Intelligence MEMOS

From: Anindya Sen and Paul R. Masson

To: Ontario Competition Watchers

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Re: **Cheers to Ontario's New Alcohol Marketing Framework**

Real competition is coming to Ontario alcohol retailing on January 1 2026 after last month's announcement about replacing the province's Prohibition-era hodgepodge of rules.

These reforms, which follow along the lines of our 2014 C.D. Howe Institute *Commentary*, radically change the landscape by providing real competition for the two quasi-monopolies, the LCBO and the Beer Store. Convenience stores will be able to sell beer, wine, and other low alcohol drinks, and the number of alcohol-selling grocery stores is set to expand. Reduced provincial fees, the ability to deal directly with restaurants, and shelf space at the new retailers will boost craft breweries and wineries.

Stores selling wine and beer will also be allowed to undercut LCBO and Beer Store prices, a big change from current practice, levelling the playing field among retailers. Moreover, convenience stores and groceries will be able to offer beer in 12, 24 and 30-bottle cases, not just six packs. By increasing competition, these changes will likely lower prices consumers pay for beer along with greatly increasing the number of outlets.

The reforms are likely to have the greatest impact on the Beer Store, which has roughly 420 retail outlets and a monopoly on private sales by the case. The addition of thousands of new outlets for beer with more flexible hours will likely cut deeply into Beer Store profits. Whether its owners, effectively three multinational breweries, will continue current operations remains to be seen, which raises the question of the provincial bottle recycling system.

The government has committed to measures to boost craft producers of beer and wine. Small wineries will be able deal directly with restaurants and wine retailers rather than having to go through the LCBO, though the latter will remain the main wholesaler. The 6.1-percent tax on wine sold at wineries will be eliminated. Shelf space at convenience stores and groceries will be mandated for small producers of beer and wine.

And this is just the first step; the province says it intends to conduct a "broader review" of alcohol taxes to promote a more competitive marketplace. It seems likely that other reforms will be necessary when it becomes clearer how the new system will operate. Three questions loom:

- What's the Beer Store to do in the face of a large number of competitors in convenient locations able to undercut its prices? Its recycling contract runs to 2031, but it is difficult to see the major brewers making money from its huge retail network in a competitive marketplace. If it closes stores, will recycling be affected?

- There is no mention of existing off-winery retail wine stores, mainly those owned by Andrew Peller (The Wine Shop) and Arterra (The Wine Rack). This is a major advantage for those large wineries unavailable to others because of the restrictions embodied in Canada-US free trade agreements. Opening up all wine retailing would get around the free trade provisions and help level the playing field for all wineries. Is this the likely end game for wine retailing?

- With continued government support, the LCBO will remain a formidable competitor. Its attractive and well-stocked stores produce sales volumes that give it market power in purchasing wine from around the world. And since it retains its quasi-monopoly in spirits sales, and in wholesaling alcohol generally, its dominant position seems secure. The SAQ experience in Quebec is instructive: It remains the main wine retailer in the province despite competition from corner stores. Will future governments want to maintain the LCBO's role, when its operations could readily be privatized?

Those who object to alcohol retail liberalization have two main arguments: It will exacerbate health problems linked to alcohol consumption, and it will lead to a large drop in government revenue by reducing LCBO profit.

But our earlier study showed provinces with deregulated retail alcohol access actually had higher per capita government revenue. Competition forces firms to be more efficient, permitting higher per unit margins. Further, evidence shows that provinces with competitive systems do not experience worse outcomes in terms of traffic injuries and fatalities or property crime, nor do they have higher per capita alcohol sales relative to provinces with more regulated access to alcohol.

Ontario's new retail landscape will see a dramatic increase in consumer access to beer and wine. The much-delayed deregulation is a move in the right direction. There was no justification for letting major brewers enjoy a government-mandated quasi-monopoly that allows them to earn significant excess profits. This is why the Beer Store fought vigorously to retain its exclusive retailing rights. Similarly, small wineries have historically been placed at a serious competitive disadvantage and more can still be done for them. If instituted properly, a more competitive market can ensure that some of the excess profits are redistributed back to consumers, and that Ontario's wineries are able to realize their full potential.

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