

May 19, 2004

To: All Trade Councils

Re: Alcohol Levy Increases

The Ontario Government released the 2004 budget on May 18, 2004. The budget outlines changes to alcohol levies, which will affect retail prices of beverage alcohol products.

The following changes will be effective June 21, 2004:

Wine, Spirits and Beer Pricing

- The volume levy applied to each litre of spirits will increase by 25 cents. The new volume levy for spirits will be 54 cents per litre.
- The volume levy applied to each litre of wine coolers and spirit coolers will increase by 9 cents. The new volume levy for wine coolers and spirit coolers will be 28 cents per litre.
- The wine levy will increase by 12 cents per litre. The new wine levy will be \$1.62 per litre.
- The brewers' basic fee will increase by 4.5 cents per litre.
- The new brewers' basic fee for beer shipped in containers with a capacity of less than 18 litres (regular beer) will be 55.55 cents per litre.
- The new brewers' basic fee for beer shipped in containers with a capacity equal to or greater than 18 litres (draught) will be 40.55 cents per litre.

Microbrewery Pricing

While the definition of a microbrewery is unchanged, the new brewers' basic fee rates for a microbrewery will change according to the following schedule:

- 5.56 cents per litre for regular beer and 4.06 cents per litre for draught on the first 15,000 hectolitres of beer shipped in Ontario on or after June 21, 2004;
- 13.89 cents per litre for regular beer and 10.14 cents per litre for draught on the next 15,000 hectolitres of beer shipped in Ontario on or after June 21, 2004;
- 27.78 cents per litre for regular beer and 20.28 cents per litre for draught on the next 20,000 hectolitres of beer shipped in Ontario on or after June 21, 2004;
- 41.66 cents per litre for regular beer and 30.41 cents per litre for draught on the next 25,000 hectolitres of beer shipped in Ontario on or after June 21, 2004;
- 50.00 cents per litre for regular beer and 36.50 cents per litre for draught on the next 75,000 hectolitres, up to 150,000 hectolitres of beer shipped in Ontario on or after June 21, 2004; and
- 55.55 cents per litre for regular beer and 40.55 cents per litre for draught when over 150,000 hectolitres of beer is shipped in Ontario on or after June 21, 2004.

Quotations Submissions

In order to facilitate this change in a timely manner, changes to supplier's quotes will not be accepted for the June 21st, 2004 budget date. All Spirits, Wine and LCBO-exclusive Beer products (except those on LTO's for Period 4) will increase by the volume levy amount for Period 4.

Should there be any desire to modify prices, up or down, after July 18th, suppliers will be permitted to adjust their wholesale quote in order to achieve strategic price points using one of three methods:

- Import suppliers may choose to adjust their quotes after June 7th and allow the retail to change upon receipt of goods in the warehouse post July 18th at the revised quote.
- To implement a reduction in retail as quickly as possible after July 18th, a supplier may choose to buy-down existing inventory through a rebate process. The revised retail would go into effect within two weeks pending the approval of the Category Director.
- Domestic suppliers may submit a quote adjustment for a quote effective date of June 21, 2004 with a retail adjustment on July 19, 2004. In this case, a buy-down would not be necessary. These quotes should be submitted to Pricing Administration no later than June 11, 2004 (extended from original May 25th deadline).

Period 4 Promotional Prices (LTO's)

At the time of the budget release, the Period 4 LTO's were locked into place. No adjustments to the quotes for these products can be made to affect the retail price in Period 4. When the products come off of price promotion July 19th, the new levies will be applied. Should there be any desire to modify quotes, up or down, past Period 4, the quotation submission methods outlined above apply.

If you should have any questions with regard to these changes, please contact the LCBO Pricing Department at 416 365 5869.

Please circulate this to your membership as soon as possible.

Yours sincerely,

Bob Downey
Senior Vice President
Sales & Marketing