

POLICY SERIES



Ending Saskatchewan's Prohibition-Era Approach to Liquor Stores

By Dave Snow

About the Author

Dave Snow is a PhD student in the Department of Political Science at the University of Calgary, specializing in constitutional law and comparative politics. He received a BA from St. Thomas University in Fredericton, New Brunswick, and an MA from the University of Calgary. He is a graduate fellow at the Institute for Advanced Policy Research and has previously published a paper on affordable housing and homelessness with the Canada West Foundation.

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**FRONTIER CENTRE
FOR PUBLIC POLICY**

www.fcpp.org

MB: 203-2727 Portage Avenue,
Winnipeg, Manitoba Canada R3J 0R2
Tel: 204 957-1567 Fax: 204 957-1570

SK: 2353 McIntyre Street,
Regina, Saskatchewan Canada S4P 2S3
Tel: 306 352-2915 Fax: 306 352-2938

AB: Ste. 1280-300, 5th Avenue SW
Calgary, Alberta Canada T2P 3C4
Tel: 403 230-2435

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Executive Summary

Eighty years after the repeal of Prohibition-era policies, most Canadian provinces maintain monopolies for the sale and distribution of alcohol. This study explores the economic and public policy rationale behind these monopolies, focusing specifically on Saskatchewan's framework. It also examines frameworks in Alberta, British Columbia, Manitoba, Ontario and Quebec.

In recent years, government policy concerning the retail and distribution monopolies has come into question. In 2009, following the opening of two privately operated specialty wine stores in Saskatchewan, the Saskatchewan Government and General Employees' Union (SGEU) unleashed an anti-privatization campaign that claimed public monopolies prevent social harms and increase economic efficiency. Using Canadian empirical data and statistics, this study tests these claims. A closer examination shows that most of the claims made in favour of government monopoly, particularly those made by the SGEU, are exaggerated, misleading, lack sufficient data, or are simply incorrect.

Findings

Alcohol sold at private outlets is not more expensive.

Several studies comparing Alberta (which privatized retail sales in 1993) and other provinces show that prices were generally lower in Alberta following privatization. However, the price of beverage alcohol is heavily dependent upon government markups and taxes at the wholesale level. These markups and taxes, which are in place regardless of whether retail is monopolized or open to competition, are much better indicators of pricing than whether the outlet is private or public. Regardless of distribution, public or private, a tax increase will make alcohol more expensive, and a tax cut will make it cheaper.

Although private competition means more stores and more products, it does not result in higher consumption.

Following retail privatization, Alberta stores became highly specialized in order to respond to consumer demand. Alberta has the most stores and product choices per capita in Canada, well ahead of Saskatchewan. However, there is no evidence that more choice means more sales or consumption.

Following privatization, Alberta's sales rate *dropped* from 8.7 litres of absolute alcohol per person over 15 in 1993-1994 to 8.1 litres in 1996-1997.

- In contrast, per capita sales in Saskatchewan during the same period held steady (6.6 litres per person in 1993-

1994 and 1996-1997). The sales rate for Canada as a whole dropped from 7.5 litres to 7.2 litres.

- Between 1993 and 2003, sales per person in Alberta rose by a mere 1.2 per cent compared with 4 per cent in Ontario and 13 per cent in Quebec.

The same holds true for the number of drinkers.

- Between 1994 and 2004, Saskatchewan experienced a substantially higher growth in the number of drinkers (+5.2 per cent) than did Alberta (+3.1 per cent). Quebec jumped nearly 10 per cent in this period.
- Since retail privatization, Alberta has followed the same pattern as the rest of Canada, with a brief decline in sales and consumption followed by a low, steady increase after 1997. Overall, sales and consumption were high in Alberta relative to the rest of Canada before privatization, and this remains the case. Historical, demographic and cultural phenomena are far better indicators of alcohol consumption than whether alcohol is sold by a private worker or a government employee.

Private retail competition does not lead to social harms.

- In 2004, in spite of some of the lowest overall sales and consumption rates in the country, respondents in Saskatchewan reported the highest, second-highest or third-highest rates of alcohol-related harm with respect to friendships, marriage, work, studies, employment, finances, legal problems and physical violence.

- In all these categories, the likelihood of harm in Saskatchewan was higher than in Alberta, which has private retailing.
- Across the country, alcohol-related social harms were higher in the West and lower east of Manitoba. Private retailing has no significant effect on these social harms.

Public monopolies do not prevent alcohol-related crime, and there is no evidence linking retail competition with underage drinking.

Contrary to SGEU claims, Saskatchewan communities are no safer than the rest of Canada. In fact, Saskatchewan's crime rates are often the highest in Canada.

- In 2008, Saskatchewan had by far the highest impaired-driving rate of any province at 670 per 100,000 people—more than twice the Canadian average. Although the number of impaired-driving charges varies from year to year, Saskatchewan's impaired-driving rate has been the highest in Canada every year since 1993. Manitoba and Saskatchewan, both of which have retail monopolies with minor exceptions, consistently exhibit the highest crime rates in Canada.

There is no evidence that any increase in crime rates in Alberta were related to privatization.

- In the decade following privatization, Alberta's impaired-driving rate declined by a higher percentage than any other province—73 per cent compared to 47 per cent for Saskatchewan and 50 per cent for Canada as a whole.

- A 1995 Calgary Police Service report on liquor-store crime (crimes per liquor store) claims to dispel "the myth that privatization of liquor businesses has increased the rate of crime."
- A 2003 Calgary Police Service report also found that the rate of liquor-store crime actually went down in Calgary following privatization. Moreover, there is no evidence that underage drinking is higher in Alberta or lower in Saskatchewan than in the other provinces.

Government monopolies do not produce more revenue than private retailers do.

Although public monopolies do allow governments to raise taxes with less transparency, this undemocratic way of raising revenue is not the most efficient use of government resources.

- A 2005 study showed that Alberta raised a higher dividend per litre of alcohol than Ontario and Quebec, neither of which allows retail competition.
- In 2007-2008, Alberta's per capita revenue raised from the sale of alcohol tied with British Columbia for the highest of the six provinces surveyed.

Thus, there is no evidence that retail monopolies raise more revenue. The most efficient way for governments to raise revenue from alcohol sales is to tax at the wholesale level rather than sell the alcohol.

Recommendations

Because alcohol policy varies by province, provincial governments should be willing to experiment with different retail and distribution frameworks. Saskatchewan, in particular, is in need of reform. Restricting competition and then permitting distorted competition through ad hoc adjustments is a poor approach, and government alcohol policy ought to start with a blank slate. This study makes several recommendations.

First, the government needs to recognize that it has separate roles as regulator and wholesaler-retailer.

Separate organizations with separate mandates, one to sell alcohol and another to regulate harm, can be created. Quebec, Ontario and British Columbia have already taken this approach to avoid a conflict of interest, although the separation of roles in these provinces could be much more clear-cut.

Second, Saskatchewan should open up its retail and distribution monopolies to competition.

This would allow the economy's best practitioners in supply-chain management and retail to enter the business and serve customer demand. This need not lead to all-out privatization, as public organizations can compete with the private sector in an environment of increased efficiency and competition.

Third, the Saskatchewan government should introduce a taxation regime that treats public and private organizations equally.

The nature of the organization (public or private) should not influence taxation. Government organizations remaining in

the liquor business should be subject to full accrual accounting to prevent them from receiving hidden subsidies around the cost of capital.

Fourth, Alcohol should be available in convenience stores and grocery stores.

Domestic beer is sold in convenience stores and grocery stores in Quebec, and there are no negative social problems. Selling beer in these stores would increase competition and efficiency, and it has shown no negative effect in terms of social harms.

Fifth, the Saskatchewan government should not view the federal Importation of Intoxicating Liquor Act as a barrier to competition at the importation and wholesaling levels.

This antiquated piece of legislation should not be viewed as a barrier to alcohol reform, as it is surely a violation of the division of powers under the Canadian constitution. The Constitution permits the provinces to experiment with their liquor distribution regime, as many currently do with domestic beer. Alberta's policy demonstrates room for flexibility and experimentation.

In sum, contrary to the SGEU's claims, Saskatchewan's policy is not delivering in terms of preventing social harms or economic efficiency. As in other policy areas, the government should examine successful jurisdictions in order to implement reform.

Chapter 1:

The Liquor Monopoly and the SGEU

Across Canada, the debate over government liquor policy has heated up in recent months. In Ontario, unionized employees of the Liquor Control Board of Ontario (LCBO), amidst negotiations with the province over a growing number of part-time, casual employees, voted to strike if the negotiations did not go successfully. Less than a day before the strike was to begin, a deal was reached. In New Brunswick, there are allegations the government deliberately asked liquor suppliers to raise prices in order to raise revenue without affecting markups. In Alberta, many customers were irritated by a recent alcohol-tax hike, which was eventually rescinded.¹

Nowhere has the debate over liquor policy been more visible, however, than in Saskatchewan. With minor exceptions,² as with most other provinces, Saskatchewan's liquor board holds a monopoly on the retail distribution of alcohol. However, in December 2008, the provincial government announced it would allow two privately operated specialty wine stores to open in Saskatoon and Regina. While a relatively minor move—British Columbia and Manitoba have had specialty stores for years, and Alberta privatized all retail distribution in 1993—the government's decision mobilized the SGEU. Almost immediately, the SGEU began a media blitz, running print, radio, Web and television advertisements that condemned the decision as a precursor to an all-out privatization of liquor policy in Saskatchewan. In the ads, the SGEU made the following claims:

- Alcohol is “not just another product,” and therefore it requires government sale;
- Alcohol sold at private outlets is more expensive;
- Private retail competition means more stores and products, leading to higher alcohol consumption;
- Private retail competition leads to social harms;
- Private retail competition increases alcohol-related crime, whereas public monopolies create safe, healthy communities;
- Private retail competition means more underage drinking;
- A government monopoly creates high-paying jobs;
- A government monopoly for the sale of alcoholic beverages provides more government revenue than private retailers do.

This study offers statistical evidence to test the SGEU's claims. In particular, it examines Saskatchewan's current alcohol framework and asks whether Saskatchewan's liquor policy has indeed prevented social harms and increased economic efficiency. Chapter 2 provides an overview of liquor policy in Canada and describes the various frameworks in place in Ontario, Quebec and the four Western provinces. Chapter 3 examines the arguments for and against a government monopoly. Chapter 4 then addresses the SGEU's claims and provides statistical evidence to test their validity. Overall, the evidence suggests that the SGEU's claims

are exaggerated, misleading, lack sufficient data or are simply incorrect. Although retail competition does lead to more stores and greater product selection, none of the concerns related to consumption, harm, crime or economic efficiency have any empirical basis. Finally, Chapter 5 discusses the evidence and suggests a new policy direction. This paper recommends opening up Saskatchewan's retail monopoly to increased competition, which would allow private retailers to compete on a level playing field with the Saskatchewan Liquor and Gaming Authority (SLGA) stores.

The regulation and sale of alcohol remains a critical policy area. Both sides of the debate agree that the government should

minimize alcohol-related harm. The SGEU, hardly a disinterested third party, contends that the only way to minimize harm is to constrain the freedom of citizens and would-be entrepreneurs through retail monopolies. However, the data offered in this paper suggest that limiting choice and competition does not always minimize harm. Government can still offer policy responses including taxation, regulation and public health advertising to address alcohol-related harm without getting involved in distribution where its ability to prevent harm is considerably limited. In the end, citizens of Saskatchewan would be better served if the government opened up liquor retailing to private competition.

Chapter 2: Provincial Alcohol Monopolies

Before reviewing the history and rationale behind the retail monopolies, it is important to understand where Saskatchewan stands in terms of its alcohol policy. Although the focus of this paper is on alcohol retailing, this chapter examines the alcohol importation, distribution, retail and taxation policies in British Columbia, Alberta, Saskatchewan, Manitoba, Ontario and Quebec.³

In Canada, jurisdiction over the control and distribution of alcoholic beverages belongs to the provinces. However, the federal government is not entirely absent in terms of alcohol policy. The federal *Importation of Intoxicating Liquor Act* (1928) requires that the provincial government be the sole importer of alcohol into a province. In addition, the federal government levies excise taxes and duties on certain types of

alcohol and has responsibility for criminal law.

In compliance with the *Importation of Intoxicating Liquor Act*, each province and territory has an authority that is responsible for the control, importation (whether from anywhere in Canada or another country) and sale of alcoholic beverages within the province. These authorities or liquor boards are responsible for acting as liquor wholesalers; they collect federal and provincial duties and taxes on liquor, hand out licences and permits, enforce liquor regulations and infractions and add their own (often substantial) markup to the price of alcohol.

The alcohol regulations and frameworks vary by province. In all provinces except Alberta, the liquor boards manage the

liquor stores. They also license privately owned agency stores, which typically serve small or remote communities. Domestic beer, which is not subject to the same wholesaling requirements as other types of alcohol, is sold under different arrangements depending on the province: Domestic beer may be sold at hotels, convenience stores, grocery stores or off-sale sites connected to a licensed bar or restaurant. Some provinces license wineries, breweries and microbreweries to sell at the retail level.⁴

With a description of the different regulatory regimes and monopolies in place, this chapter begins with Saskatchewan, the focus of this study. It then discusses Alberta, a province that opponents of retail competition frequently use as a scare tactic in comparison with Saskatchewan. Then, for context and comparison, this review describes the frameworks in place in British Columbia, Manitoba, Ontario and Quebec.

Saskatchewan

The SLGA, a Treasury Board Crown Corporation, is responsible for the sale and distribution of alcohol in Saskatchewan. The SLGA, like other provincial liquor boards, has a monopoly on the importation, wholesaling and distribution of alcohol.

The SLGA has a monopoly on retail sales, although there are some small, minor exceptions. The SLGA operates 79 liquor stores but allows 185 small-business franchises in rural Saskatchewan to sell liquor on its behalf (at specified SLGA pricing). In return, the franchises receive a commission per product sold. Saskatchewan also allows off-sale outlets—privately owned stores that are permitted to sell all types of alcohol (as long as it is on the SLGA

wholesale monopoly list).⁵ However, off-sale outlets are subject to a number of restrictions. They cannot operate as standalone stores; rather, they must be attached to a licensed on-sale location—a pub, brewery or hotel. *Off-sale outlets must purchase their products from the SLGA at the same price as any other consumer* with the exception of a small discount for the first \$100,000 of beer purchased.⁶ Thus, *for off-sale outlets to make any profit, they need to sell their product at a higher price than the SLGA stores.* This government policy artificially gives the SLGA stores a considerable advantage and the consumer a considerable disadvantage in terms of price.

Although the franchises and off-sale locations are privately owned, they do not operate on a level playing field with the SLGA. The SLGA monopoly on importing, wholesaling and distributing prevents off-sale sites from creating their own supply chain.⁷ The prices are set at SLGA levels—rural franchises sell their products at prices determined by the SLGA, while off-sale outlets actually purchase the products from the SLGA at the same price as any other customer.⁸ This allows the SLGA to sell more liquor (through off-sales) without the retail costs, and it produces an effective double markup for customers who buy from off-sale outlets.

The Saskatchewan government made some minor changes since 2008 that, in the words of one local commentator, loosened the “government’s grip” on the liquor monopoly.⁹ The government recently allowed U-brew and U-vin businesses (also known as brew on premises), where customers can make beer and wine at a business for their private consumption. The SLGA also permitted the opening of two specialty wine stores, one in Regina and one in Saskatoon. The specialty stores

have the same arrangement with the SLGA as the rural liquor licence holders do, which means they effectively act as the agency stores for specialty wines. These new stores have the SGEU—whose members include workers at the 79 SLGA stores across the province—crying foul. They suggest the specialty stores are the precursor to the abolition of the SLGA. However, full-scale retail competition does not look likely, as Premier Brad Wall has repeatedly insisted he has no plans to privatize the SLGA.¹⁰

The price of alcohol in a Saskatchewan liquor store is set by the government and consists of the following:

- A landed supplier cost that includes freight;
- Federal duty and excise taxes, if applicable;
- A government markup (discussed below);
- An environmental handling charge that ranges from five cents to eight cents per container;
- Cost-of-Service and cost-of-inventory fees;
- The 5 per cent GST;
- A refundable deposit of between five cents and 40 cents per container;
- The 10 per cent liquor consumption tax (which replaces the 7 per cent PST).

As with other government-owned liquor monopolies in Canada, the SLGA uses an *ad valorem* markup, which is a tax in proportion to value, rather than a flat markup for wine and spirits. Unlike Alberta's flat markup (which applies to the percentage of alcohol in a given beverage), an *ad valorem* markup applies a tax in proportion to the original landed supplier price of the product. Thus, under an *ad valorem* markup schedule, an expensive bottle of wine will be assessed a much higher markup than a cheaper bottle, even

if they have the same alcohol content.¹¹ The current markup schedule is 107 per cent on coolers and cider, 162 per cent on most spirits and 184 per cent on some wines. A different markup applies to beer, ranging from 64 cents per litre to \$1.70 per litre based on the amount produced by the brewery.

Alberta

With the exception of beer in Quebec, Alberta has the most liberalized liquor framework in Canada. Prior to 1993, the Alberta Liquor Control Board (ALCB) controlled all aspects of the alcohol business by determining store locations, products and hours of operation. Liquor store employees were government workers. In 1993, the Alberta government privatized the retail sale of alcohol but left significant regulations and restrictions in place with respect to importation, wholesaling, distribution and taxation.¹²

As mandated by the federal *Importation of Intoxicating Liquor Act* and the *Alberta Gaming and Liquor Act*, all liquor must technically be imported through the Alberta Gaming and Liquor Commission (AGLC), the government body responsible for licensing and regulating liquor activities. Alcohol suppliers ship their product to privately operated warehouses approved by the AGLC, all of which are run by Connect Logistics Services, Alberta's sole warehouse and distributor of spirits, wine, coolers and imported beer. Thus, a supplier cannot simply deliver goods to a liquor retailer—it must first go through Connect Logistics and then have its wholesale price set by the AGLC.¹³ Other AGLC regulations on the sale of alcohol include:

- Uniform wholesale prices and uniform warehouse transportation charges;

- Alcohol must be sold in a free-standing building or a physically detached part of a larger building;¹⁴
- Although alcohol cannot be sold in grocery or convenience stores, cases of beer can be sold in licensed hotels.

Licencees, including retailers, purchase their liquor at wholesale prices. The wholesale price of alcohol includes:

- The private supplier's cost, which includes the manufacturer's cost plus the cost of marketing, insurance, shipping and a profit margin;
- Applicable federal duty and excise taxes;
- A warehousing fee;
- The AGLC flat markup (discussed below);
- Recycling costs;
- A bottle deposit;
- The 5 per cent GST.¹⁵

Unlike other provinces, Alberta's provincial markup is a flat markup, meaning the beverages are taxed according to alcohol content. The exception is beer, which is marked up according to the volume produced (small producers are taxed less than large ones). Depending upon the alcohol content, the markup ranges from \$9.90 to \$17.07 per litre for spirits; from \$3.45 to \$6.10 per litre for wine; from 20 cents to 98 cents per litre for beer.¹⁶

Thus, Alberta's liquor sales are not fully liberalized—in fact, Alberta's liquor regulations would make it a control state in the United States.¹⁷ Nonetheless, Alberta's competitive retail sales, along with its flat markup, make it the most liberalized province in Canada.

British Columbia

Whereas the licensing, importing and distribution functions fall under a single organization in Alberta and Saskatchewan, British Columbia has two separate government organizations. The Liquor Control and Licensing Branch (LCLB) is responsible for issuing licences for the making and sale of liquor at licensed establishments (bars, restaurants and pubs). The Liquor Distribution Branch (LDB) is responsible for the importation, distribution, wholesaling and retailing of alcohol in British Columbia. The LDB has a monopoly on wholesale importation and distribution in British Columbia, as in other provinces.

British Columbia's liquor distribution regime is perhaps one of the most complex in Canada. Although nominally a public-private arrangement in which public and private retailers both exist, the government monopoly on distribution makes it impossible for private retailers to operate in a truly competitive environment. As of March 31, 2008, there were 199 government liquor stores throughout the province. There were also 228 rural agency stores (similar to agency stores in Saskatchewan); 654 licensee retail stores that are private businesses licensed by the LCLB; 166 on-site stores at wineries, breweries and distilleries that sell products manufactured on site; 35 off-site manufacturer stores that are operated by the B.C. wine industry (not the same as Saskatchewan's off-sale stores); 12 independent specialty wine stores; and 11 duty free stores.

Because the government capped the number of private retailers and has wholesale and distribution monopolies, it would be incorrect to suggest that there is retail competition in British Columbia in the same sense as in Alberta. As Mark Milke notes, private stores obtain their product from the

LDB, which also operates BC Liquor Stores, the government-owned “competition” for private stores: “Private beer and wine stores are in ‘competition’ with the very agency that sells such stores their products at the wholesale level.”¹⁸ This is akin, Milke argues, to the Ford Motor Company distributing its cars to all other auto dealerships, including the dealerships of its competitors, who then have to compete against Ford. Even with the 16 per cent wholesale discount offered to the private retailers, it is very difficult for the private liquor stores to compete with pricing at BC Liquor Stores.

The pricing mechanism for British Columbia is similar to Saskatchewan’s. At government-owned liquor stores, the retail price includes the following:

- Applicable federal excise taxes and duties;
- The 10 per cent sales tax on alcohol, which replaces the PST;
- The 5 per cent GST;
- An *ad valorem* markup for wine and spirits;
- A flat markup for beer;
- A volume markup;
- A cost-of-service markup (differential fee) for imported wine, spirits, and beer;
- A container-recycling fee.

The *ad valorem* markup is 163 per cent for spirits, and ranges from 117 per cent to 136 per cent for wine. The markup on beer ranges from 67 cents to \$1.63 per litre depending on the size of the brewery and the packaging type (packaged beer vs. kegs). The LDB also rounds up the final price to the nearest nickel. All government liquor stores are subject to uniform pricing, meaning the price for a given beverage is the same at every LDB liquor store across the province. Rural agency stores

can charge 5 per cent above or below LDB prices. There is also a minimum retail price, below which no retailer may sell, of \$30.66 per litre for spirits, \$7.20 per litre for bottled wine and \$3.54 per litre for packaged beer.

Manitoba

The Manitoba Liquor Control Commission (MLCC) is responsible for the regulation and sale of alcohol in Manitoba. In addition to issuing licences, it is the sole wholesaler, importer and distributor of alcohol in the province, with the exception of domestic beer. It is also the primary retailer, with 48 MLCC Liquor Marts across the province.

Manitoba has minor exceptions for private retailing. As of 2008, there were 177 private liquor vendors, primarily serving rural areas. There were also eight specialty wine stores selling wines not offered by the MLCC and 271 private beer vendors (similar to Saskatchewan’s off-sales).¹⁹ The exceptions for rural agency stores and specialty wine stores are similar to those in Saskatchewan: purchasing must go through the MLCC, the lone importer and wholesaler of wine, spirits and imported beer. The private beer vendors, which stay open later hours, can sell beer only if they are attached to a hotel, whereas Saskatchewan’s off-sale locations can be attached to a hotel or a licensed establishment.

The retail price of alcohol purchased at Manitoba’s public liquor stores includes:

- Applicable federal duties and excise taxes;
- An *ad valorem* markup that incorporates an environmental protection tax, a recycling charge of two cents per bottle and a Waste Reduction and Prevention levy;

- The 7 per cent Manitoba Retail Sales Tax;
- The federal 5 per cent GST
- A per litre surcharge, unique to each product type;
- A package-equalization surcharge that is an additional per unit charge that varies by product type, based on package size;
- A per litre commercial consideration for imported products and MLCC distributed beer.

Retail prices are calculated by applying the greater of either the markup percentage or a minimum dollar markup that varies by product to the landed supplier cost. The current *ad valorem* markup is 152 per cent for spirits; 95 per cent for wines, coolers and ciders; and 75 per cent for all beer. As of April 2009, single-serve beer (less than one litre) is subject to a minimum price of \$3.58 per litre.

Ontario

As with British Columbia, Ontario's liquor regime separates the licensing and regulation functions from the wholesale, importation and distribution functions. The Alcohol and Gaming Commission of Ontario (AGCO) is a quasi-judicial regulatory agency responsible for liquor licences and policy regulation and enforcement. The Liquor Control Board of Ontario (LCBO) is a Crown Corporation with a monopoly on wholesale, importation and distribution. It is one of the largest purchasers of alcohol in the world and has a retail monopoly on spirits and liquors. The LCBO also sells wine and beer.

In a strange twist, residents of Ontario are also subject to a near-retail monopoly on beer—but while this monopoly exists because of government legislation and regulations, the stores are actually

privately owned. In Ontario, over 80 per cent of beer is sold in The Beer Store, a private chain owned by Brewers Retail Inc., which is jointly owned by Labatt, Molson and Sleeman—companies based in Belgium, the United States and Japan. According to Ontario law, consumers can only purchase beer for home consumption at the LCBO, its agency stores and The Beer Store. They can also create their own beer at U-brews. While other provinces legislated their own government monopolies on beer, the Ontario government has effectively legislated a duopoly with the government and a huge foreign conglomerate the only legal retailers.²⁰

The LCBO claims that it operates in a "shared marketplace along with other retailers of beverage alcohol," pointing to The Beer Store, Ontario winery retail stores, on-site breweries and distilleries, and duty free shops.²¹ While the market is technically "shared," it is shared only by those who the LCBO allows. As wholesaler and distributor, the LCBO sets prices for its "competitors." For the product for which it is not the sole wholesaler—domestic beer—the LCBO sets minimum prices, with its most recent hike occurring in 2008, ostensibly because of the need for "social responsibility."²² That this price hike occurred with minimum transparency, at the request of owners of The Beer Store and with full approval of the finance minister, demonstrates the collusive nature of alcohol retailing in Ontario.

As with British Columbia, Ontario has uniform LCBO prices across the province in spite of the very different transportation costs from region to region. The final retail price includes:

- Federal excise taxes and duties where applicable;
- An LCBO bottle levy;
- An LCBO wine levy;

- An LCBO in-store AND out-of-store cost-of-service fee for beer;
- An environmental fee;
- The 5 per cent GST;
- The 12 per cent retail sales tax;
- A container deposit;
- An *ad valorem* markup based in proportion to value (beer is subject to a flat markup).

The current markup rates are 131 per cent to 138 per cent for spirits, 58 per cent to 64 per cent for wines (in addition to the wine levy) and 14 cents to 56 cents per litre of beer (a flat markup depending on amount produced at the brewery). Beer is also subject to a 17.6 cent levy per litre. The GST and RST apply to the price after the markup. Beer purchased at The Beer Store contains all the above markups and may also be subject to additional charges. According to the LCBO's price schedule, the price paid to the supplier for Ontario-produced beer is \$14.79 per case. When purchased at the LCBO, or The Beer Store, the same beer costs the consumer \$35.50.

Quebec

Quebec has one of the most interesting liquor regimes in Canada, with very different frameworks for domestic beer compared to other alcoholic beverages. With domestic beer available in grocery and convenience stores at some of the least expensive prices in the country, Quebec has arguably the most liberalized domestic beer framework in Canada. Meanwhile, other alcohol, including imported beer, is subject to some of the strictest regulation in the country, with a government-dominated retail monopoly that allows a few minor exceptions.

The Régie des alcools, des courses et des jeux oversees liquor permits and licences. The Société des alcools du Québec (SAQ) is the only importer, wholesaler and distributor for wine, spirits and some imported beer. Like other provincial monopolies, it administers a markup on all these products. It also holds a retail monopoly on wine and spirits. Although other retailers such as grocery stores, convenience stores and rural agency stores can sell some of these products, they must do so under the SAQ's terms. As economist Valentin Petkantchin notes in his comprehensive study of the SAQ, "Grocers really end up as mere space providers for the SAQ, which collects its markup along the way as the wholesaler for all products sold in food stores."²³ Rural agency stores operate in much the same way as they do in Ontario and the Western provinces, excluding Alberta. In this sense, Quebec is similar to the monopolies in Ontario, Saskatchewan, Manitoba and British Columbia.

What makes Quebec different from other provinces is its set of rules for selling domestic beer. In Quebec, as in other provinces, domestic beer is not subject to a wholesale monopoly. However, unlike Saskatchewan, Manitoba, Ontario and British Columbia, Quebec allows the sale of domestic beer in grocery and convenience stores.²⁴ With respect to domestic beer, Quebec has in effect a privatized framework. The final price of domestic beer includes:

- A provincial commodity tax of \$3.47 per dozen;
- The 5 per cent federal GST;
- The 7.5 per cent PST;

Domestic beer prices in Quebec are cheaper than in the rest of the country, and drinking-related harms are lower (see Chapter 4). Imported beer suppliers have

the option of selling through convenience and grocery stores or through the SAQ.

In contrast, the SAQ implements a substantial markup for wine and spirits. The retail price includes the following in addition to the supplier price:

- Applicable federal duties and taxes;
- The 7.5 per cent PST;
- The 5 per cent federal GST;
- An *ad valorem* markup.

Before duties and taxes are added, the markup on the supplier price is 135 per cent for imported wine and a whopping 285 per cent for local spirits.²⁵ Such is the strange contradiction that exists with respect to alcohol in Quebec: heavily taxed, government-controlled wine and spirits coupled with (comparatively) lower-taxed privately distributed and retailed beer.

Conclusion

This review demonstrates that even in Canada, where federal law mandates provincial government control over the importation of alcohol, the provinces adopted different retailing policies in an attempt to curtail alcohol-related harm. From Alberta, which fully privatized liquor retailing, to Quebec, which has allowed domestic beer to be sold in stores for nearly a century, to British Columbia, which has a system that is competitive on the surface only and which favours the government retailer, the provinces differ in terms of the means employed to achieve this policy goal.

Although each province has a different means to achieve this end, they are constrained by the federal *Importation of Intoxicating Liquor Act*, which mandates provincial alcohol boards be responsible for purchasing, controlling and importing alcoholic beverages. Insofar as domestic beer is excluded from this arrangement, Quebec's domestic beer framework, widely recognized as increasing efficiency and consumer choice without contributing to social harms, raises questions as to why provincial monopolies on importation, wholesaling and distribution are necessary. The next chapter examines the basis for government monopoly as well as the counter-argument for private retail competition.

Chapter 3: The Basis of Retail Monopolies

Canadian efforts to regulate the consumption of alcohol date back to the 1864 *Temperance Act* (also known as the *Dunkin Act*) and the 1878 *Canada Temperance Act* (also known as the *Scott Act*), which, after public consultation, gave municipalities the authority to prohibit retail liquor sales. By 1919, every province except Quebec had effective prohibition laws by virtue of a town-by-town application of the *Scott Act*.²⁶ However, Prohibition had disastrous effects. As economist Mark Thornton notes, Prohibition eliminated a source of government revenue, increased government spending on enforcement and created a spike in organized crime, with no measurable gains in terms of worker productivity or absenteeism. The supposed benefits of Prohibition—fewer prisoners and less poverty, to name a couple—were never realized. Although consumption decreased in the initial years of the prohibition (indeed, it was on the decrease before Prohibition), it actually increased toward the end.²⁷

Yet after the dry laws were repealed, the underlying rationale behind Prohibition—the need to restrict sales in order to curb the consumption of alcohol—was maintained, and provinces created provincial liquor boards. These boards, with minor exceptions, were given a monopoly on the whole-sale and retail distribution of all types of alcohol, excluding domestic beer. Retail monopolies were viewed as a necessary constraint on individual freedom because of their ability to minimize the health and social problems that result from alcohol consumption. Today, retail monopolies across Canada continue to justify their existence on “social responsibility,” as

supporters of the status quo argue that government can best prevent harms arising from the sale of alcohol. This chapter examines the arguments made for a retail monopoly as well as the criticisms of these arguments.

Social Harms

Proponents and opponents of retail monopolies agree that alcohol has the potential to be a harmful product, because negative consequences are associated with its misuse. As economist Douglas Whitman explains:

The consumption of alcohol creates negative externalities: costs borne not by the consumers of alcohol but by other people in society. Drunk drivers create risks on the road; people suffering from alcohol-related illnesses rely on public health systems; alcoholics are sometimes less reliable and less productive on the job; and so on.²⁸

Thus, government alcohol policies are ostensibly designed to limit these alcohol-related harms. However, retail monopolies exist with the recognition that alcohol consumption cannot be prevented – as prohibitionist policies demonstrate, outright criminalization of all alcohol-related activities does more harm than good. As long as policy makers recognize that citizens will consume alcohol, government’s role must therefore shift to limiting the harms associated with its consumption.

Although the term “social harms” or “alcohol-related harm” is nebulous and

difficult to quantify, proponents of retail monopoly typically include increased consumption, violence and alcohol-related crime in their arguments. While moderate alcohol consumption can provide health and social benefits,²⁹ the argument in favour of retail monopoly boils down to a link between increased consumption and social harms. From this perspective, retail monopolies limit consumption in two ways: first, by placing a high priority on educating consumers on issues including "quality control, responsible drinking and the culture of taste as opposed to the culture of drunkenness."³⁰ This educational role moves customers away from heavy drinking, and toward healthy activities. Second, retail monopolies tend to be associated with fewer outlets, fewer products and brands and shorter hours.³¹ By reducing the supply of alcohol in terms of location, brand and availability, retail monopolies supposedly prevent consumers from drinking when they otherwise would.

Critics of retail monopolies generally agree that the privatization of liquor retailing leads to more stores, more products and longer hours. Evidence from The United States, as well as Alberta after 1993, points to a substantial rise in the number of stores and available products. As well, liquor stores in Alberta commonly stay open as late as 2a.m. However, increased consumer convenience does not correlate with increased consumption, as consumers can buy any amount they please or frequent bars and pubs when liquor stores are closed. Critics of retail monopoly also point to data, discussed further in Chapter 4, that show a *decline* in alcohol sales and consumption immediately following Alberta's privatization.³² From this perspective, provincial variation in consumption patterns is due to a variety of factors, all of which matter more than whether the retailer is public or private

or whether the cashier is a private sector employee or a unionized government employee.

Crime and Underage Drinking

Those in favour of retail monopolies suggest private retailing leads to increased crime rates. In one sense, this line of argument is a continuation of the argument related to increased consumption: Because alcohol is prevalent in many crimes (e.g., spousal abuse and drinking and driving), increased per capita consumption would likely correlate with increased crime.³³ The increased crime argument stems from the later hours and the fewer employees that work at private retail outlets. Because private liquor stores are open later and often staffed by just one employee, people would be more likely to rob private liquor stores.³⁴ This claim is frequently used by the SGEU.

Proponents of retail monopolies also suggest that retail alcohol monopolies are less likely than private liquor stores to sell to minors and intoxicated people. These authors claim that because of the profit motive associated with private business, these retailers are more likely to look the other way when an intoxicated or underage person attempts to purchase alcohol.³⁵

On the other hand, opponents of retail monopolies reject these claims as ignoring cause and effect and confusing correlation with causation. Studies by Mark Milke, David MacLean and Douglas West throw into question the relationship between private retailing and increased consumption in Canada and suggest no such link exists.³⁶ Public liquor stores staffed by government union employees also have an incentive to sell as much alcohol as possible, as more

sales and more government stores equal more union members and thus more dues. Opponents of retail monopolies point out there is no link between privatization and an increase in alcohol-related crime.³⁷ Moreover, while later hours for liquor stores (or any type of store, for that matter) will increase any likelihood of robbery, studies suggest liquor stores open late are no more prone to robbery than are convenience stores or gas stations open at similar hours.³⁸ In any event, later hours can be dealt with through regulation, i.e., mandating earlier closing.

Incompatibility of Profit Motive with Public Health

This negative externalities argument stems from an oft-repeated claim by retail monopoly proponents such as the SGEU: Alcohol is “not just another consumer product,” and its distribution requires government oversight.³⁹ Under this line of reasoning, the profit motive associated with private businesses is inherently exploitive and harmful. As the Centre for Addiction and Mental Health (CAMH) argues, “the dominance of the profit motive with the potential for business failure means a number mechanisms work against [placing priority on public health and safety] in a privately run system.”⁴⁰ Economist Greg Flanagan also suggests retail monopolies curb the profit motive:

The public’s objective is to minimize the abuse of alcohol through the limit and control of the sale of liquor, in particular to prevent the sale to underage consumers and the intoxicated. In contrast, the objective of private firms is to sell product. A publicly owned and

controlled system of distribution does not have this inherent incompatibility of incentives.⁴¹

In response, opponents of retail monopolies point to a tension within modern retail monopolies that have developed two conflicting goals: protecting and promoting public health through the “socially responsible” sale of alcohol and generating substantial government revenue. Describing Quebec’s retail monopoly, economist Valentin Petkantchin notes, “The SAQ behaves just like any other commercial business, with temperance no longer a priority. Any consumer can go out and get alcohol in the quantities he or she desires, just as if there were no monopoly.”⁴² From this perspective, provincial retail monopolies, on which governments depend for millions of dollars in annual revenue, are no more immune to the “inherent incompatibility of objectives” than are private retailers. Because the role of government as regulator is to align incentives and prevent market failures, government can introduce fines for selling to minors or intoxicated customers in order to ensure that profitability is in line with serving the public interest.

It is worth noting that Paradis and Sacy, on behalf of the Canadian Association of Liquor Jurisdictions (CALJ), concede that Canadian retail monopolies have allowed the objective of generating revenue to prevail over public health considerations. However, rather than allowing private competition, they, as with CAMH, suggest retail monopolies adopt a renewed focus on the promotion of public health.⁴³ As discussed in Chapter 4, opponents of retail monopolies question whether these monopolies are necessary or even helpful in promoting public health.

Economic Efficiency

In addition to social harms related to increased consumption, a second strand of argument is used to justify retail monopoly: economic efficiency. The SGEU and others make two central economic claims: First, liquor prices are cheaper under a public monopoly. Second, a government monopoly allows the government to raise more revenue that can help pay for necessary public services. Opponents of retail monopolies contest both claims.

Lower Prices

With respect to the price of alcohol, both proponents and opponents of liquor monopoly point to studies of alcohol price differences between Alberta, where retailing is privatized, and other Canadian jurisdictions, including Quebec, British Columbia and Saskatchewan.

Some studies claim alcohol is more expensive in Alberta than in other provinces, while others say it is cheaper. However, opponents of retail monopoly point out (rightly) that studies that suggest higher prices in Alberta post-privatization are often flawed. As Mark Milke notes, a study by the British Columbia Government and Service Employees' Union (BCGEU) compared a mere 15 products in one Alberta liquor store chain with BC Liquor Store prices.⁴⁴

In contrast, several more-rigorous studies suggest just the opposite: Retail prices were generally lower in Alberta following retail privatization. Two Canadian Taxpayers Federation (CTF) studies comparing 1,845 products in British Columbia and Alberta in 2002 as well as 117 products in Alberta and Saskatchewan found prices were cheaper in Alberta.⁴⁵ An earlier study by the Alberta Liquor Control Board (ALCB) also found lower prices in Alberta.⁴⁶

Not all proponents of retail monopoly make the claim about cheap alcohol.⁴⁷ Indeed, there is a contradiction between the argument that government has a role in safeguarding public health by making alcohol expensive and the argument that alcohol is cheaper because of government monopoly. The argument that alcohol sold under a retail monopoly is safer *and* cheaper tends to be made by public unions, including the SGEU, the BCGEU and the Manitoba Government and General Employees' Union, that are trying to appeal to the public.

Revenue Generation

The second economic efficiency argument suggests that retail monopolies are an efficient way of collecting government revenue. Paradis and Sacy wrote, "[m]onopolies are very powerful tools that can be used to increase taxes on alcohol whenever governments need money," whereas "[w]hen alcohol is sold through privately owned companies, governments can hardly raise taxes without fighting the alcohol industry lobbies."⁴⁸ Greg Flanagan has made the claim, highly disputed for reasons discussed below, that while Alberta's post-privatization revenue increased from 1993-2002, it actually decreased when controlling for inflation and population growth.⁴⁹

However, critics of retail monopoly take issue with claims about revenue generation. Although Alberta's privatization policy resulted in lower per capita revenue in 2002 than in 1992, this is because the government cut alcohol taxes four times in that period as part of a promise to keep privatization revenue neutral.⁵⁰ Moreover, if revenue generation is the ultimate end of liquor policy, then government can increase the tax at the wholesale level "while leaving the business of selling [alcohol] to the private sector in a competitive environment."⁵¹ Opponents of monopolies also point out that

increases in the number of private retailers mean more revenue for government in terms of business and property taxes, which are not always included in liquor board financial statements.⁵² Finally, any price comparison must take into account the “lower transportation costs brought about by the increase in the number of liquor stores under privatization.”⁵³

Conclusion

These arguments—alcohol is “not just another product,” social harms, increased consumption, the profit motive, crime, underage drinking and economic efficiency—all relate to the proper role of government with respect to minimizing alcohol-related harm. The next chapter tests the claims put forward by proponents of retail monopolies—specifically, those offered by the SGEU. The SGEU’s public advertising campaign relied heavily on the arguments described here to justify government monopoly. This study puts these arguments to the test by discussing older data, particularly on Alberta post-privatization, as well as newer data on crime, social harms, consumption and sales from Statistics Canada and the 2004 Canadian Addiction Survey (CAS).

Chapter 4: Empirically Testing the SGEU's Claims

Keeping liquor sales in public hands makes good sense. Our system is safe, profitable and efficient—providing better jobs, service, selection, community safety and government revenue than in provinces where liquor sales have been privatized.

- Saskatchewan Government and
General Employees' Union,
"We're Minding the Store,"
2009 Online Advertising Campaign

After the provincial government permitted two specialty wine stores to open in Regina and Saskatoon, the SGEU initiated a media blitz. Releasing television, radio and print advertisements, the SGEU made sweeping claims about the perils that face Saskatchewan if it allows private competition.

If the above quote is to be believed, public liquor stores are more profitable and more efficient than privately owned liquor stores. Moreover, the wages, customer service, product selection and revenue collected from public liquor stores are also superior. Finally, and most spectacularly, the government monopoly has actually made Saskatchewan communities safer. In other advertisements, the union claims private liquor stores lead to increased

consumption, more alcohol-related social harms, more underage drinking, higher prices, less government revenue and inferior jobs. All of this stems from SGEU president Bob Bymoen's oft-repeated claim that "alcohol is not just another consumer product," and as such needs to be under outright government control. This raises questions concerning what type of harm is prevented, which tools retail monopolies use to prevent this harm and whether there is evidence that harm is actually prevented.

The SGEU advertisements quote third-party sources such as the Calgary Police Service, CAMH and even the Fraser Institute—not a traditional ally of government monopolies or unions. However, scrutinizing these sources demonstrates that, at best, the SGEU failed to read the details of the reports it cites and somehow missed all evidence contrary to their position. At worst, the union engaged in a deliberate campaign of misinformation, oversimplification and fabrication.

This chapter assesses each of the SGEU's claims concerning liquor store monopolies, looks at the sources they use to substantiate their perspective and offers evidence to the contrary. It finds that most, if not all, of the SGEU's claims about private liquor retailers are either misleading, unable to be proven or flat-out incorrect.

“Alcohol is not just another consumer product. It is a drug that creates serious problems and so sales should remain under public control.”

- Saskatchewan Government and
General Employees’ Union,
“Privatize Liquor Stores? Why Risk It?”
2009 Online Advertising Campaign

Alcohol is Not Just another Product

Many of the SGEU’s advertisements began with the declaration that alcohol is “not just another consumer product,” and concluded therefore that government must control its sale. As noted in Chapter 3, CAMH and the CALJ, the body that represents Canadian liquor monopolies, also take this position. From this perspective, what differentiates alcohol from other products is its ability to contribute to health and social problems, including crime, violence, disease and addiction. Because of the profit motive associated with private entrepreneurship, private retailers are seen as incapable of preventing alcohol-related harm.⁵⁴

However, there are several logical problems with this position. First, it falsely suggests that employees of a retail monopoly are actually capable of addressing the health risks associated with alcohol. In reality, whether a customer drinks in moderation is not, and cannot, be enforced by retail monopolies. Government-owned liquor employees have no ability to prevent drinking-age adults from obtaining any amount of alcohol they desire or to determine whether a customer who

purchases a 12-pack will consume it over the course of several days or over the course of an hour. As Petkantchin notes: “Risks connected with excessive drinking do not vanish because a store where beverages are purchased belongs to the government rather than to a private business ... The existence of a monopoly is of no use to people who become dependent on alcohol.”⁵⁵ As long as Canadians are free to consume alcohol, a retail monopoly has no way of preventing harms related to its consumption.

Second, although alcohol is “not just another consumer product,” it is *not the only product capable of causing social harms, health issues and addiction*. As with coffee or fatty foods, alcohol poses few substantial health risks when consumed in moderation, and it can even improve health.⁵⁶ Grocery and convenience stores across the country are stocked with products that can cause significant health problems when consumed in excess. Yet no one seriously advocates imposing a government monopoly on soda distribution or that government takes over the distribution of Tim Hortons’ coffee and donuts to prevent obesity and caffeine addiction.

While some proponents of monopoly concede that the control of alcohol-related harm (a “central mandate” of retail monopolies) has been eroded due to the rise of alcohol promotion and marketing,⁵⁷ they (along with the SGEU) fail to give any convincing examples as to how those monopolies might control such harm in the future. As subsequent data show, there is no evidence that monopolies, whatever the jurisdiction, are successful at preventing harm.

By 2002, there were three times as many liquor stores in the province ... In Calgary, liquor stores increased by a staggering 620 per cent, from 29 in 1993 to 209 in 2002.

- Saskatchewan Government and
General Employees' Union,
"Privatize Liquor Stores? Why Risk It?"
2009 Online Advertising Campaign

More Stores and More Products

The SGEU and other pro-monopoly groups often point to the growth in Alberta liquor stores as a reason to avoid opening up the government monopoly to competition. There is no doubt the privatization of liquor retailing in Alberta led to a growth in the number of liquor stores. In August 1993, before privatization, there were 268 liquor stores in Alberta (205 government-run stores and 53 wine and cold beer stores); post-privatization that jumped to 605 privately owned liquor stores by 1995.⁵⁸ As of 2008, there were **1,187** privately owned liquor stores and general merchandise liquor stores in Alberta as well as *nearly 500* hotel off-sales.⁵⁹ Thus, there is no doubt retail privatization led to more stores in Alberta.

In contrast, in 2008, other provinces had the following number of stores:

- Ontario – **1,745** (including LCBO, Beer Stores, Ontario Winery, agency, on-site brewery and distilleries, and duty free stores);
- Quebec – **811** (414 SAQ outlets and 397 agencies, not including wine and beer sold at convenience and grocery stores);
- British Columbia – **1,305** (1,106 private sector retail stores including rural agencies);
- Manitoba – **504** (48 MLCC Liquor Marts, eight specialty wine stores, 177 private liquor vendors and /or duty free stores and 271 private beer vendors);
- Saskatchewan – **732**.

Although Saskatchewan actually has a high number of liquor stores per capita, this number is skewed by the fact that 462 of these are off-sale outlets—privately owned stores permitted to sell retail alcohol as long as they are attached to a bar, pub or restaurant—with only 80 SLGA stores and 289 franchises.⁶⁰

Alberta's competitive market also produced far more selection than the other provinces. As of March 31, 2008, there were **14,411** different liquor products available in Alberta's privately owned stores. Obviously, not all products are available at all stores—in Alberta's private retail market, stores become specialized. A store in a beer-drinking neighbourhood may serve nothing but domestic beer while a store nearby specializes in Italian wines. The greater range of choice available is a staple of any market that is receptive to consumer preferences: product supply (and thus specialization) rises to meet consumer demand. In contrast, government-owned liquor stores frequently take the inefficient route of offering all their products in comparatively fewer megastores. As MacLean notes:

One of the advantages of the private system is that vendors aren't forced to take a one-size-fits-all approach. Most liquor stores need stock only the barest essential items such as beer, gin, rum and whiskey to maintain a high volume of sales. To have row upon row of shelves stocked with low-demand items is essentially a waste of time, space and ultimately tax dollars.⁶¹

Only British Columbia comes close to Alberta in terms of total product listings, but Alberta has more products per capita than any province:

- Alberta – **14,411** products;
- Saskatchewan – **2,255** products, including specialty listings;
- British Columbia – **15,500** products in either private or public stores;
- Ontario – **10,505** products;⁶²
- Manitoba – **3,671** products;
- Quebec – **8,231** products.⁶³

Especially considering some products in government-run jurisdictions are “potentially” rather than actually listed, there is no doubt that retail privatization in Alberta produced greater product selection and many more stores. Opponents of retail monopolies rightly stress the positive aspects of increased availability such as improved accessibility, lower transportation and shipping costs and economic spinoffs from increased competition.⁶⁴ Yet according to the SGEU and others, the costs associated with more availability—higher consumption, social harms and alcohol-related crime—outweigh the benefits.

However, there is a lack of data linking private alcohol retailing to increased consumption and social harms. The next section uses evidence from Statistics Canada as well as results from the National Alcohol and Other Drugs Survey of 1989, the Canadian Alcohol and Other Drugs Survey of 1994 and the Canadian Addiction Survey of 2004 to determine whether Saskatchewan has a better record for alcohol consumption and social harm than other provinces and, if so, whether it can be attributed to its government monopoly.

The explosion of new liquor stores resulting from privatization makes liquor more available, which means more drinking. Research shows that greater access to alcohol leads to increased consumption, which in turn leads to greater social harm.

- Saskatchewan Government and General Employees' Union,
“Privatize Liquor Stores? Why Risk It?”
2009 Online Advertising Campaign

Higher Sales and Consumption

To connect private retailing to increased consumption, proponents of government monopoly often point to the fact that Alberta, the only province with privatized retailing, has the highest alcohol sales per capita in Canada. As Greg Flanagan wrote, “Evidence on the links between alcohol consumption and social ills is overwhelming. Absolute alcohol consumption is high in Alberta relative to the rest of Canada, and it began to climb in 1997. The potential for increased social costs is real.”⁶⁵

These two claims—alcohol consumption in Alberta is higher than in the rest of Canada, and it has gone up since 1997—pose two questions:

- Was Alberta’s liquor consumption high relative to the other provinces before privatization?
- Has consumption gone up in the rest of Canada since 1997?

The answer to both questions is yes.

According to data from Statistics Canada, in the fiscal year 1992-1993, Alberta and Newfoundland were tied for the second-highest sales, measured by litre of alcohol sold per person over the age of 15 (8.5), behind British Columbia (8.9) but well above the Canadian average (7.5).⁶⁶ *Even before privatization, Alberta sold more alcohol per person than most of the country.* Yet privatization did not lead to a rapid increase in sales, as the SGEU suggests. In fact, in the years immediately following privatization, Alberta's sales rate actually *dropped* from 8.7 litres of absolute alcohol per person over 15 in 1993-1994 to 8.1 in 1996-1997. In contrast, the rate in Saskatchewan during the same periods held steady (6.6 litres per person), while the rate dropped from 7.5 to 7.2 for Canada as a whole. Between 1993 and 2003, sales per person in Alberta rose by a mere 1.2 per cent compared with 4 per cent in Ontario and 13 per cent in Quebec.⁶⁷

Thus, if there is any correlation between retail privatization and sales rates in

Alberta, it is that alcohol sales actually *declined* at a quicker rate than in the rest of Canada in the years following privatization. Does this mean that Alberta's privatized liquor regime was more effective at preventing alcohol sales than the rest of Canada's government-run monopolies? Of course not. This shows there is no evidence to tie increased sales or consumption rates to privatization.

The CAS provides additional evidence by measuring self-reported consumption rather than absolute sales of alcohol. According to the CAS, the number of drinkers over the age of 15 in Alberta in 2004 (79.5 per cent), though the second highest in Canada behind Quebec, was actually *below* the percentage of drinkers in Alberta in 1989 (81.9 per cent). Similarly, the Alberta Alcohol and Drug Abuse Commission found that the per cent of drinkers in the population dropped from 83 per cent in 1985 to 74 per cent in 1995.⁶⁸ Saskatchewan experienced a substantially higher growth in its number of drinkers

Rate of Past Year Drinkers (%), Canada and Provinces Aged 15+ (1989, 1994, 2004)

	1989	1994	2004	Growth 1989-2004	Growth 1994-2004
Canada	77.7%	72.3%	79.3%	1.6%	7.0%
Newfoundland & Labrador	67.6	71.4	73.9	6.3	2.5
Prince Edward Island	63.7	67.2	70.2	6.5	3.0
Nova Scotia	71.2	72.1	76.0	4.8	3.9
New Brunswick	68.0	67.8	73.8	5.8	6.0
Quebec	76.4	73.9	82.3	5.9	8.4
Ontario	77.6	69.4	78.7	1.1	9.3
Manitoba	79.3	73.6	76.5	-2.8	2.9
Saskatchewan	78.4	73.0	78.2	-0.2	5.2
Alberta	81.9	76.4	79.5	-2.4	3.1
British Columbia	82.9	75.6	79.3	-3.6	3.7

Source: Adlaf et al., 2005, 94, Table 8.1

Table 1.

(+5.2 per cent) than Alberta (+3.1 per cent) between 1994 and 2004, the period immediately following Alberta's retail privatization. In Quebec, meanwhile, the number of drinkers jumped nearly 10 per cent.⁶⁹ Although Saskatchewan continues to have some of the lowest sales and consumption rates in Canada, this is no more explained by its government monopoly than Newfoundland and Labrador's monopoly explains its historically high rate.

Overall, Alberta's alcohol sales followed a similar pattern as the rest of Canada—a drop from the early to mid-nineties followed by a rise in consumption from 1997.⁷⁰ Some may point to the fact that Alberta's sales rate jumped from 9.0 to 9.7 from 2004 to 2007. But to claim that this jump in alcohol sales from 2004-2007 was the result of privatization that occurred over a decade earlier—a two-year increase of 0.7 litres of alcohol per capita compared with 0.4 in Saskatchewan and 0.5 in Quebec—is a stretch, to say the least. More likely, as with all other increases and decreases across Canada in the past two decades, alcohol sales and consumption are explained by historical, demographic and cultural phenomena, not to mention the recent economic boom that brought many young men (the demographic group with the highest consumption rate) to Alberta. This is consistent with other comparative studies that note that consumption patterns are “historically conditioned” and depend on variables such as societal drinking habits, demographics and secularization.⁷¹

We all know that alcohol can cause irreparable harm to individuals and families. We know, too, that increased access to alcohol can lead to even greater social harm.

- Saskatchewan Government and General Employees' Union,
“Keep Our Families Safe and Healthy:
Keep Our Liquor under Control,”
Lobby Letter, October 2008

Social Harms

The previous section demonstrates that allowing private retailing had no discernable impact on average consumption or the number of drinkers in Alberta. Nevertheless, alcohol-related harm is not merely about whether or not someone is a drinker—after all, having a few drinks in moderation every week can actually be healthy, and the CAS found that most drinkers (63.7 per cent) drink in moderation.⁷² When opponents of privatization such as the SGEU speak about a rise in consumption and the resulting social harms, presumably they are talking about heavy, frequent binge drinking and the social and health problems associated with such drinking. Fortunately, the CAS measured alcohol-related social harms. The statistics below measure how Saskatchewan rates relative to other provinces.

It is crucial to remember that a variety of economic and demographic factors affect one's likelihood to engage in heavy drinking,⁷³ including:

- Sex (males drink more than females);
- Age (those aged 18 to 24 drink heavily compared to other age groups);

- Marital status (the single/never married drink more than others do).

Yet after controlling for these demographic factors, Newfoundland and Labrador was the only province in which residents were statistically more likely than the Canadian average to engage in monthly heavy drinking—and by some margin, at 1.5 times the national average. Before adjusting for these factors, Saskatchewan and Alberta were below the national average for weekly heavy drinking. Alberta was slightly above the national average for monthly heavy drinking, though still below New Brunswick, Prince Edward Island, Manitoba, and Newfoundland and Labrador, all of which essentially have retail liquor monopolies.⁷⁴

Moreover, when it comes to harm, there is no evidence that Saskatchewan is any better off than the rest of the country or even Alberta. Respondents to the CAS were asked a variety of questions pertaining to any alcohol-related harm (harm to self and harm to others) they experienced in their lifetime and in the past year. Although differences in provincial rates are small, the survey found that respondents living in Newfoundland and Labrador (the area with the highest monthly heavy drinking) were the *least* likely to have experienced alcohol-related harm.

In comparison, residents of Saskatchewan, despite lower consumption rates, did not fare well: Respondents experienced the highest, second-highest or third-highest rates of alcohol-related harm with respect

to friendships, marriage, work, studies, employment, finances, legal problems and physical violence. In all these categories, the likelihood of harm in Saskatchewan was higher than in Alberta. The researchers concluded: "Differences in provincial rates are small, but the pattern is fairly consistent. Rates are lower in the eastern provinces and higher west of Ontario."⁷⁵

In summary, if there is any variation in alcohol-related harm, government retail monopolies have nothing to do with it. Alberta residents are among the lowest to report weekly heavy drinking. Residents of Saskatchewan are more likely to report harm to self, harm to others and harm related to loss of work and income than Alberta, with residents in both provinces above the Canadian norm. Quebec, whose domestic beer framework is the most liberalized in the country, consistently reported less harms than most provinces. Demographic factors such as age, sex and marital status are far greater predictors of consumption, heavy drinking and alcohol-related harm than province of residence.

In short, there is no evidence that privatization led to increased consumption or more "social harms" in Alberta, nor is there evidence that government monopoly has sheltered Saskatchewan from harms. This data reinforce the point that people who abuse alcohol are not dissuaded by retail monopolies. Limiting competition inconveniences socially responsible drinkers and has little effect on problem drinkers.

The growth of private liquor stores leads to more crime and social problems, since these businesses tend to stay open late at night and typically do not have the same level of security provided by large, busy government-operated stores ... Alcohol-related crime skyrocketed in Alberta after liquor sales were privatized.

- Saskatchewan Government and
General Employees' Union,
"Privatize Liquor Stores? Why Risk It?"
2009 Online Advertising Campaign

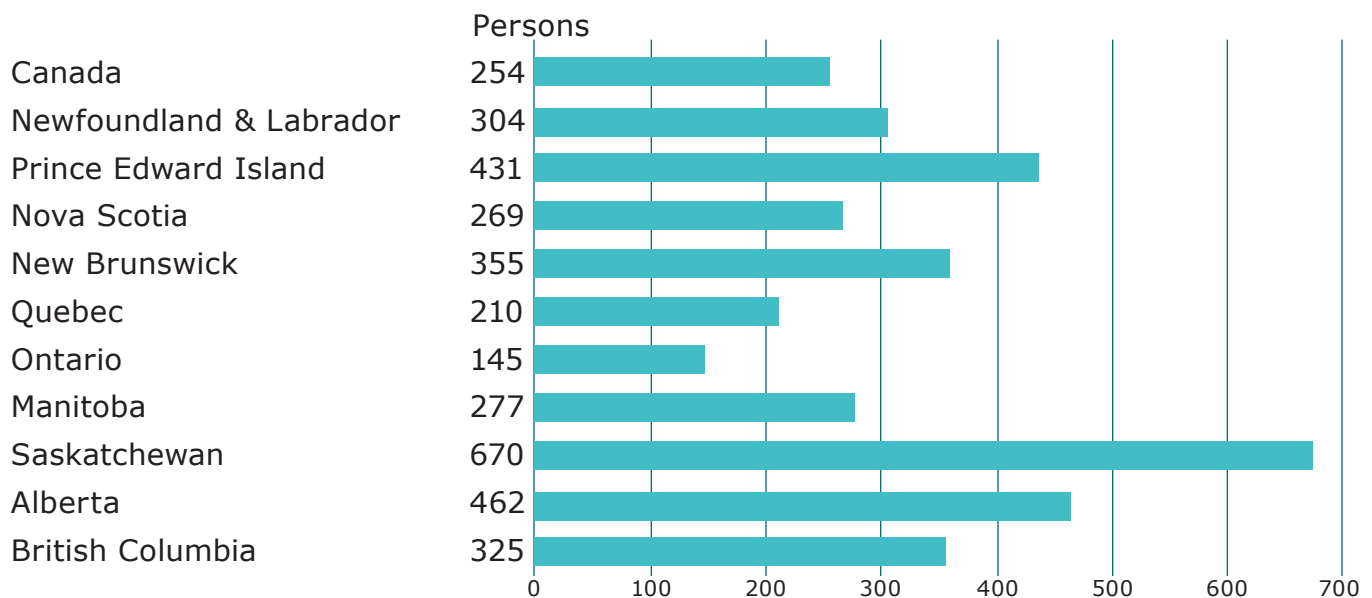
Crime and Community Safety

In addition to higher consumption and social harms, the SGEU frequently associates private retailing with increased crime. The union asserts government liquor stores

"ensure safe and healthy communities" by engaging in "socially responsible" sale of alcohol. Once again, the SGEU's claims do not stand up to close scrutiny. There is no evidence that Saskatchewan enjoys better crime rates than other provinces, particularly for crimes related to alcohol. In fact, Saskatchewan communities are not safer than the rest of Canada—Saskatchewan's crime rates are often the highest. Nor is there any evidence to suggest a dramatic spike in alcohol-related crime, or crime in general for that matter, in Alberta post-privatization.

One of the most frequent and tragic causes of alcohol-related death is impaired driving. Several years ago, a graphic SGEU advertisement showed an image of a late-night car accident from afar, with police cars and an ambulance on the scene. The caption reads: "Who's minding the store is a matter of life and death. Keep liquor under real control—reject the expansion of private liquor stores."⁷⁶ The implication was that public liquor stores prevent impaired

Impaired Driving Rate per 100,000 Population Canada and Provinces (2008)



Source: Statistics Canada 2009b, 29

Table 2.

driving, while private liquor stores do not.

Impaired driving in Canada has dropped substantially over the last quarter-century. The rate of police-reported impaired driving dropped nearly 75 per cent between 1981 and 2008, from 930 to 254 incidences per 100,000 population.⁷⁷ According to Statistics Canada, this drop can be attributed to "changing attitudes with respect to impaired driving, aging of the general population, as well as other enforcement procedures used by the police such as roadside suspensions."⁷⁸

It is true that some provinces consistently exhibit the worst rates of impaired driving, but chief among them is Saskatchewan. In 2008, Saskatchewan had the *highest* impaired driving rate of any province at 670 per 100,000, more than twice the Canadian average. Although the number of impaired driving charges varies from year to year based on factors such as enforcement and legislative changes, Saskatchewan's impaired driving rate has been the *highest in Canada every year since 1993*.⁷⁹ Alberta's rate, at 462 per 100,000 is well below Saskatchewan's.

There is no evidence linking impaired driving and private retailing. In the decade following privatization, Alberta's impaired driving rate declined by a higher percentage than any other province—73 per cent compared to 47 per cent for Saskatchewan and 50 per cent for Canada as a whole. As David MacLean summarizes:

[T]here is no causal relationship between privatization and alcohol-related crime. If there was, then Saskatchewan residents ought to be concerned, as [Saskatchewan has] not seen the same decline in impaired driving charges as other provinces have.⁸⁰

There is no correlation between general crime and Alberta's retail privatization. The Calgary and Edmonton police departments

kept detailed statistics on alcohol-related crime in the years immediately following privatization and found no evidence linking privatization and increased crime. The Edmonton Police Service observed a decrease in liquor offences between 1991 and 1994, which rose slightly in 1995. They also witnessed a decline in "morality related offences" (gaming, liquor and drugs) and a substantial decline in liquor-related traffic offences, including impaired driving.⁸¹ Calgary's experience shows similar trends. In a 1995 report on liquor store offences, the Calgary Police Service said the report "dispels the myth that privatization of liquor businesses has increased the rate of crime."⁸²

A 2003 report by the Calgary Police Service found similar evidence. While the number of crimes taking place at liquor stores increased, the *rate* of liquor store crime (crimes per liquor store) actually went down in Calgary: In 1993, there were 111 Criminal Code offences in 29 stores, meaning 3.83 reported crimes per store; in 2002, there were 538 offences and 209 liquor stores, for a rate of 2.57. From 1993-2002 (when the CPS stopped reporting liquor store offences), the rate stayed relatively constant, between 1.8 and 2.6 offences per store.⁸³

The SGEU frequently points to the fact that the number of robberies per liquor store rose following privatization in Alberta. This is true. However, as the Calgary Police Service explained, *any store that is open late hours is more likely to experience robbery*. In fact, the robbery rate at liquor stores was actually lower than convenience stores and gas stations that routinely stay open late.⁸⁴ Would-be criminals did not suddenly choose to engage in criminal activity because of liquor privatization; the crime was simply displaced from other targets. As Douglas West explains:

[I]f there are fewer liquor stores to rob, perhaps convenience stores and gas stations would become the targets of choice. Few people would suggest that the number of convenience stores or gas stations be reduced in order to reduce the chances of a convenience store or gas station being robbed. And surely fewer people would suggest that the government should own and operate convenience stores and gas stations in order to reduce the number of convenience store and gas station holdups.⁸⁵

Recent data on crime in general demonstrate that private liquor stores have little to do with keeping communities safe. Saskatchewan's crime rate is by far the highest in Canada at nearly double the national rate. Alberta, with privatized retail liquor, has the fourth-highest crime rate, behind the other three Western provinces. Saskatchewan and Manitoba have the highest provincial rates of attempted murder, assault, sexual assault and

violent crime in Canada.⁸⁶ Obviously, many variables explain crime rates, but Alberta's retail privatization of liquor stores is not one of them.

Certainly, crime in particular regions in Alberta, such as boomtown Fort McMurray, increased during the 1990s due to the influx of young men (males under 24 of are accused of 30 per cent of all person crimes in Canada).⁸⁷ Alberta has the lowest proportion of seniors and the highest male-female ratio of all provinces and a substantially higher proportion of 20- to 40-year-old males than Saskatchewan has.⁸⁸ But as with all other SGEU claims that attempt to point to a causal relationship between retail privatization and alcohol-related harm, the suggestion that privatization led to increased crime in Alberta is not true. As a *Saskatoon Star-Phoenix* editorial that criticized the SGEU's anti-privatization campaign remarked, "without context, it's silly to blame [increased crime] on Alberta's move to privatize its liquor stores."⁸⁹ One might add that without evidence, it is even sillier.

Crime Rate and Crime Severity Rate per 100,000 Pop. Canada and Provinces (2008)

	Crime Rate	Crime Severity
Canada	6,588	1,326
Newfoundland & Labrador	6,321	1,519
Prince Edward Island	6,208	1,126
Nova Scotia	6,956	1,689
New Brunswick	5,664	1,482
Quebec	5,064	1,084
Ontario	4,877	1,043
Manitoba	9,911	2,013
Saskatchewan	12,892	2,551
Alberta	8,808	1,517
British Columbia	9,580	1,686

Source: Statistics Canada 2009a, 26

Table 3.

“SLGA staff are responsible for ensuring that alcohol is not sold to those who shouldn’t have it, such as teenagers or intoxicated individuals ... A report commissioned by the Calgary Police Service, for example, acknowledges that the need to make a profit may pressure private operators to sell to underage youth.”

- SGEU President Bob Bymoen,
“Government Moves Toward Privatized Liquor
Sales without Consulting Public,”
SGEU News Release, December 2, 2008

Underage Drinking

The above advertisement is characteristic of the SGEU campaign. The SGEU attempted to turn a “may” statement into fact. The Calgary Police Service report in question was even more circumstantial, stating, “[O]wners *may* [emphasis added] reduce expenses by dispensing of security measures, poor lighting, fewer garbage repositories, or even feel pressure into selling to underage youth.”⁹⁰ The theory that privatization *may* lead to underage drinking has not been proven in Canada. There is simply no evidence.

As one *Saskatoon Star-Phoenix* editorial recently noted, “[T]here are many private vendors acting as agents of the SLB [Saskatchewan Liquor Board] in small towns across Saskatchewan who take their responsibilities seriously and are just as

diligent in checking the ID of young people and refusing to sell to drunks.”⁹¹ If the profit motive indeed induces private businesses to sell to minors, a proposition for which there is no evidence, then government can easily prevent this by making the costs outweigh the benefits. Various regulations and programs are in place for Alberta liquor stores and licensed establishments to ensure staff members do not sell to minors or people who are intoxicated. This includes the Under 25 Program, which mandates ID checks for any customer or patron who looks to be under the age of 25. In Alberta, selling liquor to a minor normally results in a \$5,000 fine, and subsequent violations can result in the loss of a licence to sell alcohol.⁹²

Given the risk of a fine or the loss of a licence, a liquor store would be reluctant to sell to minors or intoxicated people. Anyone in their 20s who has been to a private liquor store (or bar or restaurant, for that matter) knows that private organizations are very likely to check IDs for fear of punishment by the AGLC. Moreover, private merchants are not the only ones with a pecuniary motive: Union employees who want to maximize their take from a liquor operation in the form of above-market wages have as much of an incentive to sell to minors and intoxicated customers as private employees do. Further, more sales lead to more government stores, which lead to more union members and, thus, more dues.

Until there is evidence suggesting private liquor stores are actually selling to minors, this remains yet another unsubstantiated SGEU claim.

“Our publicly-owned liquor stores offer competitive pricing, and, even more importantly, they are committed to the socially-responsible sale of alcohol.”

- SGEU President Bob Bymoen, “Wine Store Franchises Bad Deal for Saskatchewan,”
National Union of Public and General Employees News Release, May 7, 2009

The SGEU’s Contradiction: Private Stores Are More Expensive

In its public advertising campaign, two of the SGEU’s claims are difficult to reconcile. First, the SGEU claims public liquor stores help make communities safer by reducing consumption. Yet at the same time, the SGEU claims alcohol is more expensive at private liquor stores, pointing to Alberta and British Columbia. This is a tricky proposition, as using a tax to increase the price of potentially harmful goods (a sin tax) is viewed by many as an effective way to discourage over-consumption. From this logic, the SGEU’s second argument—that alcohol is cheaper in Saskatchewan—would tend to encourage consumption.

Notwithstanding this logical contradiction, the SGEU’s claim that a public monopoly leads to cheaper alcohol is also incorrect. A 1994 study by the ALCB found that “Alberta private sector retail prices are comparable to the lowest government retail prices available in Alberta’s neighbouring provinces.”⁹³ In 1997, economist Douglas West found prices in Alberta were lower than in British Columbia, Saskatchewan and Ontario in half of all alcohol categories and higher in half.⁹⁴ A survey by *Saturday Night* magazine found a basket of eight products to be far more expensive in Quebec and Ontario than in Alberta.⁹⁵ Even studies that do not favour retail privatization conceded that prices were generally similar in British Columbia and Alberta.⁹⁶

The most-comprehensive provincial comparisons found that prices were more or less the same but overall were slightly cheaper in Alberta. In a 2004 survey, the CTF found that 93 per cent of the products were less expensive in Alberta than in Saskatchewan.⁹⁷ In a similar comparison with British Columbia in 2002, the CTF compared 1,845 products in British Columbia and Alberta and found that 82.6 per cent of the products were less expensive in Alberta—even after accounting for the difference in taxes, markups and deposits.⁹⁸

Although there is no evidence that private retailing led to higher prices in Alberta, the SGEU and its allies continue to use ever-craftier (and disingenuous) ways to make the link. A May 2009 National Union of Public and General Employees’ news release stated “the *Calgary Herald* recently reported that *liquor prices in Alberta’s private stores are escalating* [emphasis added], and that Albertans living close to the border are choosing to shop in Saskatchewan where prices are lower.”⁹⁹ The *Calgary Herald* article indeed discussed escalating alcohol prices, and a *Calgary Sun* survey suggested Alberta’s beer prices might now be the highest in Canada. What the SGEU did not mention, however, was that prices increased due to a *government-imposed tax hike* in 2009.¹⁰⁰ How a tax increase in 2009 relates to privatization in 1993 is beyond explanation.

Although the survey mentioned in the Calgary newspapers was quintessential cherry-picking, comparing the price of only one product (Molson Canadian beer) in every province, it illustrates a simple but important point: Whether alcohol is publicly or privately distributed, *a tax increase will make it more expensive, and a tax cut will make it cheaper*. This applies to recent markup increases in British Columbia and Ontario as much as it would apply to an increase in Saskatchewan. That the SGEU would deliberately omit the information about the tax increase points to its willingness to mislead the citizens of

Saskatchewan in order to promote a public monopoly.

Generally, the studies cited in this section show that Alberta's retail privatization led to lower prices than could be found in other provinces. Yet because provincial governments have a monopoly on importation and distribution (as mandated by the federal *Importation of Intoxicating Liquor Act*) and can implement markups and taxes, the price of alcohol in a given province is heavily dependent upon these markups and taxes.

Public liquor sales generate revenue for the government that helps fund schools, hospitals and roads. Public liquor stores contributed \$173.6 million to government in 2007-08.

- SGEU President Bob Bymoen, "Government Moves Toward Privatized Liquor Sales without Consulting Public," SGEU News Release, December 2, 2008

Revenue Generation

The purpose of imposing sin taxes is two-fold: to discourage consumption and to raise government revenue. The SGEU suggestion that a public monopoly can more effectively discourage consumption than private retailers has already been discussed and dismissed. However, a related claim—that public monopolies can more efficiently raise revenue than private retailers can—must be analyzed.

Lack of Accountability

The SGEU's argument about higher prices under privatization echoes a similar claim from the CAMH: "Alcohol monopolies have the potential to facilitate the effective and efficient deployment of public health-oriented control policies and government measures, which are more complicated to

initiate or maintain in a private system."¹⁰¹ As noted in the section on consumption, retail monopolies have not been shown to be able to efficiently deploy public health controls to limit consumption. As for the "government measures," Catherine Paradis and Hubert Sacy are blunter in explaining why retail monopolies are necessary:

Monopolies are very powerful tools that can be used to increase taxes on alcohol whenever governments need money to build schools, improve the health system or simply decide to do so in accordance with a specific alcohol policy. When alcohol is sold through privately owned companies, governments can hardly raise taxes without fighting the alcohol industry lobbies.¹⁰²

Implementing "government measures" really means avoiding accountability and transparency: Public monopolies provide governments with a variety of ways to

undemocratically raise revenue without the troublesome need to consult the public. For example, in a monopoly, government can generate more revenue by advising suppliers to raise costs without having to make the unpopular decision of raising the markup (as recently happened in New Brunswick¹⁰³). However, there is no evidence that retail monopolies actually allow for the efficient use of government resources nor is there any truth that privatization means less money for government.

Monopoly Taxes

Those in favour of government monopoly often point to the fact that Alberta “lost” revenue in the decade following privatization, because the amount the province reaped from liquor sales in 2002 (\$482-million) although more than in 1992 (\$431-million), was less when population growth and inflation were factored in.¹⁰⁴ However, this ignores the fact that the Alberta government cut taxes on alcohol *four times* between 1992 and

2002 following a promise to keep retail privatization revenue-neutral. Further, any “reduction” in government revenue must take into consideration the increased business and property taxes paid by retailers.¹⁰⁵

It is also important to distinguish between a conventional profit and a monopoly tax. Government revenue from an alcohol markup is not a “profit” in the usual economic sense, that is, a surplus from a service provided after deducting expenses. Rather, as Petkantchin notes, a markup is more accurately termed a “monopoly tax,” since “[i]ncreasing this ‘profit’ requires only that prices be raised.”¹⁰⁶ Thus, it is inaccurate to refer to SLGA revenue as “profit,” just as it would be to refer to the GST or income taxes as “profit.” A markup is really just another form of tax, which a province can keep with or without a monopoly—as Alberta did after privatization.¹⁰⁷

Nonetheless, the SGEU claim that its liquor revenue, which is put toward “schools,

Net Revenue from Alcohol Operations by Province, per population over 15 (2008)

	BC	AB	SK	MB	ON	QC
Pop. over 15	3,695,500	2,930,600	823,100	978,800	10,710,200	6,518,400
2008 Reported Revenue (millions)	857	680	174	219	1,374	761
2008 Revenue for Population over 15	232	232	211	224	128	117

Table 4.

Source: Statistics Canada 2009a, Liquor Control Board of Ontario, 2008; Manitoba Liquor Control Commission, 2008; Saskatchewan Gaming and Liquor Authority, 2008; Société des alcools du Québec, 2008.

hospitals and roads,” would be “lost” to private retailing has no basis in fact. In 2007-2008, Saskatchewan brought in \$173.6-million in net revenue from liquor sales compared with \$680-million in Alberta.¹⁰⁸

Using June 2008 population estimates, this translates into \$211 per person over the age of 15 in Saskatchewan compared with \$232 per person over the age of 15 in Alberta. Of the four Western provinces, Saskatchewan raises the least revenue per capita. Unsurprisingly, the SGEU never compares Saskatchewan’s per capita revenue to other jurisdictions, particularly Alberta, because there is nothing that links public monopolies to revenue generation.

It is no surprise that a comprehensive 2004 study found that Alberta generates *more dividends per litre of alcohol sold than do Ontario and Quebec* despite the fact that prices, if anything, were lower in Alberta.¹⁰⁹ Thus, there is no evidence that connects retail monopolies and increased revenue. The evidence points in the opposite direction. The most efficient way for governments to raise revenue from alcohol sales is to tax at the wholesale level, leaving the business of selling to private retailers.¹¹⁰ Retail privatization in Alberta has been win-win: It has created thousands of jobs, led to a substantial net increase in government revenue, increased consumer choice and selection and increased entrepreneurship.

Public liquor stores provide good jobs with decent wages —enhancing the well-being of our communities. Public liquor stores create good jobs for Saskatchewan people.

- Saskatchewan Government and General Employees’ Union, “Privatize Liquor Stores? Why Risk It?”
2009 Online Advertising Campaign

High-Paying Jobs

The SGEU frequently claims that public liquor stores “create” jobs, and those jobs would be “lost” if the government allowed retail competition. This is misleading and presents a skewed vision of government’s proper role in alcohol policy.

Alberta’s retail privatization did result in immediate layoffs for government liquor store managers and employees. However, many of the former government staff became involved in buying and running new liquor stores.¹¹¹ Moreover, after retail privatization in Alberta, overall employment increased substantially. More stores meant more jobs: By 1997, employment in private liquor stores was roughly triple the employment in government stores before privati-

zation.¹¹² Contrary to the SGEU’s claim, the private sector proved much more capable than the government at “creating” jobs.

The SGEU’s real fear is the loss of its privileged position and above-market wages. It is true that liquor store wages decreased in Alberta following privatization.¹¹³ However, government does not exist to create artificially higher wage rates for one part of an employment sector.¹¹⁴ There are no compelling reasons why employees who stock shelves at a liquor store deserve a higher wage than those who stock shelves at a grocery store. Good public policy should consider the effects on all groups, not just on some groups. To the extent that wages may come down, it will be either because prices for consumers come down or workers earning lower wages than current liquor staff are willing to enter the

industry at rates that are advantageous to them even if lower than the current rate. When the interests of consumers and would-be liquor industry workers are considered, the high wages paid to current employees no longer seem like a creation of value but merely an arbitrary transfer from one group to another. As a Saskatoon Star-Phoenix editorial argued, “[U]ltimately the liquor stores ostensibly are run to serve the needs of the public, not primarily of those who work at them.”¹¹⁵

Moreover, if Saskatchewan opened up its retail monopoly to private competition, government employees would not necessarily be laid off. Private competition does not mean public liquor stores would cease to exist; there are many examples of government businesses in Saskatchewan, such as SaskTel, that successfully compete with the private sector. If Saskatchewan’s alcohol wholesaling operations were also opened up to private competition, government stores could compete with the private sector on a truly level playing field.

Regardless of what form of competition Saskatchewan adopted, Alberta’s experience with alcohol policy shows that competition, not government monopoly, creates jobs. Saskatchewan’s current system stifles job creation and redistributes tax dollars to a privileged set of union employees at inflated wages. This serves only the SGEU’s interest, not the public’s.

Conclusion

In its efforts to prevent any sort of private involvement in Saskatchewan’s liquor market, the SGEU made a concerted effort to spell out the perils of private alcohol retailing in a series of advertisements. This chapter provided a closer look at each claim. After examining a wide range of data, there are two main conclusions:

Saskatchewan’s liquor retailing monopoly has not led to a decrease in alcohol-related harm, and it has not increased economic efficiency.

The SGEU argues that retail monopolies prevent harm, specifically crime and alcohol over-consumption. However, retail monopolies are able to do very little when it comes to preventing alcohol-related harm, and Saskatchewan’s record on crime and impaired driving is poor compared to the rest of the country. While retail monopolies limit store hours, they can do nothing to curb problem drinking and end up inconveniencing moderate drinkers in the process. Moreover, there is no evidence that retail monopolies are more economically efficient than is retail competition. By just about every measure, Alberta’s competitive environment outperformed the other provinces in terms of price and product availability.

The Government of Saskatchewan’s decision to open up specialty wine stores and the SGEU’s subsequent advertising blitz did accomplish one thing: It opened up the debate in the province about the proper role of government in the sale of alcoholic beverages and retailing. Those concerned with the debate can agree that the role of government with respect to the sale of alcoholic beverages should be to minimize interference in the business of law-abiding citizens and to prevent alcohol-related harm. Saskatchewan’s public monopoly has clearly stifled competition—the consumer choice, product availability and possibility for entrepreneurship are much higher in jurisdictions that allow real competition.

The recognition that Saskatchewan has *also* not done anything to reduce alcohol-related harm throws into question the need for government retail monopolies. The next chapter discusses where Saskatchewan should go from here.

Chapter 5: Conclusion and Recommendations

Government policy concerning the sale and distribution of alcoholic beverages varies by province. Within Canada's federal framework, there is no right answer to alcohol sales and distribution. As with any other public policy, provinces should be willing to experiment in terms of the way they regulate and distribute alcohol. In doing so, they can learn much from the other provinces concerning which policies work and which do not.

Saskatchewan, in particular, needs to look at options for reform. Saskatchewan's current alcohol framework is a convoluted patchwork of contradictory policies. The government restricts competition through its wholesale, importation, distribution and retail monopolies on all alcoholic beverages. Exceptions to Saskatchewan's retail monopoly such as U-vins, U-brews and the requirement that off sales be attached to pubs are ad hoc regulatory artifacts with no clear policy purpose. As a whole, Saskatchewan's alcohol policy stifles competition, limits consumer choice and allows the government to raise prices with little transparency.

Government policy makers need to look closely at the proper role of government and ensure that it is performing in a manner that respects the principles of high-performance government: separation, transparency and neutrality. With respect to alcohol, high-performance government means protecting people from harm with a minimum of inconvenience to those who are not causing harm to themselves or others. Yet Saskatchewan's current policy framework achieves precisely the opposite:

It inconveniences people who drink in moderation by limiting hours, artificially raising prices and restricting product supply, while doing nothing to prevent those with a dependence on alcohol from consuming as much as they want.

Restricting competition, then permitting some (distorted) competition through ad hoc adjustments has been a poor approach, and government alcohol policy ought to start with a blank slate. Below are several recommendations for the reform of Saskatchewan's alcohol retail and distribution framework.

First, *the government needs to recognize that it has separate roles as regulator and wholesaler-retailer.* This can be done by creating separate organizations with separate mandates, one to sell alcohol and the other to regulate harm. Many provinces, such as Quebec and British Columbia, have taken this approach with respect to alcohol policy, although the separation of roles in both provinces could be much more clear-cut. It is important that the roles of regulator and provider remain separate in order to avoid a conflict of interest. Without a clear separation, the same agency is left to represent the interests of both parties.

Second, *the Saskatchewan government should open up its retail and distribution monopolies to competition.* While government does have a role in the prevention of alcohol-related harm, it can satisfy this goal *and* allow competition in distribution and retail simply by mandating that any private organization must satisfy the harm regulations. This would allow the

economy's best practitioners in supply-chain management and retail to enter the business and serve customer demand, and it would increase government neutrality. Opponents such as the SGEU may cry foul and argue that this would be the first step to all-out privatization. However, this need not be the case. There are many examples of government businesses in Saskatchewan and other provinces that compete successfully with the private sector under external regulatory bodies, including SaskTel under the CRTC.

To ensure legitimate competition rather than the distorted competition that exists in British Columbia and Saskatchewan, *the Saskatchewan government should introduce a taxation regime that treats public and private organizations equally.* Most importantly, the taxation treatment should not be influenced by the nature (public or private) of the organization. Government organizations that remain in the liquor business should be subject to full accrual accounting, including payment of property and business taxes, to prevent them from receiving hidden subsidies around the cost of capital, thus satisfying the principle of transparency. This study demonstrates that government retailers are no better than private retailers at preventing harm. Why, then, should government organizations be given special treatment?

There are several small barriers to competition that the Saskatchewan government should remove. To start, *alcohol should be available in convenience stores and grocery stores.* Quebec has allowed domestic beer to be sold in convenience stores and grocery stores for decades, and its record on alcohol-related harm is superior to most other provinces. Grocery and convenience store workers are just as capable of checking

IDs and refusing to sell to intoxicated customers as government employees are. This small change would increase customer convenience, competition and consumer choice. Since domestic beer is already privately distributed in Saskatchewan, selling it in convenience stores and grocery stores would be the easiest immediate change.

Finally, *the Saskatchewan government should not view the federal Importation of Intoxicating Liquor Act as a barrier to competition at the importation and wholesaling level.* Provincial governments unwilling to engage in alcohol policy reform often use this antiquated piece of legislation, a relic from the post-Prohibition era, as the excuse. However, the legislation should not be viewed as a barrier to alcohol reform, as it is surely a violation of the division of powers under sections 91/92 of the *Constitution Act, 1867*. Provincial governments have jurisdiction over alcohol policy.¹¹⁶ The federal government cannot mandate provincial policies in an area where it has no functional jurisdiction; if provinces want to experiment by allowing wholesaling competition, for example, they are constitutionally permitted to do that. Provincial governments can allow importation and wholesaling competition, as they currently do with domestic beer, and still regulate harm effectively. Alberta's present wholesale and importation policy, while by no means fully competitive, shows there is room for flexibility and experimentation in the provinces. Alberta has contracted out its wholesaling and importing operation to private organizations, which must conform to provincial harm regulations. The *Importation of Intoxicating Liquor Act* has not prevented the Alberta government from experimenting, and it should not prevent Saskatchewan from policy change, either.

Government monopolies of the distribution and retail sale of alcohol deserve careful scrutiny. It is important to weigh the costs and benefits of government alcohol policy in order to ensure scarce public resources are allocated in the most cost-efficient manner. Special interests, in particular the SGEU, have distorted the debate over alcohol policy exactly as public choice economists would predict. Afraid of losing its privileged status and above-market wages, the SGEU produced a litany of claims, nearly all of which are unsubstantiated, about the perils of private competition.

This study sought to examine the claims and provide another voice in this debate.

Defenders of the status quo consistently cite the need for government monopoly to prevent harm and to raise revenue. Yet by this barometer, there is no evidence that Saskatchewan's monopoly has been an effective public policy. In terms of alcohol-related harm and economic efficiency, Saskatchewan's alcohol policy falls behind other provinces. Thus, Saskatchewan needs to reassess its alcohol policy in a way that best serves the citizens of the province. The above recommendations offer some ways for Saskatchewan to get the most out of its liquor framework by minimizing harm and encouraging innovation, consumer choice and competition.

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60. British Columbia Liquor Distribution Branch, "2007/2008 Annual Report," p. 4, 2008; Liquor Control Board of Ontario, "Responsible Retailing Paying Dividends," p. 18; Manitoba Liquor Control Commission, "85th Annual Report '08," p. 29; Saskatchewan Liquor and Gaming Authority, "07-08 Annual Report," p. 9, 2008; Société des alcools du Québec, "SAQ 2008 Annual Report," p. 62
61. MacLean, 2004, p. 7.
62. This number combines the LCBO's 3,578 regular listings and its 6,927 VINTAGES wine and spirits listings. In addition, Ontario has 231 duty free listings at border stores and 9,434 private items that can be ordered individually but are not available at LCBO stores.
63. Liquor Control Board of Ontario, 2008, p. 37; Manitoba Liquor Control Commission, 2008, p. 13; Saskatchewan Liquor and Gaming Authority, 2008, p. 8; Société des alcools du Québec, 2008, p. 62. It is worth noting that 83 of Manitoba's beer products are distributed by the MLCC, while 428 are privately distributed. Clearly, private distribution is correlated with more product choice.
64. Milke, 2002; West, 2003.
65. Flanagan, 2003, v.
66. According to Statistics Canada, Statistics on sales of alcoholic beverages by volume cannot be strictly equated with consumption: "Sales volumes include only sales by liquor authorities and their agents and sales by wineries and breweries and outlets that operate under license from the liquor authorities. Consumption of alcoholic beverages would include all these sales plus homemade wine and beer, wine and beer manufactured through brew-on-premises operations, sales in duty free shops and any unrecorded transactions." (Statistics Canada, "The Control and Sale of Alcoholic Beverages in Canada," p. 44, 2008a). However, the CAS reported that changes in rates of self-reported alcohol use from 1989-2004 were consistent with alcohol sales data from the same period. See Ed Adlaf, Patricia Begin and Ed Sawka, "Canadian Addiction Survey (CAS): A National Survey of Canadians' Use of Alcohol and Other Drugs: Prevalence of Use and Related Harms: Detailed Report," p. 10, Ottawa: Canadian Centre on Substance Abuse, 2005.
67. Statistics Canada, "The Control and Sale of Alcoholic Beverages in Canada, 1998,"; Statistics Canada, "The Control and Sale of Alcoholic Beverages in Canada," 2003a; Statistics Canada, 2008a; see also Petkantchin, 2005, pp. 26-27.
68. Alberta Alcohol and Drug Abuse Commission, "Meeting Challenges and Making Changes: AADAC Annual Performance Report, 1994-95," p. 16, 1995.

69. Adlaf et al., 2005.
70. See Milke, 2002, p. 35.
71. See Kalus Makela et al., *Alcohol and the State*, Toronto: Addition Research Foundation, 1981, pp. 90-91; Ted Glenn, *The Social Consequences Of Privatizing Liquor And Beer Stores*, Ontario Legislative Library: Legislative Research Service, 1997.
72. Adlaf et al., 2005, p. 22.
73. The CAS defines "heavy drinking" as having five or more drinks on a single occasion for men and four or more drinks on a single occasion for women.
74. Adlaf et al., 2005, p. 31. As noted in Chapter 2, Newfoundland and Labrador allows domestic beer to be sold in convenience stores, while Manitoba allows private sales in hotels.
75. Adlaf et al., 2005, pp. 38, 75-77.
76. See MacLean, 2004, p. 4, for a picture of the advertisement.
77. This number was as low as 228 per 100,000 in 2006. Statistics Canada, "Crime Statistics in Canada: 2006," p. 9, 2007a.
78. Statistics Canada, "Impaired Driving and Other Traffic Accidents – 2002," p. 1, 2003b.
79. Statistics Canada, 2003b; Statistics Canada, 2007a; Statistics Canada, "Police-Reported Crime Statistics in Canada: 2008," 2009b.
80. MacLean, 2004, p. 11.
81. West, 2003, pp. 60-70.
82. Calgary Police Service, "Private Liquor Store Offences: Year End Report," 1995, p. 10.
83. Calgary Police Service, 2003, pp. 4-5.
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85. West, 2003, p. 64.
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88. Statistics Canada, "Portrait of the Canadian Population in 2006, by Age and Sex," 2006 Census, 2007, pp. 23-25.
89. The StarPhoenix, "SGEU Warning on Privatization Lacks Credibility," editorial, 2009.
90. Calgary Police Service, 2003, p. 15.
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92. Alberta Gaming and Liquor Commission, 2008; Alberta Gaming and Liquor Commission, "Liquor Laws and You: An Operating Guide for Licensed Premises," 2009c.
93. Alberta Liquor Control Board, 1994, p. 34.
94. West, 2003. The study was done in 1997, with the results discussed again in the 2003 copy.
95. Philip Preville, "Hard to Swallow," *Saturday Night* (November), 2004.
96. Flanagan, 2003.
97. MacLean, 2004.
98. Milke, 2002, p. 2.
99. National Union of Public and General Employees, "Wine Store Franchises Bad Deal for Saskatchewan."

100. Libin, 2009; Nick Lewis, "Liquor Retailers Feeling Pinch of Crisis," *Calgary Herald*, B1, 2009; Michael Platt, "Alberta's Beer Prices the Highest," *Calgary Sun*, 2009. The provincial government raised its markup on beer, wine and spirits, effective April 1, 2009. However, in July 2009, the provincial government reversed the policy, returning to its previous markup levels. *The Calgary Herald* and *Calgary Sun* articles were written in the brief period Alberta had its higher markup rates.
101. Centre for Addiction and Mental Health, 2004, p. 1.
102. Paradis and Sacy, 2005, p. 6.
103. Moszynski, 2009.
104. Flanagan, 2003.
105. Milke, 2002; MacLean, 2004.
106. Petkantchin, 2005, p. 11.
107. Milke, 2002, p. 18.
108. The population estimates were found at Statistics Canada, "Population by Sex and Age Group, by Province and Territory," CANSIM Table 051-0001, 2009a. Net revenue from liquor sales can be found at Alberta Gaming and Liquor Commission, 2008, p. 2; British Columbia Liquor Distribution Branch, 2008, p. 3; Liquor Control Board of Ontario, 2008, p. 13; Manitoba Liquor Control Commission, 2008, p. 4; Saskatchewan Liquor and Gaming Authority, 2008, p. 7; Société des alcools du Québec, 2008, p. 27.
109. Petkantchin, 2005, p. 22.
110. Petkantchin, 2005, p. 15.
111. Milke, 2002, p. 30.
112. West, 2003, p. 70.
113. West, 2003, pp. 33-35.
114. Milke, 2002, p. 30.
115. The StarPhoenix, 2009.
116. This jurisdiction stems from sections 92.9 (Shop, Saloon, Tavern, Auctioneer, and other Licences in order to the raising of a Revenue for Provincial, Local, or Municipal Purposes), 92.13 (property and civil rights in the province), and 92.16 (matters of a merely local or private nature) of the *Constitution Act, 1867*.

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