



Washington's Alcohol Marketplace Regulations—A Brief Explanation

Pamela S. Erickson, Public Action Management

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1. Prohibition Against Ownership between Retail, Wholesale and Manufacturing Sectors ("Tied House Prohibitions")

This is a system which prevents pressure from one sector on another, because if left unchecked such pressure would result in price wars, temptation to violate the rules to survive, and heavy promotion to vulnerable populations. Before Prohibition manufacturers were dominant and pressured retailers in which they had an interest to heavily promote products. Today, the retail sector is very strong. Retailers want to eliminate market regulations so they can sell more beer and wine at lower prices, and make greater profit from the increases in volume. Without the 3-Tiered System, the likely scenario would be uncontrolled price competition among "big box" stores similar to what is occurring in Great Britain today. Lower prices would increase consumption particularly among underage drinkers who are more price-sensitive.

2. Regulations that Prevent Erosion of the 3-Tiered System:

- **Money's Worth:** These are financial arrangements, short of ownership, that link businesses from one sector to another. For example, providing TVs, furniture, bar equipment. The purpose of these kinds of "payments" is to persuade or coerce the retailer into carrying the beer or wine sold by the person making the "payment." This makes sense only if the result is a great enough increase in the amount of beer or wine sold to offset the cost of the "payment," which means everyone involved has an incentive to increase beer and wine sales as much as possible.

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- **Credit:** Provision of credit can be a powerful connection between sectors. It creates great potential for the creditor to exert unreasonable pressure on the debtor. This kind of pressure does not occur when the retailer gets credit from a bank or a credit card company.
- **Use of Common Carriers, Central Warehouses, Retail to Retail sales:** These regulations prohibit a retailer from performing a distributor's function. If a retailer were allowed to transport their own product from a manufacturer, store it in a central warehouse and sell to other retailers, they would be acting as a distributor and the 3-Tiered System would be meaningless. Keeping track of product and collecting taxes would be much more difficult, and the temptation to cheat on the system would be much greater.

3. Price Supports:

Since a primary purpose of marketplace regulation is to keep large quantities of cheap alcohol from creating social harm, price supports are very important.

- **Minimum mark-up**—prevents cut-rate prices
- **Prohibition against selling below cost**—prevents alcohol from being a “loss leader”
- **Ban on volume discounts**—discourages the “spend less, drink more” approach to marketing, and discourages retailers from trying to increase profits by pushing large quantities of cheaper products.
- **Uniform pricing**—distributors must sell to all at the same price; this prevents large retailers, or others who might want to maximize their profits by selling the most beer and wine possible, from negotiating lower prices (which would be another way to get volume discounts)

4. Enforcement, Tax Collection and Product Tracking:

- **Price posting** (changed due to Costco case)—makes enforcement cost-effective. By posting prices, one can readily determine compliance with price regulation. Otherwise, expensive audit investigations would be necessary. (Prices are now submitted to the Washington Liquor Control Board in confidence.)

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- Tax collection—the distributors collect the tax on alcohol at the wholesale level. Without the distributors, a new tax collection system would need to be devised possibly at taxpayer expense.
- Product tracking—Marketplace regulation provides a system to track each bottle. In instances where there are tainted products, the system allows a way to quickly identify the product's origin. This has been a significant problem in other parts of the world and with other commodities, but because of the three-tiered system it has not been an issue in this country.