

BOTTLED UP

BEER DISTRIBUTORS SAY PROPOSALS FOR PRIVATIZING OR MODERNIZING THE STATE'S SYSTEM OF SELLING ALCOHOL COULD LEAVE THEM IN THE COLD.

BY ERIN NEGLEY
READING EAGLE

PUSHING GREATER consumer choice and convenience, plus promising \$1 billion for education, Gov. Tom Corbett wants to change the way we sell and buy alcohol.

His deadline is Thursday, yet there's still a variety of proposals that would blow up the current system: Sell the liquor stores to private businesses. Allow retailers, like grocery and convenience stores, to sell beer. Change packaging rules to allow more retailers to sell smaller packages of beer.

A lot stands to change for many businesses, but beer distributors would change the most. These businesses fill a specific niche created by Pennsylvania's liquor laws. If and when those laws change, how will beer distributors survive?

A recent informal survey of Berks County's beer distributors shows:

- They're not crazy about Corbett's call to allow retailers to sell beer.
- There's even more opposition to "big-box" stores, which they fear would sell beer as a loss leader to run beer distributors out of business.
- Given the option to sell liquor, they would be forced to buy a license to stay competitive, even if it's too costly. Current inventory would be slashed to make room for wine and liquor.
- They would like the chance to sell six-packs.

They will watch events in Harrisburg with a sense of unease. [>>> 12]



Under current state law, Morgantown Beverage owner Tony Rota can only sell cases of beer. He would like to be able to sell six-packs to appeal to the consumer who wants to purchase craft beers.

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IF OTHER businesses would be allowed to sell beer, wine and liquor, there would be little, if any reason for customers to visit beer distributors like Morgantown Beverage, owner Tony Rota said.

Rota bought the Caernarvon Township business two years ago, as a new challenge after a career as a traffic and logistics manager. He sells beer by the case in a 4,800-square-foot building on East Main Street.

By law, beer is his main business. If the rules change, Rota wants something that only beer distributors can sell, an exclusive product.

“Just give me something that helps me stay in business,” he said.

Rota has space to add liquor and wine, but he’d prefer to add six-packs. Customers can try new beers without buying a full case. That’s especially helpful with craft beers, which can be more expensive, he said.

More coverage
■ **Snapshot:** 2011-2012 state liquor sales. **Page 7**
■ **Online:** View a map of the wine and spirits stores in Berks County, with charts showing the five top-selling brands at each location, with this story at business-weekly.readingeagle.com.

“It is much more appealing to buy a six-pack of a new craft beer, rather than \$50 for a case,” Rota said.

BEER DISTRIBUTORS have spent 80 years following Pennsylvania’s rules. Now government officials want to expand an industry that’s already privatized, said Mark Tanczos, president of the Malt Beverage Distributors Association of Pennsylvania and owner of Tanczos Beverage in Bethlehem. The association wants politicians to consider the 1,200 current beer distributor licensees instead of selling even more licenses.



READING EAGLE: TIM LEEDY

The Weis supermarket in Spring Township sells beer at its on-site cafe, giving grocery shoppers a convenience that most other states offer.

Testifying before the state senate, Tanczos said the proposed reforms would lead to less selection and higher prices for consumers.

Chain stores would focus on the 20 percent of beers that are 80 percent of beer sales, he said later. Beer distributors provide the variety and shelf space to Pennsylvania’s dozens of craft breweries. Plus, larger stores would lower prices until competitors close — and [>>> 14]

The proposals

	Current	Governor's plan	House Bill 790	Senate plan
Beer can be sold (to-go)	By licensed distributors (who can sell no less than a case) and licensed restaurants, hotels and eating places (who can sell up to 192 ounces in one sale)	By grocery stores, convenience stores, pharmacies, large retailers and beer distributors who buy a license	By beer distributors, convenience stores and restaurants, including grocery stores with restaurant licenses	By licensees and beer distributors (who can sell four six-packs or up to two twelve-packs)
Wine/liquor can be sold (to-go)	At Pennsylvania wine and spirits stores	By businesses who purchase 1,200 newly created liquor licenses	By businesses, who purchase 1,200 new liquor licenses, available first to beer distributors. Grocery stores and restaurants can buy wine licenses.	By current licensees and beer distributors who buy new permits
Six-packs can be sold (to-go)	By licensed restaurants, hotels and eating places	By beer distributors	By beer distributors, along with growlers and 12-packs with a \$1,000 annual permit	By current licensees and beer distributors
Wholesale liquor sales	Handled by Pennsylvania Liquor Control Board	To be sold to private entrepreneurs	To be sold off when a study of the wholesale system is complete.	Required study in two years, with option for divestiture
Retail liquor stores	604 “state stores”	To be sold and expand to up to 1,200 stores	State stores would close as private stores open. All state stores will close when there are fewer than 100 remaining.	Required study with option for divestiture, plus profits will be considered when evaluating store closings
State proceeds	\$494 million in 2011-12	One-time \$1 billion in education funding	One-time \$425 million to \$800 million	Will freeze seniors’ property taxes and add domestic violence funding. Amounts were not available.

Source: Pennsylvania Liquor Control Board, Office of the Governor; Pennsylvania House of Representatives

Viewpoint By John Guiseppe and Paul Esqueda

No simple path to privatizing alcohol sales

MODERN SOCIETIES often face the dilemma of whether the provision of certain goods and services should be conducted by private or state-owned enterprises. It can be a decision burdened with many complex considerations, ranging from the best interests of the individual consumer to the collective well-being of the general public. Beyond that, there are philosophical considerations regarding political and economic ideologies, national security issues and religious and moral values.

A bill that would privatize liquor sales in Pennsylvania is now being debated in the



Guiseppe



Esqueda

state Senate after passage by the House. The issue has two key perspectives: ideological and moral.

The ideological perspective involves public versus private control. Can the business of alcohol sales be accomplished most efficiently under state control or by a free market structure? Alcohol sales result in a significant revenue flow for the state (\$464 million in 2011-12), most of which is generated through taxes and fees. Over the long term, the question would be whether a private structure would increase sales revenues, which would bring more tax revenues, to offset the loss of profits.

The most recent state to privatize along the lines of the Pennsylvania model is Washington, which just completed its first year of private sales. Early indications point to slightly higher sales, revenues and prices. If prices and sales in Pennsylvania both increase, then it should allow for an increase in tax revenue. But nobody really knows.

Another unknown is the demand elasticity of the consumer: What kind of price increases can they tolerate? Prices may well need to increase once massive wholesale buying by the state goes away. Private retailers won’t have the advantage of economies of scale; the price they pay will inevitably be higher.

The revenue issue is significant, especially in light of the financial problems faced by the state in recent years with serious

implications for education.

The moral perspective relates to the regulation of a product that is associated with numerous societal problems. State control of alcohol in Pennsylvania and in other states has its origins before and after Prohibition.

State supervision was considered the only way to sell alcohol to the general public in a way that enforced laws and minimized the negative effects on society.

Is that still true today?

Or would a private system be able to enforce the restrictions as mandated by law as effectively as a state-controlled system? Again, nobody really knows.

Only 18 states have some type of state control, with many only controlling the sales of spirits while beer and wine are more freely accessible. Washington has seen a slight increase in alcohol-related problems. Furthermore, alcohol in Pennsylvania is already sold at restaurants and sporting events, where the state has relinquished most of its control.

The issue, then, is not just one of economics, although that’s a major concern. There are important cultural issues that need to be discussed as well. As with any major political decision, the integration of all variables — economic, cultural and moral — must be properly considered.

John Guiseppe is an economist and an instructor of economics, and Paul Esqueda is a professor of engineering and senior associate dean for academic affairs at Penn State Berks.

Viewpoint By Pamela S. Erickson

Carefully wade into any change

PROPOSALS TO privatize alcohol sales often fail because they involve too much rapid change and ignore public safety implications. Pennsylvania has a real opportunity to modernize its system in a way that supports good businesses and jobs, protects revenue streams, and serves customers without seriously damaging public health and safety.



Erickson

It would take a cautious and careful approach. Experimentation and gradual change should be the pathway, as there are usually unanticipated consequences.

START WITH A REVIEW OF COMMON-WEALTH POLICY. Pennsylvania law says the liquor code’s purpose is “protection of the public welfare, health, peace, and morals” and refers to the commonwealth’s ... “policy of temperance and responsible conduct with respect to alcoholic beverages.” This means that public health and safety are paramount. According to the Centers for Disease Control, Pennsylvania had an aver-

age of 3,249 deaths during 2001-2005 due to excessive alcohol use.

DEVELOP A STANDARD FOR CUSTOMER OUTLET NEEDS. Most Americans either don’t drink or don’t drink often enough to make major increases in convenience much of a benefit. According to the CDC, 35 percent of Americans do not drink, and 13 percent drink only a few times a year. Another 31 percent have three drinks or less a week. Research indicates that more outlets lead to increased alcohol problems. More outlets can burden law enforcement and make things more convenient for heavy and underage drinkers. This suggests modest increases in outlet numbers is the wise choice.

CONSIDER HOW TO CONTROL PRODUCTS TO MINIMIZE ABUSE. Pennsylvania has an excellent system of retail control because most products are sold from adult-only, alcohol specialty stores. These stores are staffed adequately to deter theft and avoid sales to minors and intoxicated persons. By specializing in alcohol products, these stores rarely engage in the aggressive marketing and deep discounting that induces excess consumption. Such stores can be either public or privately owned.

PROTECT REVENUE FOR BOTH THE SHORT AND LONG TERM. Revenue is crucial to offset the cost of alcohol abuse. It may be tempting to raise short-term cash for public services — education in this case — by selling off assets, but that may decrease long-term revenue. In the state of Washing-

ton’s privatization, as a way to help generate revenue, the state instituted large retail and wholesale fees. That led to higher prices, and it put pressure on small businesses that sell alcohol. This has caused a backlash and pressure on legislators to reduce the fees.

FOSTER A FAIR AND BALANCED ALCOHOL MARKET WITH GROWTH OF SMALL BUSINESS AND FAMILY WAGE JOBS. Why not set this kind of goal instead of eliminating jobs and endangering small businesses? Other states have made small regulatory adjustments to foster growth in craft products: beer, wine and spirits. Craft products are less likely to be abused because they are more expensive, and they are marketed for their quality and taste. Alcohol regulations were originally designed to avoid ultra-competitive markets. In such markets, large corporations use aggressive sales practices to gain market share, realize high volume sales and drive alcohol specialty stores out of business. Safety is also an issue since they increasingly use fewer staff and promote self-service. All retailers should be required to provide adequate public safety measures to deter theft and illegal sales.

With a careful approach, Pennsylvania could have a modern system for selling alcohol, one that supports small business, good jobs and public safety.

Pamela Erickson is a former alcohol regulator from Oregon who now runs an educational program called “Campaign for a Healthy Alcohol Marketplace.” Learn more at www.healthyalcoholmarket.com.

Cover story

A HISTORY OF THE LCB

After the 21st Amendment repealed Prohibition in late 1933, states needed to regulate making, transporting and selling liquor.

Pennsylvania Gov. Gifford Pinchot called a special assembly and gave the group three weeks to set up a liquor control board.

The cornerstone of the new system was a monopoly, with liquor sold in state stores. Pinchot didn't want to push liquor or create artificial demands.

"Whiskey will be sold by civil service employees with exactly the same amount of salesmanship as is displayed by an automatic postage stamp vending machine," Pinchot wrote in *The Rotarian*.

The plan was meant to provide millions from taxes and store profits for unemployment, senior citizens and school districts.

"Thus millions of dollars which otherwise would go into the pockets of whiskey dealers — and possibly into the pockets of politicians — will be diverted to the needs of society," he wrote.

— Erin Negley

WASHINGTON STATE LIQUOR PRIVATIZATION, A YEAR LATER

Washington state privatized liquor sales a year ago after voters approved selling the state stores to private retailers.

Within a year, Washington's 329 state-run stores were replaced by more than 1,400 retailers selling liquor.

More stores have led to higher sales. The *Seattle Times* reported private stores sell an average of 2.7 million liters a month, compared to 2.5 million before privatization.

Revenue also jumped. The state's Economic and Revenue Forecast Council projects that taxes and fees will generate \$425 million for fiscal 2013, which ends June 30. In 2011, Washington and local governments received \$309 million through the liquor business.

And prices? They went up, too, by 7 percent year-over-year in March, according to the Washington State Department of Revenue.

Breaking down liquor prices

What goes into the price of that bottle at the state store? Here a look inside the cost of two popular items sold in Berks County.



Source: Pa. Liquor Control Board

[12 >>>] then increase prices.

Three years ago, Weis Markets became the first grocery store in Berks County to sell beer in an on-site cafe. The store now sells six-packs of beer in 15 of its 125 stores in Pennsylvania, and beer sales are doing well, said director of public relations Dennis Curtin.

"The reason is customers appreciate the convenience," he said.

Weis has focused on offering a wide variety of craft beer for the same reason Rota wants to sell six-packs. Customers can try a beer in a small quantity.

The supermarket chain is interested in selling wine, a natural complement to food.

"It's just another convenient option for our customers," Curtin said.

Under the state House bill, beer distributors and other businesses can buy a liquor license for about \$100,000. But adding space, inventory and employees to handle liquor would add an extra cost of \$300,000 to

\$1 million, Tanczos said.

In addition, distributors would lose about half of their beer sales, which wouldn't be recouped by wine and liquor sales, he said.

The proposed changes would devalue and possibly ruin beer distributors, he said. The association has met with state politicians on the issue and continues to provide information to members about the proposals as they change.

"It's a moving target right now, and we're not sure what the target is," Tanczos said.

The group would like incremental changes, such as changing packaging rules and allowing distributors to sell quantities less than cases.

"We need to be able to sell it the way the consumer wants to buy it," Tanczos said.

SOME LOCAL beer distributors said they don't mind grocery stores and convenience stores selling beer, but they're worried about large

chain stores and warehouse stores. The biggest retailers have many products to profit from if beer prices are lowered to cost, driving sales.

Surrounded by a large Sheetz and a Redner's Warehouse Market in Ontelaunee Township, 61 Brew Thru owner Rob Metzler has no idea what the future holds. He and his late father, Ron, bought the business in 2005. They were both out of work and saw the for-sale business as a new opportunity. A few years ago, they moved the store to a 1,700-square-foot space in the Leesport Plaza.

If liquor licenses were offered to beer distributors, Metzler said he doesn't know if he could afford the cost.

The reforms being debated sound like they would uproot a system that, for the most part, works, he said.

"It's like a guise of convenience, but it's all about big money," Metzler said.

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London Blue Jewelers

Address: 639 Penn Ave., West Reading, PA 19611; www.londonbluejewelers.com

When one walks into London Blue Jewelers, you are welcomed by a friendly and professional staff and are invited to discover London Blue's collection of one-of-a-kind styles.

Clients are encouraged to try on pieces that they are interested in and the staff is prepared to answer any questions regarding the potential selection. London Blue's collection is offered in an environment that is elegant but not intimidating; the process of matching a client with the right piece of jewelry is void of pretense or pressure.

London Blue Jewelers, a subsidiary of Stafford & Banks Jewelers, has been in the same location on Penn Avenue in West Reading for the last 18 years. Owners Tim and Stacy Gallagher take great pride in offering the people of southeastern Pennsylvania unique, one-of-a-kind designs complemented by exceptional service. The Gallaghers' passion for unique jewelry has led them to carry designers that include, but

are not limited to, Oscar Heyman, Richard Krementz, Kate McCullar, Christophe Dahnier and Kordvani.

The Gallaghers approach everyone that walks through their door with the same passion for finding the right style regardless of what the client's budget happens to be. They realize that each piece of jewelry, no matter what the cost, is as equally important to the client with a small budget as it is to the client with a larger budget. Their focus is on quality of design and construction at any price point.

London Blue Jewelers' design philosophy incorporates classic and traditional lines but with a fresh, updated twist, while maintaining bold aesthetics that allow the client to tell her personal story through her jewelry. The pieces commemorate significant moments in their client's lives and they continue to evoke memories of those special moments for which they were purchased.

London Blue's goal is to carry



Tim and Stacy Gallagher, owners of London Blue Jewelers at 639 Penn Ave., West Reading.

styles that blend in nicely with today's trends but are not so trendy as to affect the timelessness of the piece. No matter at what price point, London Blue Jewelers strives to carry or create styles with strong lines without losing that feminine sensibility.

London Blue Jewelers is open Tuesday through Friday from 10 a.m. until 5 p.m. and Saturday from 10 a.m. until 2 p.m. They accept requests for private appointments outside of normal business hours to accommodate the client's schedule. Clients may also visit London Blue at any time of the day or night on our website, www.londonbluejewelers.com.

Unique Designs... Exceptional Service



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