



Representing the Independent Grocery Industry from Grower to Grocer

VOTE NO ON I-1183 (2011)-- PRIVATIZATION OF THE STATE'S LIQUOR SYSTEM

WFIA POSITION: OPPOSE I-1183

Although the Washington Food Industry Association supports the eventual systematic and regulated privatization of the state's liquor retail and distribution system under the Three Tier System, the mechanisms to privatize in Initiative 1183 are strongly opposed by the state's independent grocery industry for the following reasons:

I-1183 is written by the very largest retailers, to their own benefit and disadvantages the state's independent and family-owned retailers and grocery stores from delivering the same quality and value products to their customers.

- I-1183 was written to give very large retailers a distinct advantage over independent and locally operated and owned grocery and retail stores by establishing greater authorization and flexibility based merely on the fact that their distribution and retailing systems are organized under one corporate umbrella for tax and regulatory purposes. This creates barriers to the ability of the independent grocery industry to provide its customers with the same quality and same value as large corporations.

I-1183 creates a retail liquor taxing system that exceeds the capability of current cash register systems and therefore can only be implemented by the very largest retailers with their own internal warehouse and accounting staff.

- There are currently seven (7) different taxes levied on liquor at a retail level and even more at the wholesale level. Analyses by both NCR and IBM found that extensive and expensive hardware and software changes would need to be made to a retailer's point of sale (POS) systems if they do not have an integrated warehouse and computerized accounting system tied to its customer checkout locations to calculate, collect and sort these taxes upon every retail sale. **ONLY THE VERY LARGE RETAILERS HAVE THIS CAPABILITY.** It is likely that the cost would be prohibitive for many independent stores to afford this major revamping of their POS systems. This would further limit competition and drive consumers to these limited large retailers authorized and able to sale spirits. The complex taxing system should be a single wholesale tax rate imbedded in the price as currently administered for beer and wine. (See Sec. 106 (1) through (9))

continued

I-1183 will allow only the very largest retailers who own their warehouses to purchase directly from distillers and bypass distributors. If I-1183 is adopted, Washington State will be the only state in the nation to allow this action.

- Another provision in the initiative changes state law to allow large retailers to order spirits directly from a distiller, and receive shipment into their own warehouses, bypassing a distributor. This not only establishes a special privilege for these large retailers who own their warehouses but it prohibits independent retailers and their wholesale distributor from the same privilege. NO STATE IN THE NATION ALLOWS GROCERY STORES TO ORDER DIRECT FROM DISTILLERS AND SELL IN THEIR STORES – NOT EVEN CALIFORNIA! (See Sec.103 (2) (b) on warehousing)

I-1183 creates an estimated \$59 – 66 million surcharge on products sold through distributors to independent and family-owned retailers in the first year alone – very large retailers exempt through distillers.

- Costco attempts to buy-off support for I-1183 by generating an additional \$150 million in revenue for the state and local governments. All licensed distributors, and direct distiller deliveries must generate \$150 million in licensing fees in the first year of privatization on spirit sales. However, if the \$150 million mandate is not achieved, the state will surcharge only the licensed distributors the balance – exempting distillers delivering direct to large retail warehouses. The WA State Office of Financial Management estimated \$59 – 66 million first year shortfall on distributor deliveries. (See <http://www.ofm.wa.gov/initiatives/2011/1183.pdf>) As a result, it is the independent retailers in the state who will foot the bill in higher product costs – and ultimately the customer they serve. How can anyone consider this equitable and fair competition? (See Sec. 105 (3) tax liability and Sec. 206 exempts’ distillers on direct deliveries.)

I-1183’s looming \$59 – 66 million shortfall also has a significant potential of limiting the number of likely distributors in the first year – limiting access for community grocers.

- The unknown and likely significant financial liability in the first year of spirit sales by licensed distributors as discussed above will also surely keep some distributors – particularly smaller distributors – out of the marketplace until after the first year of privatization. Executive Director of the WA Beer & Wine Distributors John Guadnola stated to the WFIA, “Distributors are very concerned with the potential of a substantial unknown tax liability if they enter the spirits market in the first year. I-1183 has creates too much uncertainty and risk.” Since the independent retail and grocery industry rely upon the local distributors for product, this will further restrict access by some local retailers.

I-1183 further adds to the competitive advantage of large retailers by allowing unlimited and unregulated quantity discounts.

- Quantity discounts are permitted by I-1183 with no restrictions. However, the warehousing prohibitions built into I-1183 as discussed above, clearly sets a barrier to an independent and family owned retailer to order in volume through co-ops or wholesale distributors from distillers. Again another pricing advantage placing mega corporations in the driver’s seat. Current law assures that discounts are equitably extended to all customers. (See Sec. 119)

I-1183 prohibits family grocers from selling liquor – not just convenience stores.

- The provision that prohibits so called convenience stores from selling spirits is seriously flawed. The average size of a convenience store is approximately 2700 square feet. However, I-1183's 10,000 square foot restriction prohibits many neighborhood supermarkets that can often be between 7 – 9,990 square feet except for limited circumstances. This limitation and barrier to smaller stores is yet another means of restricting competition done under the guise of “protecting public safety.” A likely scenario is that a community has a large retailer and two smaller family grocers and only the large retailer would be licensed thereby substantially harming the local grocers. (See Sec. 103)

I-1183 will increase the cost of spirits since it creates two new taxes on businesses while maintaining all the current liquor taxes.

- A new 17% gross receipts tax is placed on all sales of spirits made by retailers and a 10% gross receipts tax on sales made at wholesale is created in addition to traditional licensing fees and all the current liquor taxes. This scheme to politically buy the initiative by generating nearly \$500 million new liquor tax dollars (over 6 years) is bad for consumers and will further drive up the cost of spirits. At the same time, Costco would like the public to believe if they vote for this initiative they will get cheap liquor – wrong! (See Sec. 103 (3) retail tax and Sec. 105 (3))

I-1183 will drive customers to mega stores at the expense of the community based, independently owned stores.

- The initiative provides privileged access to the retail sale of spirits and will drive consumers to the large mega stores. Those customers will also conveniently take the opportunity to make their family grocery purchases at the same time, driving consumers away from locally owned and often family operated grocery stores in our state. **BAD FOR THE STATE – BAD FOR SMALL BUSINESS - BAD FOR OUR COMMUNITIES.**

The backbone of Washington State's economic development, job growth and quality of life is to provide all businesses an opportunity to compete without creating barriers which give preferences and advantages for one competitor over another. Washington State's liquor privatization transformation should take place under a thoughtful, legislative debate that considers the impact on ALL business, the communities and the state – not just a few large corporate retailers.

For more information contact:

Jan Gee

President & CEO

253-209-5079 (mobile)

The Washington Food Industry Association, founded in 1899, is a Washington State based non-profit trade association for the independent grocery industry. It has 480 members including retail grocery stores, wholesale distributors and food producers. Its retail grocery stores include over 85% of the independent, community-based grocers such as Thriftway, IGA, Red Apple, Marketplace, Family Grocers, Haggen/Top Foods, The Markets, Metropolitan Markets, Town & Country/Central Markets, Rosauers, Yokes and many more stores with individual branding. Distributors include Unified Grocers, Supervalu, URM and Harbor Wholesale.

**909 Lakeridge · Dr. SW; P.O. Box 706; • Olympia, WA 98507-0706
(360) 753-5177 • (866) 478-2696 (fax)**