



Economic Impact Analysis Virginia Department of Planning and Budget

3 VAC 5-50 – Sale of Soju by the Bottle

Alcoholic Beverage Control Board

September 2, 2004

The Department of Planning and Budget (DPB) has analyzed the economic impact of this proposed regulation in accordance with Section 2.2-4007.G of the Administrative Process Act and Executive Order Number 21 (02). Section 2.2-4007.G requires that such economic impact analyses include, but need not be limited to, the projected number of businesses or other entities to whom the regulation would apply, the identity of any localities and types of businesses or other entities particularly affected, the projected number of persons and employment positions to be affected, the projected costs to affected businesses or entities to implement or comply with the regulation, and the impact on the use and value of private property. The analysis presented below represents DPB's best estimate of these economic impacts.

Summary of the Proposed Regulation

Chapter 913 of the 2004 Acts of Assembly amended §4.1-325 of the Code of Virginia to exempt Soju (a Korean distilled hard spirit) from a requirement in the Code preventing mixed beverage licensees from delivering to customers an original bottle of an alcoholic beverage purchased under the mixed beverage license. Thus, §4.1-325 of the Code of Virginia now allows mixed beverage licensees to deliver a whole bottle of Soju to customers. However, §4.1-221 prevents mixed beverage licensees from serving the entire contents of a closed container of distilled spirits to an individual for on-premise consumption, except as provided for in the Alcoholic Beverage Control regulations. The purpose of the proposed action is to carry out the intent of the General Assembly by amending the existing regulation to allow mixed beverage licensees to serve customers the entire contents of a closed container of Soju.

The proposed regulation allows mixed beverage restaurants to serve the entire contents of a container of Soju in its original container as one drink for on-premise consumption, as long as

(i) the container does not hold more than 375 milliliters and (ii) each container of Soju is served for consumption by at least two people.

Estimated Economic Impact

Soju is a traditional Korean liquor distilled from rice, barley, various other types grains, and sweet potatoes with a proof of between 40 and 90 (or an alcohol content of between 20% and 45%). According to the Virginia Department of Alcoholic Beverage Control (ABC), a 375-milliliter bottle of Soju typically has a proof of 50 or an alcohol content of approximately 25%. Soju has traditionally been served at the table in a bottle, with individuals pouring out drinks for each other and toasting one another.

Prior to the enactment of Chapter 913 of the 2004 Acts of Assembly, a mixed beverage licensee was prohibited (according to §4.1-325 of the Code of Virginia) from delivering an original bottle of an alcoholic beverage purchased under the mixed beverage license to consumers. In addition, section §4.1-221 of the Code of Virginia prohibited mixed beverage licensees from serving the entire contents of a closed container of distilled spirits to consumers for on-premise consumption. While Chapter 913 of the 2004 Acts of Assembly exempted Soju from the requirements of §4.1-325 of the Code of Virginia, it was not exempted from the requirements of section §4.1-221. Thus, mixed beverage restaurants are still not allowed to serve consumers an entire bottle of Soju for on-premise consumption.

The purpose of the proposed regulation is to carry out the intent of the General Assembly by amending the existing regulation and allowing mixed beverage licensees to serve bottles of Soju for on-premise consumption. The proposed regulation exempts Soju from the general prohibition on serving the entire contents of a container of distilled spirits to a customer for on-premise consumption, with restrictions on the size of the container and the number of consumers per container. The bottle cannot contain more than 375 milliliters of Soju¹ and has to be consumed by at least two people. Prior to the 2004 legislative session, individuals wishing to consume Soju could either purchase it by the bottle from an ABC store for off-premise consumption or by the glass for on-premise consumption.

¹ According to ABC, Soju is mainly sold in 375-milliliter containers. A 750-milliliter bottle of Soju is available by special order, but ABC has sold very few of them.

The proposed regulation is likely to produce economic benefits and impose economic costs. The economic benefits arise from allowing Soju to be consumed in a traditional manner. Rather than requiring it to be consumed by the glass, the proposed regulation will allow Soju to be consumed by the bottle and in keeping with traditional Korean customs. The proposed regulation limits the maximum size of a bottle of Soju to 375 milliliters and requires it to be consumed by at least two people. Existing regulations limit to two drinks the number of mixed beverages a customer may possess at any one time. According to ABC, these requirements together will allow groups of two or more to order one bottle of Soju per customer at any one time (i.e., each bottle of Soju counts as one drink for two people and each person is allowed to order a maximum of two mixed drinks at one time). Thus, by allowing bottles of Soju to be served to groups of two or more and increasing the flexibility in how Soju is served and consumed, the proposed regulation is likely to produce economic benefits. The size of these benefits depends on the extent to which restricting Soju to consumption by the glass has inhibited its enjoyment and consumption.

The economic costs of the proposed change arise from any potential increase in alcohol consumption due to the proposed change. Increased consumption of alcohol has been found to impose social and economic costs through rising health costs, falling productivity, and an increase in social problems such as domestic abuse. According to ABC, the proposed change is likely to lead to an increase in consumption of Soju. The Code amendment and the proposed change only affect the sale of Soju by mixed beverage licensees for on-premise consumption. Thus, to the extent that on-premise Soju consumption has been inhibited by having to purchase it by the glass (rather than allowing it to be purchased by the bottle and served in the traditional manner), the proposed change is likely to lead to an increase in its consumption. However, any increase has to be balanced against a possible decrease in the amount of Soju bought for off-premise consumption² and a potential decline in consumption of other types of alcohol³. Moreover, regardless of the magnitude of the increase in Soju consumption, it is not likely to produce a significant impact on overall alcohol consumption in the state. Soju is a small fraction of the total amount of distilled spirits sold in Virginia. Based on data provided by ABC, Soju

² Prior to the change, the only way consumers could drink Soju in the traditional manner was by buying it at an ABC store and consuming it off-premise.

³ Now that they are able to consume Soju in a traditional manner on-premise, consumers may choose to switch their on-premise alcohol consumption to Soju and away from other types of alcohol.

sales accounted for 0.3% of total distilled spirits sales and 0.3% of total gallons of distilled spirits sold in Virginia during FY 2004. Even if consumption were to double, Soju would still form only a small fraction of total distilled spirits consumed in the state, and an even smaller fraction of total alcohol consumed in the state. Thus, the impact of the proposed change on the level of alcohol consumption in the state is not likely to be significant.

Overall, the proposed regulation is not likely to produce a significant net economic impact. Both, the costs and benefits associated with the proposed change are likely to be small. It is not possible at this time to determine the exact magnitude of the net economic impact. Without considerable additional time and resources, accurate estimates of the likely change in Soju consumption and, hence, in overall alcohol consumption in the state and the potential benefits associated with allowing Soju to be served in keeping with Korean tradition are not possible.

Analysis of the Proposed Restrictions on Soju Service:

Chapter 913 of the 2004 Acts of Assembly was intended to allow mixed beverage licensees to deliver and serve customers an entire bottle of Soju in its original container in order to facilitate its consumption in keeping with Korean tradition. The amendment did not establish a maximum size for a bottle of Soju nor did it require a minimum number of consumers per bottle. These restrictions were deemed necessary by the Alcoholic Beverage Control Board and, according to ABC, are intended to promote temperance in alcohol consumption.

However, as discussed above, allowing for the service of Soju by the bottle is unlikely to have a significant impact on overall alcohol consumption in the state, making the need for these restrictions moot. In addition, the proposed restrictions are inconsistent with existing regulations on alcoholic drinks such as wine that contain a similar amount of alcohol. According to ABC, a 750-milliliter bottle of wine (the size of a typical bottle of wine served at restaurants) has approximately the same alcohol content as a 375-milliliter bottle of Soju. However, existing regulations relating to wine establish maximum decanter size at 1.5 liters and place no restrictions on the number of consumers per bottle served. Finally, the effectiveness of these restrictions in promoting temperance is unclear. Individuals (not part of a group of two or more) can still order unlimited amounts of Soju by the glass as long as they do not have more than two drinks at any one time and do not appear intoxicated. Groups of two or more can still order

unlimited amounts of Soju by the bottle as long as they do not have more than one bottle per person at any one time and do not appear to be intoxicated.

It should be noted that these restrictions are unlikely to be binding. An individual will still be able to consume Soju, just by the glass and not by the bottle. Moreover, an individual or a group of individuals will be able to consume as much Soju as they want, just not more than a bottle of Soju or two glasses of Soju at a time per person and as long as they appear not to be intoxicated.

However, making Soju service requirements consistent with the requirements for other alcoholic beverages with similar alcohol content or doing away with these restrictions entirely would provide some small efficiency gains. These alternatives would slightly increase the flexibility in how Soju is served without having a significant negative impact on public health and safety due to increased alcohol consumption.

Businesses and Entities Affected

The proposed regulation affects all businesses and entities holding a mixed beverage license. These entities will now be able to serve Soju by the bottle for on-premise consumption, as long as the bottle is not larger than 375 milliliters and there are at least two consumers per bottle. Prior to Chapter 913 of the 2004 Acts of Assembly on-premise consumption of Soju was only allowed by the glass (not by the bottle).

According to ABC, there are approximately 4,000 mixed beverage licensees currently operating in Virginia. However, not all 4,000 licensees serve Soju. According to the agency, the number of such licensees number in the hundreds. A 375-milliliter bottle of Soju can cost anywhere from under \$6 to over \$10, with the agency estimating an average price of \$6 per bottle.

Localities Particularly Affected

The proposed regulation applies to all localities in the Commonwealth.

Projected Impact on Employment

The proposed regulation is not likely to have a significant impact on employment.

Effects on the Use and Value of Private Property

The proposed regulation could have a net positive economic impact on the use and value of private property. Restaurants holding a mixed beverage license will now be able to serve Soju by the bottle to their customers. The option of consuming Soju in keeping with Korean traditions at a restaurant could encourage more people to patronize these restaurants. This, in turn, is likely to increase revenues and raise the asset value of mixed beverage licensees serving Soju.