Possible Booze Price Hike Looms over Washington

MANUEL VALDES, Associated Press

In this Feb. 13, 2014 photo, Brian Walsh, a warehouse worker at liquor distributor Southern Wine & Spirits in Puyallup Wash., pushes a row of liquor boxes on a roller conveyor. Booze prices at bars and restaurants in Washington may go up as multiple interests fight over rules in the wake of the voter-approved privatization of the state's liquor system. **(AP Photo/Ted S. Warren)**

SEATTLE (AP) — Booze prices at bars and restaurants in Washington may go up this year as multiple interests fight over rules following the voter-approved privatization of the state's liquor system [1].

The possible price hike could be a hangover from battles among two giant national distributors, Costco and its allies, and the state Liquor Control Board.

Since the end of Prohibition in the 1930s the state had tightly controlled the distribution and sale of liquor. But in 2011 Washington voters approved a privatization initiative that was supported by Costco and other retail interests. Costco spent more than $20 million backing Initiative 1183 and distributors also provided millions.

Following privatization there have been multiple lawsuits and some consumers have complained about sticker shock in grocery aisles.

Idaho liquor regulators said this month that Washington residents crossing the border boosted the Gem State's booze sales by $10 million last year. Similar stories came from liquor stores on the Oregon border. While prices have decreased, off the shelf liquor prices in 2013 were still significantly higher than pre-privatization prices. For example, average price per liter of liquor in October of 2011, a month before the ballot vote, was $21.61. Two years later that average price was $24.12 — an 11 percent increase, according to date from the Department of Revenue.

This most recent possible price hike stems from the Liquor Control Board deciding in November that discounted volume sales of booze from distributors to bars and restaurants wasn't OK under the new law. The issue was brought to the board by former state contract stores, which weren't getting the discount prices restaurants were enjoying. The board, however, left a window for a legislative fix, recognizing that the so-called channel pricing works for distributors and restaurants.

"We weren't interested in another lawsuit over the issue," said Rick Garza, the state's Liquor Control Board director.

But so far this legislative session no action has been taken despite opposition to the proposed rule by bars and restaurants. If nothing happens, the board will move forward with its rulemaking, and drinks in bars and restaurants could see a price hike come April — as much as 15 percent, according to distributors. For their part, the Liquor Control Board doesn't expect a price hike.

The lack of bills, though, is not because of a lack of action from lawmakers. Instead, the lobbying group for bars and restaurants has decided not to seek a bill this session. They argue that the Liquor Control Board overstepped its authority with the ruling and plan to fight it — most likely in court and not fast enough to prevent a possible price hike if restaurants can't get volume discounts.

"We're heading into a collision," said Bruce Beckett, director of government affairs for the Washington Restaurant Association, which boasts thousands of members.

Distributors have also said they don't want to ask for a bill because it's a fight between two of their customers.

"So far, the restaurants have shown no interest in making a push for channel pricing in the Legislature," said John Guadnola, executive director of the Association of Washington Spirits & Wine Distributors. "That means one group of customers opposes channel pricing, and the other appears to believe that channel pricing is not worth taking action on. In these circumstances, we see no value in starting a fight over the issue in the Legislature."

In Washington, more than 90 percent of distribution is controlled by two national giants, Young's Market Company and Southern Wine & Spirits. The distributors, which opposed the privatization initiative, are also playing defense on another bill, one being lobbied hard by restaurants and Costco.

The measure, Senate Bill 6220, would strip a 17 percent fee on liquor sales from grocers to restaurants and bars, which distributors see as a move by Costco into the distributing business, without the fees that came with it. Distributors, which have already paid $150 million in one-time fees to the state, say if the measure is approved, it would nullify millions of dollars in infrastructure investment and hundreds of jobs could be lost.

But grocers say the measure is about leveling the field.

The 17 percent fee on sales was stripped for former contract liquor stores by lawmakers last year. The Costco coalition says that's not fair for large retailers and bars. Restaurant representatives also said sometimes it's more convenient to buy from a retailer than wait for a delivery from a distributor, especially in rural areas.

"We would have the option to do delivery. But understand that we are grocery stores. We don't want to be distributors," said Holly Chisa, a lobbyist for the Northwest Grocery Association during a Senate panel testimony earlier this month.

They also argue that the language in the initiative didn't mean the 17 percent fee applied to sales from grocers to restaurant and bars. The Liquor Control Board thought otherwise and applied the 17 percent fee for these re-sales.

Phone and email messages to Costco and the Northwest Grocery Association were not returned.

Costco and the Initiative 1183 group have already sued the Liquor Board over volume limits on sales from retailers to restaurants. Currently, retail stores can't sell more than three cases to bars and restaurants. That lawsuit stalled and the group tried to pass that language through measures in Olympia. So far, they haven't succeeded.

Lawmakers of both parties in the House and Senate also did not return phone calls.

Links:
[1] http://www.foodmanufacturing.com/news/2013/12/wash-liquor-store-owners-struggle-after-privatization