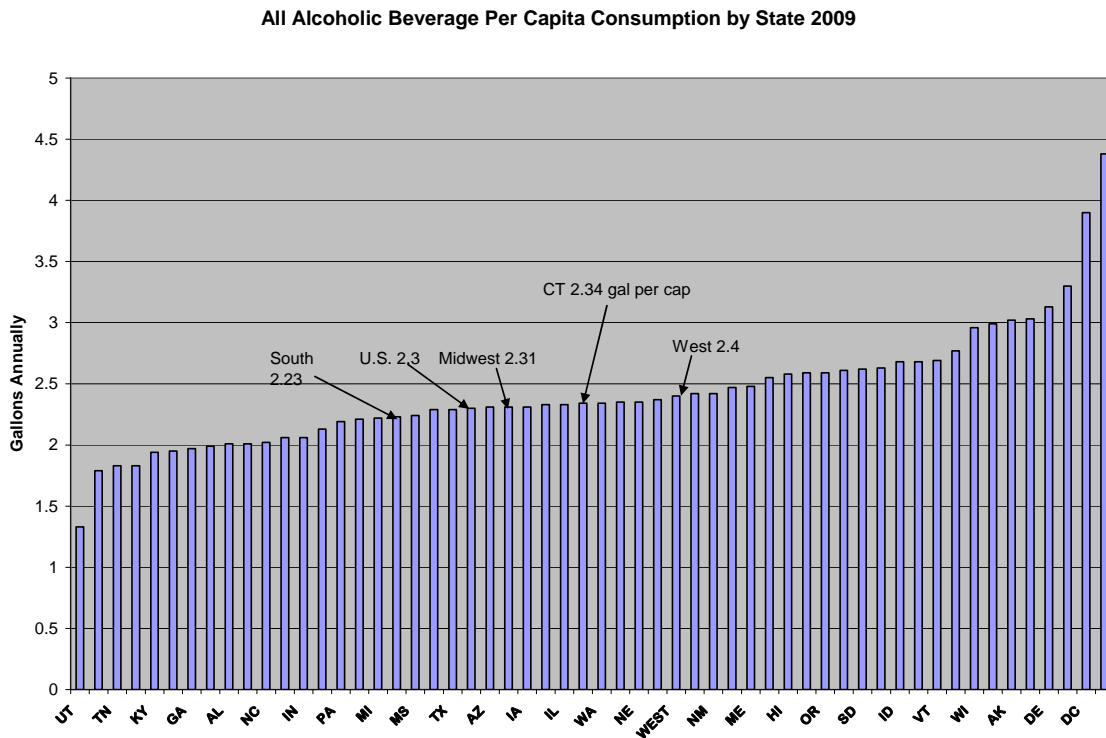
² See <http://www.fermentarium.com/industry/how-the-three-tiered-beer-distribution-system-works/> for more information.

³ See <http://pubs.niaaa.nih.gov/publications/Surveillance92/CONS09.htm#list> for more information.

Healthy People 2010 (U.S. Department of Health and Human Services 2000) has set the national objective for reducing per capita alcohol consumption to no more than 1.96 gallons of ethanol. However, the prospect of reaching the Year 2010 national objective does not appear promising. From 1999 to 2008, there was a trend of increasing per capita consumption. However, 2009 is the first year in a decade in which a decrease in per capita consumption was observed. To meet the 2010 objective, U.S. per capita alcohol consumption will need to decrease by 14.8% within one year.

Figure 1 shows consumption of beer, wine and spirits across the states in 2009. Connecticut ranked 25th at 2.34 gallons per capita.⁴ New Hampshire has the largest apparent consumption per capita because it sells a large quantity to residents of other states.

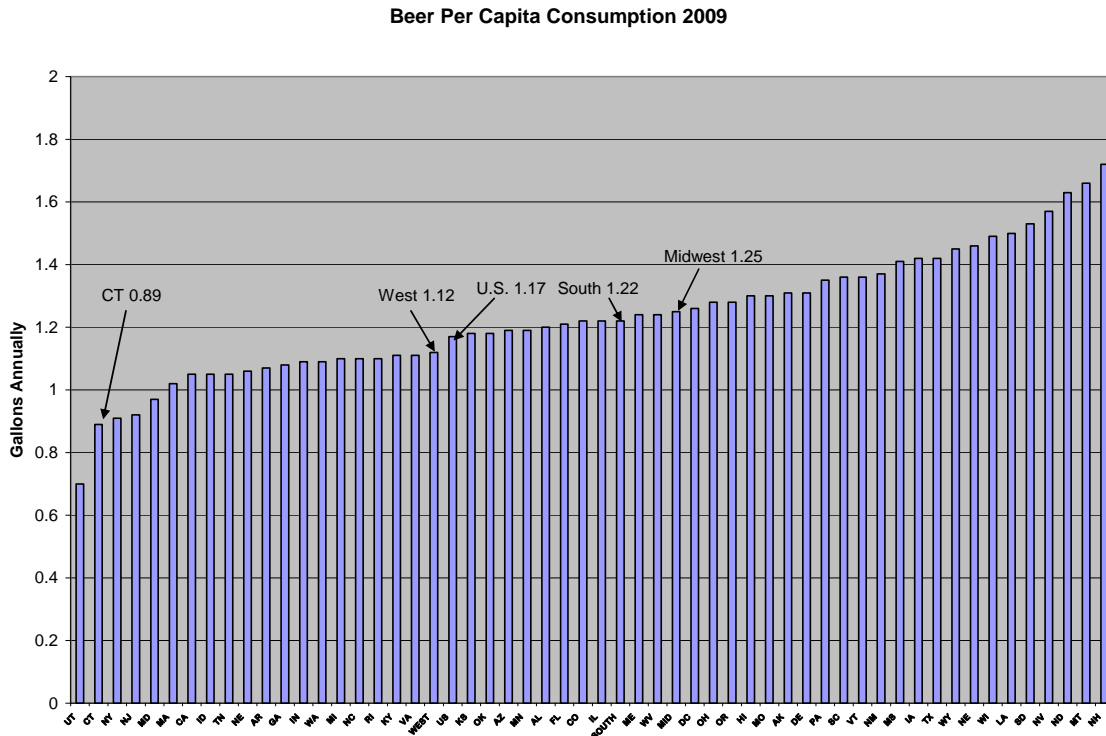
Figure 1: Alcoholic Beverage Consumption by State 2009



⁴ AEDS uses an estimate of average ethanol content in the alcoholic beverages to convert the gallons of sold or shipped beer, wine and spirits into gallons of ethanol (pure alcohol) before calculating per capita consumption estimates. The ethanol conversion coefficients (ECC, i.e., proportion of pure alcohol for each beverage type) are 0.045 for beer, 0.129 for wine, and 0.411 for spirits.

Figures 2, 3 and 4 show per capita consumption for beer, wine and spirits across the states in 2009. New Hampshire has the largest apparent beer consumption for the same reason as above. Washington, D.C. and Idaho had the largest per capita wine consumption in 2009, while New Hampshire was the third highest apparent consumer.

Figure 2: Per Capita Beer Consumption by State 2009



New Hampshire, Washington, D.C. and Delaware were the top three per capita consumers of spirits in 2009. These states and the District are likely exporters to nearby states because they are relatively price competitive with their near neighbors.

Figure 5 shows Connecticut’s annual per capita consumption of beer, wine and spirits from 1977 through 2009. We notice that the trend for all alcoholic beverages has been declining over the past 32 years consistent with the U.S. trend. The trend for all alcoholic beverages is the sum of the three subtrends for beer, wine and spirits. While the trend for Connecticut beer consumption has been consistently declining, the trend for spirits consumption declined until about 1996 and was flat until 2002 when a slight uptrend occurred. Connecticut wine consumption has slowly but steadily increased over the period.

Figure 3: Per Capita Wine Consumption by State 2009

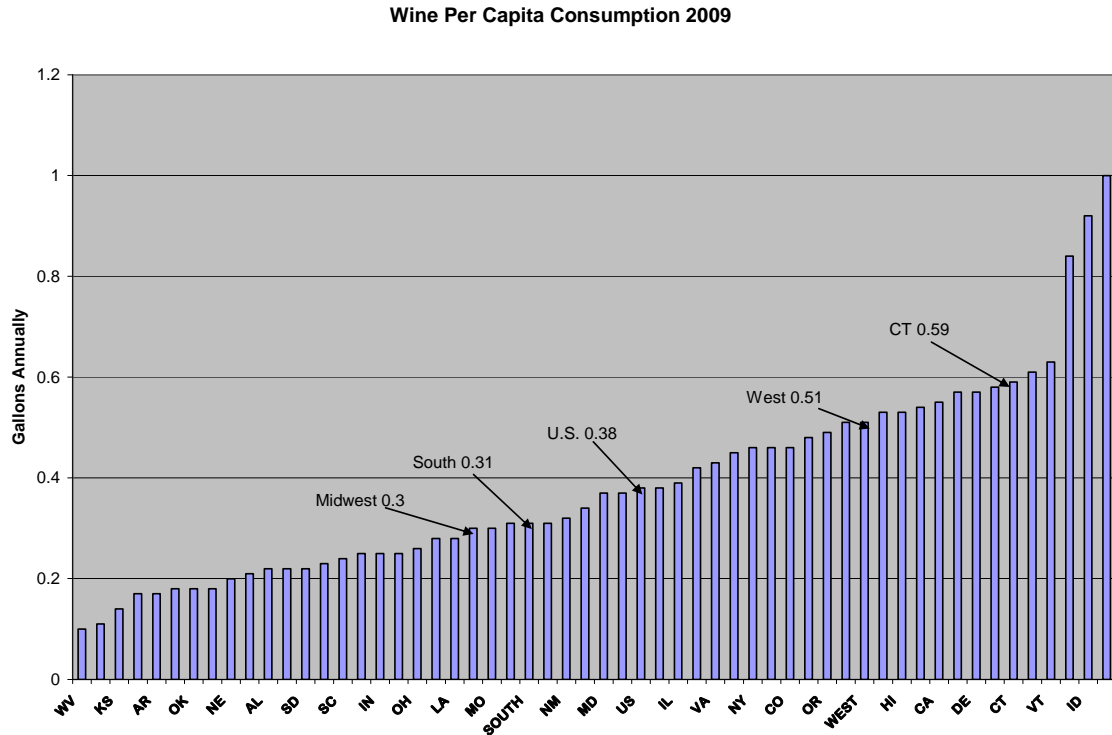


Figure 4: Per Capita Spirits Consumption by State 2009

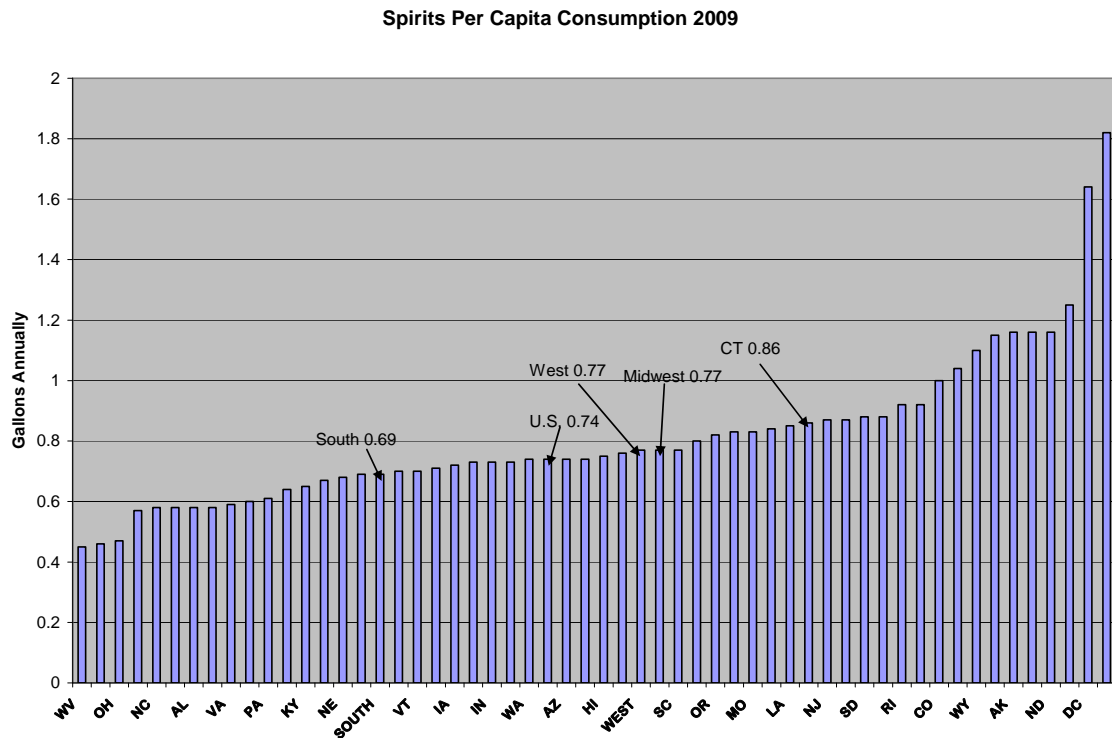
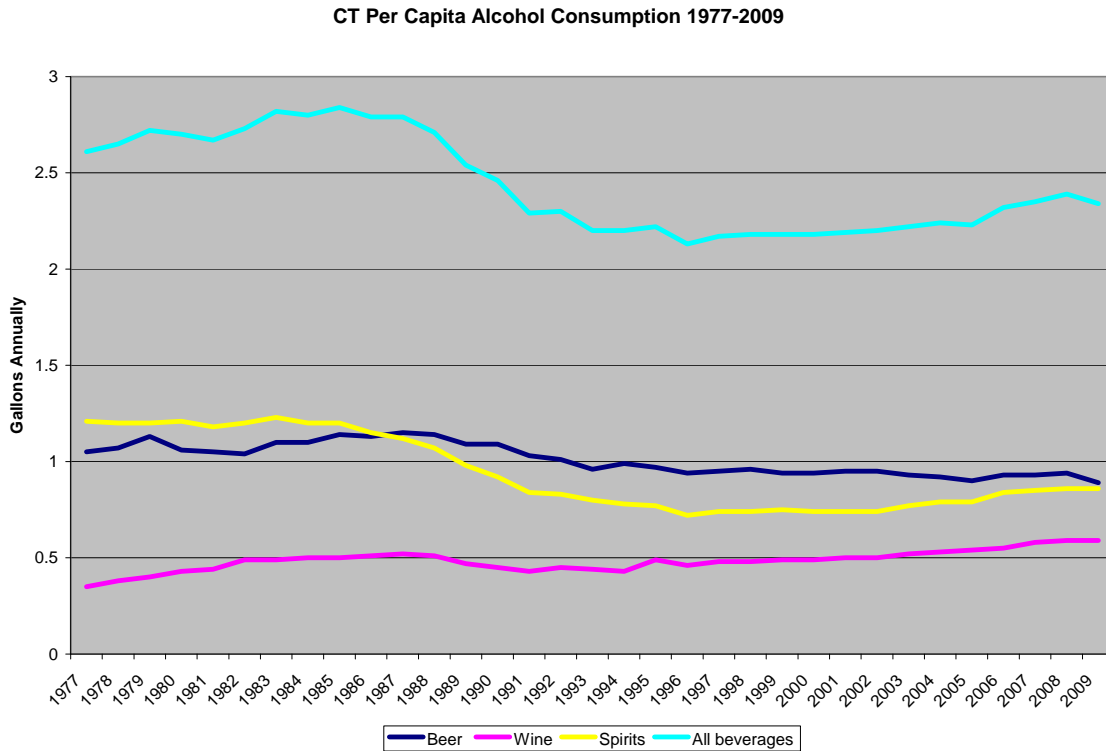


Figure 5: Historic Consumption of Beer, Wine and Spirits in Connecticut



Taxes and Tax Revenue

Taxes on alcoholic beverages occur at the federal and state levels and may be levied at the county level as well. Federal taxes are excise or per unit (equivalent alcohol by volume) taxes paid by the producer of the beverage. State taxes include excise taxes and sales taxes that are ad valorem or a percent of the final sale price. Table 1 shows federal excise taxes on alcoholic beverages as of September 2012.

Table 1: Federal Excise Taxes on Alcoholic Beverages

PRODUCT	TAX	TAX PER PACKAGE (usually to nearest cent)
Beer	Barrel (31 gallons)	12 oz. can
Regular Rate	\$18	\$0.05
Reduced Rate	\$7 on first 60,000 barrels for brewer who produces less than 2 million barrels. \$18 per barrel after the first 60,000 barrels.	\$0.02
Wine	Wine Gallon	750ml bottle
14% Alcohol or Less	\$1.071*	\$0.21
Over 14 to 21%	\$1.571*	\$0.31
Over 21 to 24%	\$3.151*	\$0.62
Naturally Sparkling	\$3.40	\$0.67
Artificially Carbonated	\$3.301*	\$0.65
Hard Cider	\$0.2261*	\$0.04
(* \$0.90 credit, or for hard cider \$0.056, may be available for the first 100,000 gallons removed by a small winery producing not more than 150,000 w.g. per year. Decreasing credit rates for a winery producing up to 250,000 w.g. per year.)		
Distilled Spirits	Proof Gallon **	750ml Bottle
All	\$13.50 less any credit for wine and flavor content.	\$2.14 (at 80 proof)
** A proof gallon is a gallon of liquid that is 100 proof, or 50% alcohol. The tax is adjusted, depending on the percentage of alcohol of the product		

Source: http://www.ttb.gov/tax_audit/atftaxes.shtml

In addition, there were special occupational federal taxes on alcoholic beverage retailers and producers shown in Table 2. These taxes were repealed July 1, 2005 but effective through June 30, 2008.

Table 2: Federal Special Occupational Taxes

Special Occupational Tax	Annual Tax	Tax During the Period July 1, 2005 to June 30, 2008
Retail Liquor/Beer Dealer	\$250	\$0*
Wholesale Liquor Dealer	\$500	\$0*
Brewer	\$1000 or reduced rate of \$500	\$0*
Proprietor of a distilled spirits plant, bonded wine cellar, bonded wine warehouse, or taxpaid wine bottling house	\$1000 or reduced rate of \$500	\$0*
Nonbeverage Drawback Claimant	\$500	\$0*
Industrial Alcohol Permittee	\$250	\$250*

*While the tax on these activities has been suspended, the registration requirement remains in effect.

Source: http://www.ttb.gov/tax_audit/fed_tax_stamp.shtml

Table 3 shows excise, sales and other taxes levied by the six New England states, New York, New Jersey and Pennsylvania on alcoholic beverages. Shaded states are control states. Sources include the Tax Foundation, Federation of Tax Administrators, the Commerce Clearinghouse and the 2011 Fact Book. Connecticut grants an excise tax refund if the product is bad or damaged. Maine grants an excise tax refund if the product is destroyed, returned to the producer, damaged or sold to government instrumentalities (applies to beer and wine). New Hampshire grants an excise tax refund if the product is damaged or recalled. New Jersey grants an excise tax refund if the product is exported out of state or returned to the producer. Vermont grants an excise tax refund if the product is damaged or sold to military installations.

Table 3 makes it clear that it is not simple to determine the tax burden on a given alcoholic beverage product across the nine states under consideration. While federal taxes are consistent across all states, excise (per unit) and sales (ad valorem) taxes vary widely. If we accept that supplier (free on board or FOB) prices to each state are approximately equal, then if retail prices do not vary widely across these states, distributors must have the ability to adjust their margins to compete regionally. Maine, Vermont, New Hampshire and Pennsylvania are control states and may have power to influence supplier prices because of their volume purchasing and sole power to distribute

and sell at retail. This seems to be the case in New Hampshire and possibly Pennsylvania.

Tax revenues from taxes on alcoholic beverages for 2011 for the nine states under consideration appear in Figure 6. These values differ significantly as the population, consumption and applicable taxes vary across these states.

Figure 6: Revenue from Taxes on Alcoholic Beverages 2011

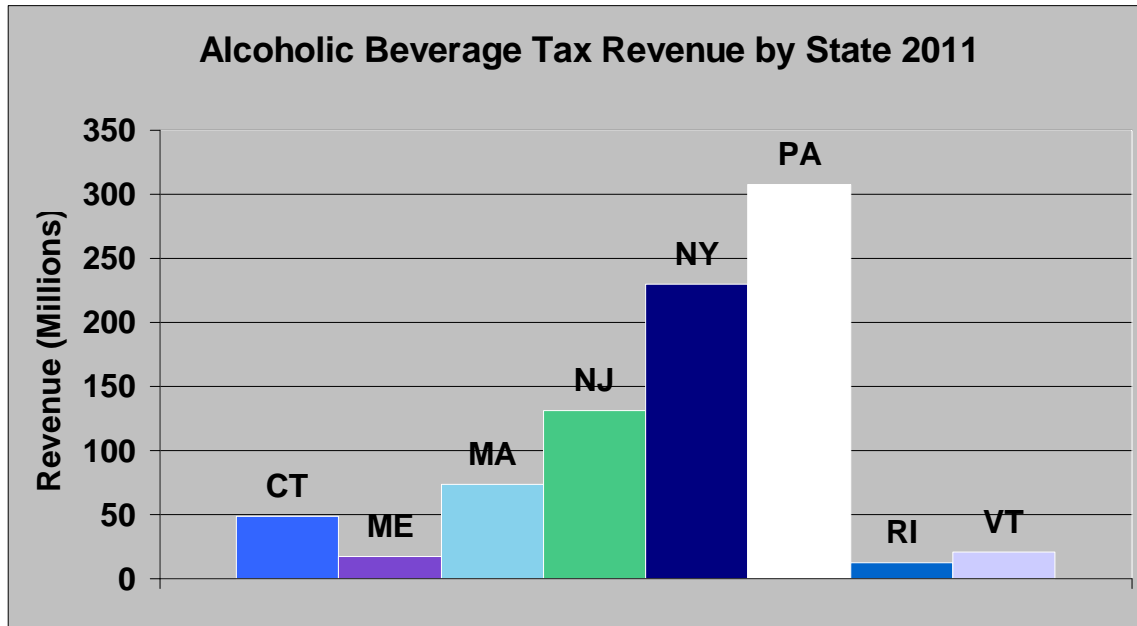


Table 3: State Excise, Sales and Other Taxes on Alcoholic Beverages

State	Table Wine	Dessert Wine	Champagne/Sparkling Wine	Vermouth/Aperitif	Wine Coolers	Beer	Distilled Spirits	State Sales Tax	Other Taxes
Connecticut	\$0.60	\$0.60	\$1.50	\$0.60	\$0.60	\$0.19	\$4.50 (1)	6.35%	
Maine	\$0.60 (2)	markup+\$1.00	\$1.00	markup+\$1.00	\$0.60 (2)	\$0.35	markup (3)	5.00%	additional 5% tax on on-premise beer & wine sales;
Massachusetts	\$0.55+6.25%	\$0.55+6.25%	\$0.55+6.25%	\$0.55+6.25%	\$0.55	\$0.11	\$4.05	repealed	0.57% on private club sales of beer & spirits;
New Hampshire	66% markup	66% markup	61% markup	66% markup	\$0.30	\$0.30	47.5% markup	no sales tax	
New Jersey	\$0.875	\$0.875	\$0.875	\$0.875	\$0.875	\$0.12	\$5.50	7.00%	
New York	\$0.30	\$0.30	\$0.95 (4)	\$0.30	\$0.30	\$0.14	\$6.44 (5)	4.00%	\$1.00/gallon spirits in NYC; \$0.12/gallon beer in NYC.
Pennsylvania	30% markup + 18%	30% markup + 18%	30% markup + 18%	30% markup + 18%	30% markup + 18%	\$0.08	30% markup + 18%	6.00%	
Rhode Island	\$0.60	\$0.60	\$0.75	\$1.10	\$0.60	\$0.10	\$3.75	7.00%	\$0.04/case wholesale tax on beer
Vermont	\$0.55	markup	\$0.55	markup	\$0.55	\$0.27	markup +25%	NA	10% on-premise tax on beer, wine & spirits

Notes:

- 1/ Excise tax rates for spirits with 7% or more alcohol content; excise tax for spirits with less than 7% alcohol content is \$2.50 per gallon
- 2/ A \$0.30 premium tax per gallon is added to table wine & wine coolers
- 3/ A \$1.25 premium tax per gallon on spirits products is included in the markup.
- 4/ Excise tax rate for champagne/sparkling wine. Excise tax for carbonated wine is \$0.57 per gallon.
- 5/ Excise tax rate for spirits more than 48 proof. Excise tax rate for spirits less than 48 proof is \$2.54 per gallon.

Price Posting and Post and Hold Laws

Connecticut law mandates that each manufacturer (i.e., supplier), wholesaler (i.e., distributor) and out-of-state shipper post their prices with the Connecticut Department of Consumer Protection (DCP) on a monthly basis. Connecticut and 18 other states mandate that distributors post their prices for the coming period (e.g., the following month) with the state's agency responsible for regulating alcoholic beverage sales. Distributors must hold their posted prices for the duration of the coming period. In Connecticut, suppliers and distributors must post prices for each product each month, which will be in effect the following month. Distributors may amend prices within four days to meet (but not beat) a lower price offered by another wholesaler. Posted prices may not be changed during the month they are in effect. Liquor and wine distributors must in addition post a "bottle price" for each product. The bottle price is the actual cost charged to a retailer and an additional amount determined solely by the distributor. Distributors must file a schedule of "suggested consumer retail prices".

As another example, New York's post and hold law requires beer, wine, and spirits distributors to file by the fifth day of each month the prices that they intend to charge the following month. New York wholesalers must hold these prices for the following month. Hold periods vary with some states mandating longer hold periods for price reductions than for price increases. Some states' post and hold laws make planned future prices available to competing wholesalers and allow wholesalers to adjust their posted prices downward as in Connecticut. New York law makes posted prices available to competitors ten days after they are filed and allows distributors three business days to adjust their prices to meet lower competing prices.⁵ Table 4 shows the 19 states that adopted post and hold laws since 1983 (*Washington repealed their post and hold laws in 2008 as a result of a federal appeals court hearing).

⁵ State alcoholic beverage laws appear in Appendix A. Much of the material for this section comes from the Bureau of Economics, Federal Trade Commission, Working Paper No. 304, "State Regulation of Alcohol Distribution: The Effects of Post & Hold Laws on Consumption and Social Harms," by James C. Cooper and Joshua D. Wright, September 2010.

Table 4: States with Post and Hold Laws

State	Wine	Beer	Spirits
Connecticut	Y	Y	Y
Delaware	Off in 1999	Y	Off in 1999
Georgia	N	Y	Y
Idaho	Y	Y	N
Maine	Y	Y	N
Maryland	Off in 2004	Off in 2004	Off in 2004
Massachusetts	Off in 1998	Off in 1998	Off in 1998
Michigan	Y	Y	Y
Missouri	Y	N	Y
Nebraska	Off in 1984	N	Off in 1984
New Jersey	Y	Y	Y
New York	Y	N	Y
Oklahoma	Y	Y	Y
Oregon	Off in 1990	Off in 1990	N
Pennsylvania	N	Off in 1999	N
South Dakota	Y	N	Y
Tennessee	N	Y	N
Washington	On in 1995, Off 2008*	On in 1995, Off 2008*	N
West Virginia	N	N	Y

Source: References cited in footnote 5.

As of mid-2010, ten states had post and hold laws applying to wine wholesalers, nine states had post and hold laws applying to beer wholesalers, and nine states had post and hold laws applying to spirit distributors. Since 1983, seven states have repealed their PH laws, primarily because of court decisions.

Post and hold laws require distributors to adhere to the prices they announce and thus they make a credible commitment to charge announced prices subject to amendment where possible. The history of announced prices provides distributors with information useful in setting future prices and shows who the leading price setters were. It is conceivable that announcing wholesale prices before the period of final sale may reduce competition by discouraging distributors from undercutting (e.g., by offering discounts to certain retailers) each other.⁶ Several courts have found that post and hold laws mimic agreements between rival distributors to hold prices, which constitute *per se* illegal

⁶ Cooper and Wright (2010) cite evidence for this effect.

conduct under the Sherman Act. In one case, a distributor testified that he and rival wholesalers used the public posting to reach an agreement on a new price for beer.

Holding requirements make experimenting with price reductions untenable for distributors especially in states where price-holding requirements are relatively longer. Longer price holding periods expose distributors to fluctuations in supply and demand that may increase their costs.

Cooper and Wright (see footnote 5) discuss the consequences of post and hold laws with respect to the Sherman Act and the 21st Amendment that gave states exclusive rights to regulate the importation and transportation of alcoholic beverages within their borders. These two federal legal constructs are in tension and courts have to decide each case on its merits. As mentioned above, several states have abandoned their post and hold laws because of court challenges and there may be others in process.

If post and hold laws reduce competition, they may promote higher prices and thereby reduce consumption. Reduced consumption may be a public policy objective in that public health and safety are improved. One must consider whether increased prices achieve the objective or if there are other potentially more effective means of improving public health and safety where alcohol is concerned such as zero tolerance and reduced blood alcohol content laws. With respect to increased prices, one must consider the responsiveness or sensitivity of consumption changes to price changes that result from tax changes and other contributors to overall cost such as convenience (these are time costs arising from the availability of product) and regulatory costs.

If a ten percent increase in the price of an alcoholic beverage occurs, what will be the percent change in consumption? Several studies estimate the short- and long-run sensitivities (economists call them elasticities) of consumption to price changes. These studies are contained in the research papers cited in footnotes 5 and 7. Elasticities less than one mean that a ten-percent price increase will result in a less than ten-percent reduction in consumption. Elasticities greater than one mean that a ten-percent price

increase will result in a more than ten-percent reduction in consumption. Long-run (a period of a year or more) elasticities are larger than short-run elasticities because in the long run, people can find suitable substitutes for the higher-priced beverage.

Chaloupka, Grossman and Saffer (2002) cite evidence from several studies that estimate the price elasticities of demand for beer, wine, and distilled spirits are -0.3, -1.0, and -1.5, respectively.⁷ This means that a ten percent increase in the retail price for beer reduces consumption by three percent, reduces wine consumption by ten percent and reduces consumption of spirits by 15 percent. These estimates suggest that beer consumption is relatively insensitive to price increases, while wine consumption decreases in the same percentage as its price increases. The consumption of spirits is quite responsive to price increases as people reduce consumption and/or find reasonably close substitutes. These are estimates based on a large sample of alcoholic beverage consumers and several studies and represent a best summary guess at the elasticities for the three beverage categories. Other studies look at the price elasticity of demand for alcoholic beverages as a whole and some studies differentiate among teenage drinkers, heavy and binge drinkers. Elasticity estimates for these groups vary widely.⁸ Long-run estimates corresponding to the three presented above are somewhat larger.

Cooper and Wright (2010, see footnote 5) perform econometric analysis to determine the effects of post and hold laws on consumption and public health and safety. If post and hold laws act as a tax, the effective price increases should show up in reduced consumption and social harms such as teen drinking and drunk driving among others. Their results indicate a small effect of post and hold laws on consumption perhaps because the tax effect is quite small relative to other retail price determinants. In addition, Cooper and Wright (2010) find that post and hold laws do not reduce social harms as much as targeted penalties such as zero tolerance and reductions in blood alcohol content that impact offenders and not the responsible consumer. Further, post

⁷ Chaloupka, F. A., Grossman, M. and H. Saffer (2002), "The Effects of Price on Alcohol Consumption and Alcohol-Related Problems," NIAA paper, pubs.niaaa.nih.gov/publications/arh26-1/22-34.pdf.

⁸ See the blogs at <http://offsettingbehaviour.blogspot.com/2012/07/price-elasticity-of-alcohol-demand.html> and cites therein and the PowerPoint by Chaloupka, et al. at tiger.uic.edu/~fjc/Presentations/Slides/alcohol_policy_XI1.ppt

and hold laws to the extent they benefit distributors are not as effective at reducing consumption as taxes that return money to the state for alcohol abuse programs and education. Finally, to the extent that post and hold laws are anticompetitive, they invite challenges that in many cases have resulted in states abandoning them.

Alcoholic Beverage Permitting

Permitting regulations determine what beverages can be sold in what venues at what days and times and what other goods can (must) be sold in these venues and other constraints. The DCP provided an overview of Connecticut's current liquor permitting regulations attached as Appendix B. In 2004, the Legislative Program Review and Investigations Committee produced a report on the state's liquor permitting regulations and made several recommendations.⁹ They noted that in 2004 the DCP administered more than 60 types of liquor permits through the provisions of the state Liquor Control Act (C.G.S. Chapter 545). Under the system at the time, permits with varying fees and regulatory requirements were based on the type of alcohol (e.g., beer, wine, all liquor) served and/or sold and the nature of the business operation. The then existing permit structure resulted in different permits issued to substantially similar establishments, for example, to restaurants, cafes and taverns. Another impact of the system (in 2004) is that permit categories had to be added or revised to reflect new or slightly different business operations. Legislation enacted in 2003 to ban smoking in restaurants and bars raised questions about the growing complexity of Connecticut's liquor permitting structure.

The LPRIC report reviews liquor control policies and the role of governments in regulating alcoholic beverage distribution and sale. The report analyzed the type, purpose and fees of state liquor permits with a goal of simplifying and clarifying the regulatory structure. LPRIC examined how liquor permitting addresses local community concerns regarding regulated entities as well. Specifically, the 2004 LPRIC study analyzed:

⁹ The report is available at http://www.cga.ct.gov/2004/pridata/Studies/pdf/Liquor_Permits_Final_Report.pdf.

- What types of liquor permits were issued in 2004 and what regulatory requirements and fees were associated with each type?
- What was the purpose of each permit type and to what extent was there overlap or duplication in 2004?
- What was the basis for the 2004 fees and how were these fees related to permit type and purpose?
- How did Connecticut's liquor permit structure compare to those in states with similar regulatory systems in 2004?
- What impact did the 2004 permit structure have on regulatory efficiency and effectiveness?
- How did state permitting consider and respond to local community concerns about the location and operation of regulated entities in 2004?
- What implications would changes to the state permit and fee structures have had with respect to federal and local liquor regulation in 2004?
- What changes were needed to simplify and clarify the then existing liquor permit and fee structure in 2004?

In addition, the LPRIC 2004 report describes Connecticut's liquor regulatory system at the time and reviews the initiatives intended to streamline the system. The study did not address the administration of the permitting process and liquor permit enforcement activities. Based on its analysis, LRPRIC made recommendations to streamline the liquor regulatory system and in the process reduce regulatory costs to the state and costs to businesses making, distributing, selling and serving alcoholic beverages. The LPRIC report could be updated to reflect current law and alcoholic beverage permitting regulations and its recommendations could be considered for implementation.

The review of the LPRIC study is in lieu of a detailed comparison of the nine states' liquor permitting regulations that would take more time than is available to complete this report. A detailed review and comparison of the liquor permitting regulations in the nine states may not be productive as it may reveal different public policy objectives and the uniqueness of the state's approach to achieve them. Further, the complexity of state

permitting regulations renders a comparison among the nine states difficult to interpret. If Connecticut's permitting regulations were streamlined as LRIC recommends, a comparison with other states would be less arduous.

Alcoholic Beverage Pricing Practices

As mentioned above the three-tier system of production, distribution to retailers and final sale to consumers intends to avoid the problems of the pre-Prohibition era and provide independent ownership of firms in each tier.¹⁰ Some states elected to be the distributor and retailer and currently comprise the 18 control states. Ostensibly, the three-tier structure makes tax collection by the states and the federal government easier. Firms in each tier have costs and markups over cost to provide a reasonable or normal profit.¹¹ If profits in a market (tier) were abnormally high, firms would enter the market segment and drive down prices as the supply of the product increased. This would happen in a perfectly competitive market. To the extent there are barriers to entry, whether legal or high levels of required startup capital for example, firms able to produce, distribute or retail the product at lower cost cannot enter the market. The fact that the U.S. market is legally segmented prevents vertical integration of production, distribution and final sale except in control states where the latter two functions are accomplished by state monopoly. This structure has benefits and costs to consumers. One benefit to consumers is that governments at each level have great control over the distribution and sale of alcoholic beverages through taxes and regulations that ostensibly mitigate social harms associated with excess consumption. The market and regulatory structure may increase costs unnecessarily for consumers because market structures that are more efficient are forbidden. In addition, the three-tier structure invites challenges from international producers and distributors as well as domestic big box retailers.

Producers set the price of their product based on their costs of production and a reasonable profit. They sell to Connecticut distributors at the free on board (FOB) price,

¹⁰ There are some exceptions to this structure, for example brewpubs and farm wineries that sell directly to consumers.

¹¹ A reasonable or normal profit is a return that anyone could make investing similar resources in this or similar industry.

say \$35 for a case of some alcoholic beverage. The federal excise tax is \$30 on this case and the Connecticut state excise tax is \$15 on this case. It costs the distributor \$2 to ship this case to a retailer yielding a laid in (that is, FOB+federal tax+state tax+S&H) cost before a depletion allowance may be applied¹² of \$82 to the retailer. With a distributor gross profit of \$23 or 21.9%, the price to the retailer is \$105.¹³ Connecticut law forbids retailers from selling the case below this price.¹⁴ The minimum retail price for a single bottle of this case is \$105/12 plus a per bottle charge for breaking the case (eight cents). The distributor must post the case and bottle price below which the retailer cannot sell. The posted prices therefore contain the retailer's markup that the retailer may increase as desired. The retail pricing system in Connecticut therefore establishes a price floor that typically encourages greater supply of the product and simultaneously less demand because prices are higher than the free market would otherwise dictate. Depletion allowances granted by suppliers ensure that the distributor and the retailer will be price competitive with surrounding regions product by product.

This pricing process is largely followed in many license states in which the three-tier system exists. Suppliers want their product to move and they must provide distributors with acceptable profit margins and consumers with competitive prices. Therefore, pricing works backwards from a proposed retail price to an acceptable distributor margin to an acceptable FOB price that includes costs of production and reasonable or normal producer profit. The process may be iterative, moving backward and forward until an acceptable price to retailers and margins to the distributor are determined.

In Massachusetts for example, retailers may not sell below the distributor's invoice price (we ignore quantity discounts for the moment). The price-setting mechanism for Massachusetts distributors is likely similar to Connecticut distributors' process. Similarly, in Rhode Island the case price (cost) of the retail licensee's alcoholic beverage is the distributor's invoice price. The retail cost of a bottle or drink is then determined by

¹² A depletion allowance is a rebate, discount or other inducement given to a distributor as a sales promotion.

¹³ According to First Research Industry Profiles, the average gross profit for the U.S. beer, wine and spirit wholesalers industry is between 20% and 25%. The average net income is 2.5% for this industry.

¹⁴ See for example, OLR Research Report 2009-R-0171, April 6, 2009 for a summary.

dividing the total price by the number of bottles or single drinks included in the total figure. If the “price” figure works out to a fractional cent, the lowest amount at which the bottle or drink may be sold by the retailer is the next highest cent.¹⁵ New Jersey uses the same retail pricing process.¹⁶ It is reasonable to assume that distributors in these (and other license) states use the process described above to establish their selling prices to retailers. Suppliers’ depletion allowances provide room to adjust distributors’ prices to retailers ensuring their profitability as well as the profitability of the distributor tier. Thus, it appears that Connecticut’s minimum bottle pricing requirement is similar to other license states’ requirement that retailers cannot sell below their cost of acquisition (the invoice price). The difference appears to be that the Connecticut distributor in posting (and holding) the minimum retail price is determining the retailer’s minimum profit.

There are exceptions in some states in which large retailers may negotiate directly with suppliers and where retailers may contract with a (wine) supplier to provide a private label product to the retailer. There are national distributors that may have bargaining power with certain suppliers that state-bound distributors do not. Further, control states have monopoly pricing power over wholesale and retail sales and their pricing mechanisms are in many cases invisible. This makes region-to-region price comparisons difficult. This problem is further complicated because some states allow quantity discounts. These are reductions in the distributor’s price to retailers conditioned on the quantity ordered. This pricing mechanism allows large retailers or owners of several retail establishments to reduce their cost of acquisition and pass these savings on to consumers. This practice may put pressure on small retailers.

Bottle Bill States

Though not part of the charge of the Task Force, we examined states that currently have bottle bills and states that once had them and have since abandoned them. Table 5 shows the states with bottle bill laws as of November 2012. In May 2010, Delaware repealed its bottle bill requiring a five-cent deposit and replaced it with a controversial four-cent

¹⁵ Rule 28 in the Rhode Island Commercial Licensing Regulation 8, Liquor Control Administration, page 17. Available at www.dbr.ri.gov/documents/divisions/commlicensing/liquor/Commercial_Licensing_Regulation_8.pdf.

¹⁶ From the “Alcoholic Beverage Control Handbook for Retail Licensees,” page 21. Available at www.nj.gov/oag/abc/downloads/abchandbook02.pdf.

recycling fee. Delaware officials testified that the state's bottle recycling rate was 12 percent because many retailers refused to accept returned bottles, while recycling rates range from 70% to 97% (Michigan) in the ten other states with bottle bills. The four-cent per container recycling fee intends to provide start-up funds to help waste-haulers start single-stream curbside recycling. The fee is scheduled for sunset Dec. 1, 2014 or after \$22 million is raised. The bill mandates that all municipal and private waste haulers provide curbside recycling pickup for single-family homes starting Sept. 15, 2011, for multi-family residences starting Jan. 1 2013 and for commercial sites by 2014. Retailers have to remit the four-cent per bottle fee to the Division of Revenue. Retailers must also obtain a State of Delaware Retail Beverage Container Business License (at no cost) for each location at which the four-cent beverage containers are sold. The four-cent fee must be remitted monthly to the Division of Revenue on before the 30th day of each month, for beverage containers sold the previous month.

While single-stream recycling ostensibly makes collecting recyclable material easier for households and businesses, the costs and benefits of bottle bills compared to single-stream recycling is unclear. Vermont intends to study the costs and benefits of single-stream recycling and their bottle bill because of a new law passed in 2012.¹⁷ The debate occurs in other states as well, for example, Tennessee.¹⁸ The issue is complicated by the tradeoffs between the convenience of disposing of all recyclable material in one container at curbside and collecting and transporting containers subject to the fee (an incentive) to a recycling center, typically a supermarket or alcoholic beverage retailer. In addition, there are overhead costs associated with the bottle bill administration and maintenance of collection centers' equipment. Single-stream recycling mixes low-value recyclables (e.g., corrugated cardboard) with high-value material such as aluminum without maintaining collection centers at retail outlets. Machines in supermarkets mix glass of different colors rendering it less useful for recycled use, while single-stream processors can separate glass by color to some degree. However, single-stream material recovery centers have higher costs than when households and businesses separated recyclables and

¹⁷ See <http://www.wasterecyclingnews.com/article/20120706/NEWS02/120709961/after-passing-anti-landfill-law-vermont-seeks-someone-to-study-likely-impact>.

¹⁸ See <http://www.discoveret.org/pipermail/eqab-list/2010-February/000426.html>.

cross-contamination (e.g., plastic and glass shards mixed with paper) creates lower value recyclable material.¹⁹

There are alternatives to single-stream recycling such as dual stream in which households combine their food and beverage containers (aluminum and steel cans, glass jars and bottles, and some or all plastic bottles) in one bin and put their newspapers and/or mixed paper in another bin or in a paper grocery bag. The two material streams are picked up curbside, placed in separate compartments on the recycling truck and taken to a material recovery center. The fiber is sent to market with little or no processing and containers go through a variety of automated sorting equipment and handpicking before being baled or containerized and sent to market. In Oregon, most household recycling and much commercial recycling is collected as mixed material. Oregon programs pick up glass containers separate from other materials or do not include glass in the curbside collection program, instead collecting glass through recycling depots or some other method. This is unlike single-stream collection programs in much of the nation that collect all materials including glass together.

While the goals of bottle bills are to increase recycling, reduce litter, reduce waste disposal costs and landfill requirements and create jobs in recycling-related industries, among others, there are tradeoffs compared to single- or dual-stream recycling. Several states have expanded their bottle bills and some have attempted repeal (Maine and Iowa).²⁰ Nevada like Vermont passed a bill to study the bottle bill issue. It will be informative to read these studies' results.

Unclaimed bottle deposits known as escheats accrued to Connecticut distributors prior to 2010. Escheats consisted of soft drink and beer container unclaimed container deposits, however, with the passage of PA 09-2, water bottles were added to the bottle deposit category effective April 1, 2009. Further, on July 1, 2010, the state began claiming escheats and these included water bottles. There was a brief transition as water bottles

¹⁹ See <http://www.container-recycling.org/index.php/issues/single-stream-recycling>.

²⁰ See <http://www.bottlebill.org/legislation/campaigns.htm>.

were added and then escheats were turned over to the state. The question of the escheats collected prior to and after water bottles were added to the bottle bill is not easily answered because the state began collecting escheats from all unclaimed deposits around the same time.

Table 5: States with Bottle Bills

State	Name	Dates	Beverages Covered	Containers Covered	Amount of Deposit	Handling Fee	Other Fees	Reclamation System	Unredeemed Deposits	Program Success	History
California	California Beverage Container Recycling and Litter Reduction Act (AB 2020)	Enacted 9/29/1986 Implemented 9/1/1987	beer, malt, wine & distilled spirits coolers, all non-alcoholic beverages except milk	Aluminum, glass, plastic and bi-metal. Exempts refillables	(10¢: 24oz and greater) and (5¢: under 24oz.)	(Paid by state to supermarket sites, nonprofit convenience zone recyclers, and rural region recyclers.) .859¢	Beverage manufacturers pay Processing Fees to offset recyclers costs when the cost of recycling exceeds the value of material. Processing Payments paid by state to redemption centers. Processing fees and payments vary by container type.	State certified redemption centers, registered curbside operations, dropoffs	Property of state: used for program administration and grants to non-profits	2011 redemption rates (January–June): Overall 88% aluminum 100%, glass 102% #1 PET 70% #2 HDPE 276% #3 PVC 6% #4 LDPE 1% #5 PP 3% #6 PS 9% #7 other 8% bimetal 16%	Amended in 1990, 2000, 2004, and 2007
Notes: For sources and references, see the California Quick Facts page. Containers are returned to licensed redemption centers, not to retailers; Refund value determined by weight for more than 50 containers											
Connecticut	Beverage Container Deposit and Redemption Law	Enacted 4/12/78; Implemented 1/1/80	Beer, malt, carbonated soft drinks, and bottled water	Any individual, separate, sealed glass, metal or plastic bottle, can, jar or carton containing a beverage. Excluded are containers over 3L containing noncarbonated beverages, and HDPE containers.	5¢	Beer 1.5¢, other beverages 2¢		Retail stores and redemption centers	Returned to the State	No statistics available	Amended in 1983, 1986, and 2009
Notes: For sources and references, see the Connecticut Quick Facts page. "Dislocation fund" for workers who lost their jobs due to bottle bill											
Hawaii	Solid Waste Management; Deposit Beverage Container Law	Enacted 6/25/02, Implemented 1/1/05	all nonalcoholic drinks, except for milk or dairy products, and limited	Aluminum, bi-metal, glass, plastic (PET and HDPE only) up to 68 oz.	5¢	Variable fee of 2–4¢ paid to redemption centers from the	1¢ non-refundable "container fee" (added to price of beverage) paid to fund redemption centers.	Certified Redemption Centers (CRCs) operated by privately owned by State permitted Solid	Property of state: used for program administration	Redemption rate of 72% in fiscal year 2008 79% as of November 2009	Expanded in 2007
Notes: For sources and references, see the Hawaii Quick Facts page. Redemption centers must submit reports regularly, Refund may be calculated by weight											
Iowa	Beverage Container Deposit Law	Enacted 4/1/78, Implemented 6/2/79	Beer, carbonated soft drinks & mineral water, wine coolers, wine & liquor	any sealed glass, plastic, or metal bottle, can, jar or carton containing a beverage	5¢	1¢, paid by distributor to retailer or redemption center		Retail stores and redemption centers	Retained by distributor/bottlers	overall 86%	
Notes: For sources and references, see the Iowa Quick Facts page. Wine/liquor containers included; deposit containers were banned from landfills in 1990; if agreement exists w/licensed center, retailer can refuse containers											
Massachusetts	Beverage Container Recovery Law	Enacted 6/4/81, Implemented 1/1/83	Beer, malt, carbonated soft drinks, & mineral water	any sealable bottle, can, jar, or carton of glass, metal, plastic, or combo. Excludes biodegradables.	5¢	2.25¢		Retail stores and redemption centers	Property of state general fund	70.8% in Fiscal Year 2010 (July 2009 – June 2010)	Amended in 1990 and 2003
Notes: For sources and references, see the Massachusetts Quick Facts page. Wholesalers must file monthly reports w/Dept. of Revenue re: deposit & refund, Survived repeal by referendum effort in 1982 by a 60% to 40% vote.											
Maine	Maine Returnable Beverage Container Law	Enacted 1/2/76, Implemented 6/1/78	All beverages except dairy products and unprocessed cider	all sealed containers made of glass, metal or plastic, containing 4 liters or less, excluding aseptics	Wine/liquor: 15¢ All others: 5¢	4¢ (.5¢ less if part of qualified commingling agreement)		Retail stores and redemption centers; Dealers may refuse containers if they have an agreement with a nearby redemption center	Property of state	No statistics available	Amended in 1980, 1990, 1991, 1993, 2003, 2009
Notes: For sources and references, see the Maine Quick Facts page. Distributors who initiate deposits have the obligation to pick up containers from the dealers they deliver to or from the licensed redemption center that serves those dealers. There is a per container fine of \$100 for tendering containers purchased out of state for redemption.											
Michigan	Michigan Beverage Container Law	Enacted 11/2/76, Implemented 12/3/78	Beer, soft drinks, carbonated & mineral water, wine coolers, canned cocktails	Any airtight metal, glass, paper, or plastic container, or a combination, under 1 gallon	10¢	None		Retail stores	75% to state for env'tl programs, 25% to retailers	overall 95.9%	Amended in 1989 and 2008
Notes: For sources and references, see the Michigan Quick Facts page. Only state with a 10 cent deposit											
New York	New York State Returnable Container Law	Enacted 6/15/82, Implemented 7/1/83	Beer, malt, carbonated soft drinks, water, wine coolers	airtight metal, glass, paper, plastic, or combination of the above, under 1 gallon	5¢	3.5¢		Retail stores and redemption centers	80% to the state General Fund; 20% retained by distributor	Overall: 66.8% Beer: 75.2% Soda: 56.8% Wine: 64.7%	Amended in 1983, 1998, and 2009
Notes: For sources and references, see the New York Quick Facts page. Requires reporting of containers sold and redeemed by bottlers and distributors											
Oregon	The Beverage Container Act	Enacted 7/2/71, Implemented 1/01/72	Beer, malt, carbonated soft drinks, & bottled water (will cover all beverages except wine, liquor, milk, and milk substitutes by 2018)	Any individual, separate, sealed glass, metal or plastic bottle, can, jar containing a beverage	Standard refillable: 2¢; all others 5¢ (with potential to increase to 10¢)	none		Retail stores or approved redemption centers	Retained by distributor/bottlers	overall 84%	Expanded 1/1/08, 6/2011
Notes: For sources and references, see the Oregon Quick Facts page. Only deposit law without a handling fee.											
Vermont	Beverage Container Law (1972), Solid Waste Act (1987)	Enacted 4/7/72, Implemented 7/1/73	Beer, malt, carbonated soft drinks, mixed wine drinks; liquor	Any bottle, can, jar or carton composed of glass, metal, paper, plastic or any combination (Biodegradables excluded)	liquor: 15¢ All others: 5¢	4¢ for brand-sorted containers and 3.5¢ for commingled brands		Retail stores and redemption centers, If retailer is located conveniently near a licensed center and thereby gains state approval, retailer may refuse containers	Retained by distributor/bottlers	overall 85%	Expanded in 1991
Notes: For sources and references, see the Vermont Quick Facts page.											
All States											

Notes: Food Stamps: Food stamp benefits can cover the entire cost of items such as eligible drinks in returnable bottles, including the bottle deposit. [a]
[a] Source: The Food Stamp Program: Training Guide for Retailers. USDA Food and Nutrition Service. December 2002 (http://www.dss.state.va.us/pub/pdf/ebt_retguide.pdf)

Economic Impact

We need to be clear what we mean by economic impact, that is, the economic impact of what on whom? As well, we need to define economic impact. In the context of alcoholic beverage manufacture, distribution and final sale, we mean to discuss the structure of the industry, the legal environment in which it operates and the consequences of these factors and public policies on consumers, distributors and suppliers. Some of these topics have been covered above, namely, the three-tier industry structure, product price posting and holding and the minimum prices at which alcoholic beverages can sold at retail each of which is mandated by Connecticut statute. In addition, we mentioned federal and state taxes on alcoholic beverages and the restrictions on availability that impose monetary and time costs on consumers. One approach to the economic impact is to assess the effects of current industry structure and public polices on pricing and availability on consumer and producer (supplier) welfare or wellbeing. Economists like to talk about market efficiency and the equity of distribution of goods and services. We assess economic impact in these contexts and note that economic impact typically measures changes in welfare, efficiency and equity as a result of changes in the industry and/or public policy changes. In the absence of significant changes, notwithstanding the public policy changes affecting availability enacted in 2012, we attempt an analysis of the status quo.

Taxes drive a wedge between buyers and sellers of a product which means the market contracts and buyers pay a higher price and sellers receive a lower price than before the tax was imposed. The contraction of the market creates a deadweight loss to consumers and producers that consists of lost production (fewer and/or smaller producers or distributors) and fewer consumers in the market. It does not matter whether the tax is imposed on a seller or consumer; the effect is the same. What does matter is how sellers or buyers share the tax. The share (percentage paid) depends on the relative elasticities of supply and demand. In English, this means that if buyers (consumers) are more responsive to an increase in price due to a tax than sellers are, sellers will bear a larger share of the tax. Conversely, if sellers are more responsive to a change in price due to a tax than buyers, buyers will bear a larger share of the tax. In this way, taxes introduce a distortion into the market that is shared unequally by consumers and sellers in that

market. The important point is that both sellers and buyers are affected by the tax. In this discussion, we recognize that taxes are necessary to support the many roles of governments at all levels to provide goods and services that would otherwise not be provided or insufficiently provided. Many of these goods and services (libraries, parks, public schools) improve the wellbeing of citizens and taxes are accepted as way to pay for such “public goods”. Some taxes do not distort the market. One category is corrective taxes that encourage producers of an externality such as pollution to find cleaner methods of production while the taxes collected can help defray the costs of clean up and alleviate health problems. Another category of non-distorting taxes is one in which the tax moves the private costs of supply in line with the social costs of supply. An example in our current context is that left alone there may be too much alcohol provided by producers to consumers in the sense that an unacceptable level of social harms ensues and the costs to society are not taken into account by private producers. Taxes on alcoholic beverages attempt to reduce consumption by raising the private costs of supply to the socially optimum level at which the cost of social harms is acceptable. Just as we can’t have zero pollution, we can’t have zero social harms. There are pollution and social harm levels that are socially acceptable that may change over time.

There is no doubt that the increased costs of alcoholic beverages due to sales and excise taxes have reduced consumption and the social harms associated with excess consumption and underage drinking. Restricting availability in time and place imposes time costs that reduce consumption. The question is whether these approaches have achieved their goals and whether there may be better methods of reducing social harms. For example, if responsible adults are taxed they may reduce consumption, but they are not the population that primarily causes social harms. It is conceivable and the evidence supports the claim that targeted zero tolerance and low blood alcohol content policies do as well or better at reducing social harms caused by excessive alcohol consumption (see the references in Cooper and Wright described in footnote 5). Therefore it is conceivable that alcoholic beverage taxes could be reduced and other policies implemented that would improve social wellbeing through the targeted reduction of social harms. Responsible consumers would see two effects: to the extent they experience lower prices they would

consume more of everything as they would have more money in their pockets and they might buy more premium alcoholic beverages. These are the income and substitution effects due to relative price changes. The wellbeing of the responsible adult alcohol consumer would be improved. In addition, if the availability was increased in terms of times and places of purchase (including convenience stores), time costs of consumption would be reduced and again the wellbeing of responsible consumers would be increased.

These imagined changes could benefit the distribution and supplier tiers as well. Consumption would increase slightly (we assume responsible consumers do not become irresponsible because of a change in their costs and we assume other targeting policies are implemented) and as premium beverages become more affordable, the composition of consumption could change as well. In addition, if such changes in prices and availability made Connecticut more competitive than its neighbors, the two tiers could experience greater growth than if the state were isolated.

The effects of minimum pricing would appear to remove the ability of distributors and retailers to compete in a way that would improve efficiency and reduce prices on some products some of the time. Removing this restriction would as a reduction in taxes improve consumer wellbeing and make Connecticut a potentially more attractive place relative to its neighbors to purchase alcoholic beverages. Several states (some mentioned above) do not have minimum pricing regulations and could serve as models for consideration. It may be that with increased competition, some retailers and some distributors may shrink or go out of business. Some retailers and distributors may expand as their efficiencies translate into growth. It is conceivable that growing businesses in each tier could absorb some of the resources (labor and capital) of declining businesses. The net outcome for employment and value added of the industry is unknown, but if the industry as a whole grows as a result of price and time cost reductions, the net effect could be positive growth in employment and value added.

To the extent that post and hold laws reduce competition, their removal could reduce prices and improve consumer wellbeing as described above. Thirty-one states do not

have post and hold laws (some of which are control states). In addition, several states have abandoned their post and holds laws in the face of legal challenges that are costly and appear likely to succeed. Therefore, it would appear that Connecticut should consider removing these laws perhaps using the examples of states that have recently done so and those that have had no such laws.

Permit restrictions impose a variety of costs as well on consumers, retail establishments including restaurants, cafes, clubs and liquor stores among others. The LPRIC report (see footnote 9) describes these issues and recommends simplifying and streamlining the state's permit restrictions. These actions could reduce costs to consumers and retail establishments as well as enforcement costs. The reduction in permit enforcement costs could improve enforcement of serving underage drinkers and other tasks more directly related to reducing social harms. The reduction in costs to businesses could encourage growth in the sector keeping in mind the checks and balances available at the local level to restrict permittees.

Reducing prices to consumers through lower taxes, increased competition and reduced compliance costs (permit-related costs) usually encourages growth in an industry at all levels. For alcoholic beverage consumption, the public has an interest in keeping the level of social harms as low as possible. Raising prices and enacting tougher laws helps reduce social harms. There will always be binge drinkers, people addicted to alcohol and underage drinkers. It is not possible to reduce social harms to zero but it is possible to reduce them to an acceptable level that is not easy to determine. That level is arrived at through a political process and the tradeoffs between increasing responsible consumer wellbeing on the one hand and holding the costs of social harms as low as possible are the challenges elected officials face.

Economic theory would suggest removing as many of the impediments and restrictions as possible and enacting the stiffest penalties possible for harmful, alcohol-related behavior.

Conclusion

Connecticut alcoholic beverage laws that regulate the production, distribution and sale of alcoholic beverages intend to create an orderly market that ensures fair treatment of all participants and reasonable prices for consumers as well as mitigate to the extent possible the social harms associated with excessive consumption. The system of laws and regulations has evolved since the 21st Amendment repealed Prohibition in 1933 and is now complex and unwieldy as the LPRIC report describes. That report describes several permitting changes that would simplify and therefore reduce costs in establishing and maintaining businesses in the alcoholic beverage production, distribution and retail market segments, while reducing enforcement costs. Such changes could stimulate growth of the industry and make it more competitive with neighboring states.

Connecticut's minimum pricing policy does not seem to place the state's consumers at a price disadvantage over neighboring states because suppliers and distributors have the ability to keep Connecticut retailers competitive. The retail price determination in other license states seems to be similar to Connecticut's process without calling the practice minimum bottle pricing. If restrictions on retail pricing were removed, distributors would still charge a price that afforded them a reasonable gross profit given their costs.

Retailers would sell at whatever price they thought would cover their costs and afford them a reasonable profit. More efficient retailers would be more price competitive than their less efficient neighbors. Retailers might specialize in certain types of beverages, offer tastings and classes as well as other services that support and help their business grow. Retail prices alone do not exclusively determine consumer satisfaction.

Convenience in terms of what products (alcoholic beverages and complementary goods) may be sold in which venues at what days and times influence consumer behavior because they involve time costs. These are issues the legislature can address looking at models in other states. As well, one must be cognizant of changes in enforcement costs and consumption behavior that may result from increasing convenience and are issues that other states have faced.

The post and hold laws in Connecticut and the other 18 states that have them may be challenged under the fair trade practices of the Sherman Act and other relevant national and state statutes as cited in Cooper and Wright's 2010 paper (see footnote 5). The three-tier system may be challenged as well as the Compliance Service of America reports.²¹ The challenges arise from the globalization of the trade in alcoholic beverages, the consolidation of huge producer conglomerates (e.g., AB InBev) and the big-box retailers in this country. Alcoholic beverage markets in other countries are lightly regulated and international players view the complex web of U.S. federal, state and local laws and regulations as anti-competitive. In addition, consumers and alcoholic beverage industry members are pushing for the elimination of barriers to the direct shipment of wine from vineyard to consumer or retailer.

Where does this leave us? First, because much work has already been done in analyzing Connecticut's alcoholic beverage permitting structure and there have been initiatives for changes in that system, we suggest a thorough and critical review of the LPRIC report could be a useful starting point for legislative action to simplify the current system of alcoholic beverage permits in the state. Second, we believe the threats to post and hold laws and the three-tier system are credible and suggest that the legislature and the Governor's office consult with industry and other experts to determine what changes could be made to Connecticut's laws regulating the production, distribution and sale of alcoholic beverages to reduce or eliminate these threats. Such action could save the state resources needed for other purposes. Finally, in considering the current system of laws and regulations, we should ask what public policy objectives do they serve and what alternative policies would serve them better. In this consideration, the efficiency and equity of free markets can be used as a measuring device to gauge how close Connecticut can approach that ideal trading off the benefits to responsible consumers and the reduction of social harms caused by irresponsible consumers.

²¹ <http://www.csa-compliance.com/html/CSA-Articles/three-tier-or-free-trade.html>