



POLICY BRIEF

November 2023

ALCOHOL REFORM – IN ONTARIO?

There is an old joke that you should never look at your beer as half empty, but rather as halfway to your next pint. Could such unfounded optimism be warranted around alcohol policy reform in staid old Ontario?

There is considerable speculation that the Ontario government is poised to further expand the points of sale of alcohol in the province beyond the current near-monopoly grip of The Beer Store (TBS) and the LCBO¹. The intention must happen before the end of the calendar year to satisfy obligations spelled out in the Master Framework Agreement (MFA) – the agreement negotiated in 2015 that currently governs the alcohol system in Ontario. The details of a new agreement will then be sorted out next year, with implementation to be rolled out by January 1, 2026². Coincidentally, that is also when the next provincial election is scheduled (June 4, 2026).

You might ask “who cares”. You want booze you can get it in Ontario. The government intention seems born from the obvious silliness of a decades long byzantine regulatory structure. More importantly, the domestic alcohol industry has real impact on



the economic prosperity of the province that is sub-optimal currently (and can negatively impact the social and physical health of people as well). Most importantly though is the test of the government’s ability to do change.

Right now is a once in a decade opportunity to realize change, with the best political, economic and social alignment for reform we’ve seen in the province in a long time. This should be seen as a test of government’s ability to overcome bureaucratic inertia and entrenched resistance to policy reform. Indeed, as the government looks to right size it’s

1. Currently, the province has 675 LCBO stores and 395 LCBO Convenience Outlets (rural retail outlets licensed as LCBO affiliates). In addition, there are 430 Beer Stores and now upwards of 450 grocery stores that sell beer and cider – including about 225 that are authorized to sell wine as well.

2. *Billions at stake as Doug Ford government prepares to change booze retailing in Ontario*, Mike Crawley, CBC News, 22 November, 2023

efforts around housing and health care it might be beneficial to demonstrate political and policy competence on the alcohol file.

But, as anyone who has worked in government will tell you, it is hard to make changes – particularly when it comes to alcohol and other long established systems. And make no mistake the Ministry of Finance and its core agency – the LCBO – are in control of this reform process and will have the final word on any change in policy approach.

CHANGE TO WHAT?

Managing complex change will require clarity of purpose to be successful. What does reform intend and then how do you get there is the basic formula. The government has been consistent from day one around its commitment to expanding alcohol sales in Ontario. The Ford government made a concerted effort when first elected in 2018³ – promising “buck-a-beer”, tailgate parties, beer and wine in corner stores, and appointing former Alberta MP Ken Hughes as Special Advisor for the Beverage Alcohol Review. The Hughes Report⁴ that followed chastised the existing provincial sales structure as having “severely restricted choice and convenience for consumers”.

This intention though clearly runs into the prevailing internal imperative that has prioritized government revenue and system regulation. As summarized in a recent Munk brief⁵, provincial alcohol policy over the last 100 years has focused on regulation and taxation at the expense of sector growth and economic gain.⁶

But let’s assume the political imperative for greater choice and convenience will overpower the internal inertia that has long resisted change. What are the conditions of satisfaction that will indicate that the government has indeed been successful? To their credit, thus far the government has indicated

that a greater focus on new opportunities for small businesses will be a significant part of these reforms. Add in the social responsibility obligations that will necessarily be part of any reform effort and we can begin to see that the government must be able to argue that reforms will have a net positive impact on the domestic alcohol business in the province.

THE REFORM LANDSCAPE

Modernizing alcohol retail in the province is a complicated undertaking, with formidable barriers to manage. Outside the obvious health, safety and justice issues that come to bear, the landscape has significant and long-standing roadblocks and process issues to navigate.

1. Contractual Obligations

The 2015 MFA expanded alcohol sales to 450 grocery store outlets across the province. While perhaps not remembered as such, the move was a relatively huge public policy leap forward in attempting to convert an archaic regulatory structure that dates back to the end of Prohibition in the late 1920s.

But alas, it didn’t take long for the deal to be viewed as something of a failure. Many of the expected benefits of the deal failed to materialize with strict rules and limitations on retail space and limited accountability to ensure benefits to smaller businesses. The result reinforced perceptions that the status quo was able to defend itself, curtailing real reform. On the TBS side of things, the MFA reiterated perceptions that the monopolistic (and foreign) entities had too much retail and market power at the expense of consumer choice and promotion of small business.

If reform is going to happen, now’s the time. Notice of termination is expected to be delivered to signatories by the end of December this year (as mandated by

3. [Under the influence: Doug Ford and the strange history of Ontario's liquor laws](#). Globe and Mail June 12, 2019.

4. Report to the Minister of Finance, Ontario Special Advisor for the Beverage Alcohol Review, *The Case for Change: Increasing Choice and Expanding Opportunity in Ontario's Alcohol Sector*, May 2019. <https://www.fin.gov.on.ca/en/alcohol/report-may2019.html>

5. The Hughes Report identifies no less than seven comprehensive reviews and expert committees formed to reform provincial alcohol retail since the mid-1960s, most recommending modest or incremental change and generally achieving soft reforms if any.

6. *From Lazy Tax Policy to Economic Growth: New Approaches to Ontario's Alcohol Trade*, ON360 Transition Briefings 2022, David McGown, Munk School of Global Affairs & Public Policy, August 2022.

the notification terms of the agreement). Negotiations with TBS and quiet consultations with stakeholders have been ongoing⁷.

2. Liquor Retail Economics

The expansion of allowable retail outlets in 2015 came with certain caveats. The 450 new grocery outlets could only sell singles and six-packs; 12- and 24-packs were reserved for TBS. Further, the 450 aspiring grocers were selected through a competitive bidding process that required retailers to pledge a margin rate or percentage of profit they were prepared to accept within a range of 2% to 6.9% (in some northern communities it was as high as 10%). To have a chance at being selected for a license, especially in competitive markets, grocers bid low.

Small wonder that some grocers are now finding the existing parameters for alcohol sales unsustainable. Supermarket chains are closing alcohol sections in GTA locations and moving them to other parts of the province — presumably because they bid and secured a higher profit rate in those alternate locations. Smaller outlets in TO have just given up. The economics of the current restrictive structure is not attractive at the private retail end.

And yet there is a profit to be had: in 2021, the LCBO (the mandated supplier to these grocers) reported \$486 million in revenue from grocery store sales, a steep increase from \$247 million in 2019. Notably this hints at the LCBO's greatest weakness in maintaining the distribution and retail monopoly — that it is perhaps more profitable to let others shoulder the costs of retail and limit the costs associated with managing space and staff that otherwise eat into government revenues.

It is interesting that while government seeks to expand alcohol retail to promote consumer access and convenience, it is not prepared to let the market determine the value of that increased access and convenience, instead capping grocer margins and thereby price. One could ask why it is the

government's responsibility to make alcohol more affordable? And perhaps, even more importantly, why the same government interest in capping grocer retail margins couldn't be better applied to basic food basket items as opposed to alcohol.⁸

3. Don't Forget the Taxman

Alcohol tax revenues in Ontario are significant. Total alcohol retail in Ontario registered a value of about \$10 billion in sales in 2021. The provincial taxes collected on alcohol sales went from \$1.8 billion in 2015 to about \$2.6 billion currently.

For the government, one of the primary imperatives behind the resistance to change has always been and continues to be the tax cash boon. Little wonder that alcohol retail policy resides within the Ministry of Finance. In addition, the LCBO has long had specific interests and positions in reform conversations and tends to function as an internal "lobby" reinforcing the longstanding primacy of the revenue imperative.

Even just for appearance sake, let alone the internal paradigm shift, imagine moving policy responsibility from Finance to the Ministry of Economic Development, Job Creation and Trade (or even Agriculture, Food and Rural Affairs). Such a move would signal a realignment of priorities within government, and perhaps redirect the conversation at Queen's Park from primarily one of tax revenue to more mature and modern approach centred on business promotion, market opportunity and local production.

4. Winners and Losers — Politics

In the wake of change, those wedded to or heavily invested in the status quo will often point to pending hardship. For example, unions representing TBS workers cite a potential loss of 7,000 jobs if regulatory reforms lead to the absolute demise of the TBS.

On the investment side, TBS boasts over 60% of the provincial beer market, and has established distribution and retail infrastructure along with long-

7. In May 2023, the government held consultations on expanding alcohol sales to corner stores, with participants asked to sign non-disclosure agreements.

8. See our [October Policy Brief](#), *Thanksgiving or Hallowe'en — Food Price Fear*.

standing consumer relationships. The government is expected to cushion the impacts of policy change through a two-year transition period, so it is unlikely that there would be any dramatic overnight shift in consumer behaviour. Balancing these competing interests – TBS’s legitimate concerns about the value of decades of investment against the need to disrupt these embedded advantages – will require some real creativity and no doubt fortitude⁹.

But the economic case for change is strong. Indeed, Ontario currently has the lowest density of alcohol retail outlets in Canada highlighting the inherent opportunity: a 2019 report issued by the Retail Council of Canada suggests that if Ontario expanded its store count to match the national average of outlets selling alcohol per 10,000 people, it would result in 9,100 new jobs servicing an additional 4,024 locations, and generating a \$3.5 billion/year increase in GDP¹⁰. While other jurisdictions have successfully employed innovative marketing strategies to promote local wineries, cideries, distilleries and craft brewers, Ontario’s industry has been suffocating under the weight of the current regulatory regime.

While there may be room to quibble specific numbers, the point is that there is an economic offset to policy change that involves job creation, economic growth and business innovation – from urban big box retailers to small corner stores; from a specialty liquor boutique on Bloor to the 7-Eleven cooler in KW.

Transforming alcohol retail regulations may indeed create losers, but there certainly will be winners as well. And it is here that the details will matter most – especially for those that have seen themselves as historically disadvantaged by the heavy-handed regime. Notably that would include VQA wineries and the craft beer and spirits businesses around which much of the feel-good stakeholder politics and public good will is centred. It would be difficult to see the outcome of impending reforms being successful

without due consideration to these important stakeholders. Though as the last 100 years would suggest – it’s certainly far from a given.

GIVE THE PEOPLE WHAT THEY WANT – SUCCESSFUL CHANGE

An Ontario resident need not travel very far outside of the province to experience the Promised Land. The anticipated modernization initiative would bring the province closer in line with neighbouring Quebec and any of the US Great Lake States, each providing stark contrast to Ontario’s comparatively heavy-handed regulatory approach to alcohol purchase.

An independent survey by Abacus in 2019 found strong public support for expanded alcohol selection at grocery stores in Ontario, as well as for extending alcohol sales to convenience stores¹¹. It concluded that modernizing the regulation of alcohol sales is “a policy idea with legs as consumers seek more choice, customization, and competition in the province’s alcohol market.”¹² The obvious success (and lack of alcohol Armageddon) from relaxed regulations during the Covid pandemic only further legitimizes the opportunity and timeliness for greater system reform.

There is still much maneuvering to occur between now and anticipated implementation in 2026, what with all the various competing interests hoping to steer the direction of whatever regulatory regime is to follow.

The real work starts in the new year when the details around the regulations get sorted. No doubt, stakeholders will be employing a host of advocacy strategies to bend the reforms towards their interests.

But with clarity of purpose and discipline around implementation there are reasons to be hopeful that real reform is possible, and if so, we could be some distance closer towards that next (celebratory) pint.

9. This will be true as well in the wine sector with the Wine Rack and the Wine Shop retail stores representing a [long-standing structural advantage](#) similar to TBS.

10. *Alcohol in Ontario: Choice & Convenience means CDP Growth*, Retail Council of Canada, April 30, 2019

11. *Beyond the LCBO? Broad support for Liberalizing Alcohol Sales in Ontario*, Abacus Data survey, February 2019

12. David Coletto, CEO, Abacus Data, quoted in *New poll overwhelmingly supports modernization of alcohol sales in Ontario including private stores*, Wines in Niagara, February 2019.