



The Financial Impact of Expanding the Beverage Alcohol Marketplace in Ontario

Briefing Deck



FAO
Financial Accountability
Office of Ontario

Overview of report

- This report estimates the financial impact to the Province of the decision to expand Ontario's beverage alcohol marketplace for beer, wine, cider and ready-to-drink alcohol beverages, including the cost to accelerate that expansion to begin in 2024.
- This presentation will:
 1. Provide an overview of changes made to the beverage alcohol marketplace in Ontario.
 2. Estimate the financial impact to the Province of the changes to the beverage alcohol marketplace.
 3. Discuss the key uncertainties in the FAO's cost projection and provide a range of potential financial impacts.



Changes to the beverage alcohol marketplace



FAO

Financial Accountability
Office of Ontario



Ontario's beverage alcohol marketplace prior to expansion

- Prior to 2024, beverage alcohol was sold by retailers, including the LCBO, LCBO Convenience Outlets, The Beer Store, licensed grocery stores and Ontario alcohol producers, and by licensed bars and restaurants.
- Retailers and licensed bars and restaurants purchased alcohol through various channels, including wholesale from the LCBO and The Beer Store or directly from Ontario alcohol producers.
- This marketplace was regulated by the Province through legislation, regulations, the Master Framework Agreement (MFA) and other agreements. The MFA, which limited the retail sale of beer, was set to expire on December 31, 2025.
- The return of beverage alcohol containers in Ontario was regulated through the Ontario Deposit Return Program (ODRP). Under the ODRP, The Beer Store accepted eligible containers and received a fee of \$0.1081 per container from the LCBO. The ODRP was set to expire on September 30, 2025.



Expanding Ontario's beverage alcohol marketplace

- On December 14, 2023, the Province announced that the MFA would not be renewed and indicated that the beverage alcohol marketplace would be expanded “no later than January 1, 2026.”
- The announcement described the key principles that would characterize the beverage alcohol marketplace in Ontario, including:
 - The sale of beer, cider, wine and ready-to-drink alcohol beverages would expand to grocery, big-box and convenience stores.
 - The LCBO would be the exclusive wholesaler to grocery, big-box and convenience stores and would replace The Beer Store as wholesaler for LCBO Convenience Outlets and licensed bars and restaurants, with limited exceptions.
 - The Beer Store would continue its primary role in the distribution of beer to retailers and licensed bars and restaurants.
 - The Beer Store would continue to run the Ontario Deposit Return Program until at least the end of 2030.
 - Ontario's wine industry would receive enhanced and extended industry supports, primarily through the Vintners Quality Alliance Wine Support Program, the Wine Marketing Fund, and the Small Cidery and Small Distillery Support Programs.



Accelerating the expansion of Ontario's beverage alcohol marketplace

- On May 24, 2024, the Province announced that the expansion of the beverage alcohol marketplace would occur “earlier than planned” with a phased rollout to begin in 2024, and with the following additional terms:
 - Up to \$225 million in industry supports paid to Brewers Retail Inc. to maintain The Beer Store’s retail footprint until December 31, 2025, and for The Beer Store’s expanded role in the distribution of beverage alcohol to retailers.
 - A 10 per cent LCBO wholesale discount to grocery, big-box and convenience stores from September 5, 2024 to December 31, 2025.
 - The LCBO will rebate to brewers the in-store cost of service fee applied to beer wholesaled to grocery, big-box and convenience stores from July 22, 2024 to December 31, 2025.
 - An increase in the ODRP fee to \$0.1672 per container on January 1, 2025 and a two per cent increase each year thereafter.
- As part of the accelerated expansion, the Province entered into the Early Implementation Agreement, which implements many of the terms governing both the acceleration and the expansion of the beverage alcohol marketplace in Ontario.



Financial impact to the Province



FAO

Financial Accountability
Office of Ontario



Financial impact

- The FAO estimates a net cost to the Province of \$1.4 billion to December 31, 2030, which covers the term of the Early Implementation Agreement.

(\$ millions)	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31	Total
Industry Supports	-201	-112	-44	-44	-44	-44	0	-489
LCBO Net Income	-170	-89	116	113	123	142	118	353
Tax Revenues	-37	-130	-226	-228	-234	-241	-185	-1,280
Other	-3	-3	-3	-3	-3	-1	0	-14
Total Financial Impact	-410	-333	-157	-162	-158	-143	-67	-1,429

Note: Positive values represent an improvement in the Province's finances while negative values represent a deterioration. Values in 2030-31 only include the financial impact until December 31, 2030, to reflect the expiration of the Early Implementation Agreement. For detailed information on the financial impact, see the Appendix. Numbers may not add due to rounding.

Source: FAO analysis of information provided by the Province.



Financial impact of accelerating the expansion to 2024

- Of the \$1.4 billion net cost, the FAO estimates that \$612 million relates to the decision to accelerate the expansion to begin in 2024.

(\$ millions)	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31	Total
Financial impact of expanding Ontario's beverage alcohol marketplace, starting January 1, 2026								
Industry Supports	-44	-44	-44	-44	-44	-44	0	-264
LCBO Net Income	0	2	47	92	123	142	118	525
Tax Revenues	-9	-41	-151	-206	-234	-241	-185	-1,065
Other	-2	-2	-3	-3	-3	-1	0	-13
Sub-total	-55	-84	-151	-160	-158	-143	-67	-817
Financial impact of accelerating the expansion of Ontario's beverage alcohol marketplace, beginning in 2024								
Industry Supports	-157	-68	0	0	0	0	0	-225
LCBO Net Income	-170	-91	69	20	0	0	0	-172
Tax Revenues	-28	-89	-75	-23	0	0	0	-215
Other	-1	0	0	0	0	0	0	-1
Sub-total	-356	-248	-6	-2	0	0	0	-612
Total Financial Impact	-410	-333	-157	-162	-158	-143	-67	-1,429

Note: Positive values represent an improvement in the Province's finances while negative values represent a deterioration. Values in 2030-31 only include the financial impact until December 31, 2030, to reflect the expiration of the Early Implementation Agreement. For detailed information on the financial impact, see the Appendix. Numbers may not add due to rounding.

Source: FAO analysis of information provided by the Province.



Key uncertainties



Uncertainty and range of potential financial impacts

- The financial cost would be lower than the FAO’s projection if expansion results in higher per-capita alcohol consumption. This would generate additional LCBO wholesale revenues without the offsetting costs of lower alcohol tax revenue or lower LCBO retail revenue.
- The financial cost would be higher if consumers shift their purchases to new retailers more quickly than projected, more new retailers enter the beverage alcohol marketplace than anticipated, or new retailers capture a larger than expected market share. This would reduce tax revenues more than LCBO net income would increase.

(\$ millions)	Lower Bound	FAO Projection	Upper Bound
Financial impact of expansion starting January 1, 2026	-21	-817	-1,053
Financial impact of accelerating expansion starting in 2024	-508	-612	-891
Total Financial Impact	-529	-1,429	-1,944

Note: Positive values represent an improvement in the Province’s finances while negative values represent a deterioration. The financial impact is estimated until December 31, 2030, to reflect the expiration of the Early Implementation Agreement. For detailed information on the financial impact, see the Appendix. Numbers may not add due to rounding.
 Source: FAO analysis of information provided by the Province.



Thank you!



FAO

Financial Accountability
Office of Ontario

2 Bloor Street West, Suite 900
Toronto, Ontario, M4W 3E2
416.644.0702

info@fao-on.org

fao-on.org



Appendix – Detailed financial impact

(\$ millions)	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31	Total
Industry Supports								
Brewer's Retail Inc.	-157	-68	0	0	0	0	0	-225
Wineries	-44	-44	-44	-44	-44	-44	0	-264
Total Industry Supports	-201	-112	-44	-44	-44	-44	0	-489
LCBO Net Income								
Retail Markups, Levies and Fees	-236	-295	-373	-385	-405	-426	-332	-2,453
Wholesale Markups, Levies and Fees	184	517	681	693	718	742	571	4,108
Wholesale Discount	-53	-127	-69	-70	-72	-74	-56	-522
Total LCBO Revenues	-104	94	239	238	240	243	183	1,133
Operating Expenses	-4	-59	-93	-93	-83	-63	-36	-431
Cost of Service Rebates	-56	-95	0	0	0	0	0	-150
ODRP Recycling Fees	-6	-30	-30	-32	-34	-37	-29	-198
Total LCBO Expenses	-65	-183	-123	-125	-118	-100	-65	-780
Total LCBO Net Income	-170	-89	116	113	123	142	118	353
Tax Revenues								
Beer, Wine and Spirits Tax	-40	-144	-249	-251	-257	-264	-203	-1,407
Other Taxes	3	14	23	23	23	24	18	128
Total Tax Revenues	-37	-130	-226	-228	-234	-241	-185	-1,280
Other								
Social Responsibility	-2	-2	-2	-2	-2	0	0	-10
AGCO Licence Fees	2	3	3	3	3	3	2	19
AGCO Enforcement	-3	-3	-3	-3	-3	-4	-3	-23
Total Other	-3	-3	-3	-3	-3	-1	0	-14
Total Financial Impact	-410	-333	-157	-162	-158	-143	-67	-1,429

Note: Positive values represent an improvement in the Province's finances while negative values represent a deterioration. Values in 2030-31 only include the financial impact until December 31, 2030, to reflect the expiration of the Early Implementation Agreement. Numbers may not add due to rounding.

Source: FAO analysis of information provided by the Province.



Appendix – Detailed financial impact of accelerating the expansion in 2024

(\$ millions)	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31	Total
Industry Supports								
Brewer's Retail Inc.	-157	-68	0	0	0	0	0	-225
Wineries	0	0	0	0	0	0	0	0
Total Industry Supports	-157	-68	0	0	0	0	0	-225
LCBO Net Income								
Retail Markups, Levies and Fees	-236	-272	-232	-71	0	0	0	-812
Wholesale Markups, Levies and Fees	184	455	359	110	0	0	0	1,108
Wholesale Discount	-53	-116	-18	-6	0	0	0	-192
Total LCBO Revenues	-104	67	109	33	0	0	0	105
Operating Expenses	-4	-48	-41	-12	0	0	0	-105
Cost of Service Rebates	-56	-95	0	0	0	0	0	-150
ODRP Recycling Fees	-6	-16	0	0	0	0	0	-22
Total LCBO Expenses	-65	-158	-40	-12	0	0	0	-277
Total LCBO Net Income	-170	-91	69	20	0	0	0	-172
Tax Revenues								
Beer, Wine and Spirits Tax	-32	-101	-86	-26	0	0	0	-245
Other Taxes	4	12	11	3	0	0	0	30
Total Tax Revenues	-28	-89	-75	-23	0	0	0	-215
Other								
Social Responsibility	0	0	0	0	0	0	0	0
AGCO Licence Fees	2	2	0	0	0	0	0	4
AGCO Enforcement	-3	-2	0	0	0	0	0	-5
Total Other	-1	0	0	0	0	0	0	-1
Total Financial Impact	-356	-248	-6	-2	0	0	0	-612

Note: Positive values represent an improvement in the Province's finances while negative values represent a deterioration. Values in 2030-31 only include the financial impact until December 31, 2030, to reflect the expiration of the Early Implementation Agreement. Numbers may not add due to rounding.

Source: FAO analysis of information provided by the Province.

