



Saskatchewan



Notes

June 2014

Public versus Private Liquor: The Trade-Offs

By Simon Enoch

Saskatchewan Premier Brad Wall – despite his past promise not to privatize our existing public liquor stores – now muses about selling off the entire public liquor system.¹ Such a decision will involve substantial trade-offs for Saskatchewan, and it is critical that the public be aware of what they are trading away and what they are receiving in return if the government decides to move forward with the wholesale privatization of our public stores. In what follows, I briefly outline the arguments in favour of privatization and those against. While there are certain individual benefits to privatization, I argue that these pale in comparison to the increased social harms that would inevitably result from a privatized system.

Advocates for privatization will usually point to three advantages to private liquor sales – price, convenience and selection. Essentially, private liquor sales are more “consumer” friendly – even if they may be more harmful to society at large. Let’s take each one in turn.

Price

Despite the almost universal acceptance that private stores are “cheaper,” the evidence simply does not support this common belief. While private stores in Alberta can offer “door-crasher prices” on a specific product as a “loss-leader” to get consumers into stores because there exists no retail pricing floor in Alberta, the same would not be true in Saskatchewan.² Indeed, on average,

public stores offer more competitive prices on more products in comparison to private stores.

While this seems counter-intuitive, we must remember that the public system spends much less in regards to administration, overhead, advertising and marketing than a private store would. Moreover, the public system possesses monopoly purchasing power, allowing it to extract better prices from producers. Indeed our own price comparison of specific products illustrates that the private stores in both B.C. and Alberta were the more expensive in comparison to public stores in B.C. and Saskatchewan (See Table 1).



Private liquor store in B.C. advertising public liquor store prices. Photo Credit: Don Jedlic, Oktober Revolution Photography.

Convenience

On the issue of convenience, there is really no argument. Private liquor sales – depending on how they are regulated – *would* be more convenient. There will be a lot more stores in a lot more places. In Alberta, there were 208 government stores in the province prior to privatization in 1993. By January of 2011, there were 1,240 private retail liquor stores. They will also be open more hours - Government liquor outlets are restricted to 74 hours per week in Saskatchewan, private stores are open 112 hours per week in Alberta.³ (This is obviously excluding the availability of private off-sale outlets in Saskatchewan.).

So there is no doubt that a private system would be more convenient for consumers. The question is, what are the consequences for this convenience? The World Health Organization (WHO) identifies some of the most effective ways of reducing alcohol-related harms is through policies that regulate liquor's availability, in both the economic and physical sense. Similarly, a major part of Canada's National Alcohol Strategy is to "implement and enforce effective measures that control alcohol availability."⁴ A publicly owned system is best positioned to regulate the number, size, and location of retail outlets in an area. Government can assess a broad array of factors that may bear on the appropriateness of establishing a liquor outlet in a particular community. In contrast, a private retail system leaves the planning of retail outlets to the discretion of the market. In this situation, physical availability is determined largely by private expectations of profitability. Broader public considerations may be excluded from the equation altogether. The massive expansion of liquor retail outlets in Alberta after privatization has created a long-standing conflict between liquor retailers and community members. From

1993 through to the present, municipalities and neighbourhoods, particularly in major urban centres, have been forced to continually rebuff attempts by developers to site liquor stores in what were deemed inappropriate places, such as near schools, parks, within residential areas, or too close to other retailers.⁵

Selection

As for selection, privatization for the most part will actually *diminish* consumer choice.⁶ It may be true that larger, boutique private sellers in more densely-populated urban areas will be able to offer a wider selection than existing public stores currently do. However the majority of private stores will only offer those products that are proven sellers. Smaller private stores – particularly in rural areas – simply cannot risk the shelf space on unproven or unknown brands. This would be to the detriment of locally produced beer, wine and spirits that would have to compete for shelf-space with the more well-known and well-advertised corporate brands. Moreover, services such as Saskatchewan Liquor and Gaming Association's (SLGA) special order desk - which allows customers to request products not currently listed with the agency - may not be available to the same extent under a private system.

So even if we as a province decide that our highest priority in regulating the sale of alcohol is the satisfaction of the individual consumer, we can see that at least in regards to price and selection, there is a strong case to be made that a public system is at least equal or even superior to the private sector. Obviously, satisfaction of consumers is not the sole reason for regulating alcohol sales. We also believe that there is a wider public interest that needs to be served when dealing with a product such as alcohol that produces a variety of social harms. It is the superiority of the public system in dealing with

these social harms that we now turn.

Social Harms

We know that alcohol consumption is associated with a wide and diverse range of harms, from injuries and trauma to disease and disability. Furthermore, the costs associated with alcohol use and abuse are high. The burden on health care and law enforcement services coupled with the costs associated with the loss of productivity in the home or workplace due to alcohol use amount to approximately \$14.6 billion dollars in Canada.⁷

As was mentioned earlier, health authorities from around the world agree that the best way to minimize the social harms from alcohol is to limit its economic and physical availability in order to encourage moderate and responsible consumption. This includes setting minimum prices to discourage excessive consumption, taxation indexed to alcohol-content, limits on advertising, restrictions on outlet density and restrictions on days and hours of sale. All of the above are best achieved through a public monopoly. Indeed, the World Health Organization, the Centre for Addiction and Mental Health and the U.S. Center for Disease Control *all* insist that public monopoly control of alcohol sales is the most effective means of minimizing the adverse health effects of alcohol consumption.⁸ Conversely, they *all* strongly oppose privatization “based on strong evidence that privatization results in increased per capita alcohol consumption, a well-established proxy for excessive consumption and related harms.”⁹

In addition to public health concerns, underage drinking and service to intoxicated patrons is another common social harm associated with alcohol. It has been well documented that public liquor monopolies exercise a much more robust system of liquor law compliance and

enforcement in comparison with the private sector. For instance, in 2008, the percentage of British Columbia government liquor stores requesting the mandatory two pieces of identification was 77.5% while the British Columbia private liquor stores rate of age identification was only 35.9%.¹⁰ Similarly, in Alberta, a 2002 investigation by the Alberta Liquor and Gaming Commission (ALGA) of 255 private liquor stores resulted in only 47 stores requesting identification. That’s a compliance rate of only 18%. Moreover, the Alberta Liquor Store Association (ALSA) *had been warned in advance of the investigation.*¹¹



Wayne Henuset - owner of Willow Park Wines and Spirits and Treasurer of the ALSA - remarked in response to the widespread violations:

“[w]e turn somebody away, but then they find a store that needs money so much they’ll sell to anybody — a drunk or a teenager, it doesn’t matter...Do you think they can afford to turn away somebody with money to spend? They can’t...”

This is not to argue that private stores cannot or could not implement the same sort of robust system of compliance as that of public stores. Rather it is an argument that private stores will have the very powerful imperative of economic survival working against them. It will therefore

be incumbent on governments to have a very comprehensive monitoring system of private stores to ensure compliance - an additional cost of privatization that is rarely considered. Indeed, the ALGC witnessed a 59% increase in operating costs during the period it sought to improve industry-wide compliance with underage drinking laws.¹²

Now, many critics might argue that there is no reason why a well-regulated private sector cannot achieve the same public health and social responsibility goals as that of a public monopoly - even despite the economic imperatives that appear to work against it. But one other consequence of privatization that is rarely considered is that it will create a very powerful political constituency that will lobby hard to defend its own economic interests that will inevitably come into conflict with the public interest.

A privatized liquor retail market is very likely to evolve into an 'oligopoly', where only a few large corporations dominate and are able to exert monopoly-like power. Local, independent liquor retailers would likely find it difficult to compete. An oligopoly would have the supposed disadvantages of a monopoly, high prices and restricted supply, but lack the major advantage of public ownership, profits that flow in to public coffers. Certainly that has been the case in Alberta, where large chain stores now represent a third of all liquor stores in the province. As expressed in 2008 by the owner of a small chain of retail stores in Alberta, the province's liquor retail market is one where "[t]he big fish are eating up the little fish."¹³

Such a oligopoly will be able to exert a tremendous amount of influence on governments. In their pursuit of maximum profit, private retailers have an economic interest in facilitating higher consumption, which would be

impeded by any increase in liquor taxes or more stringent regulations. For example, Alberta Premier Ed Stelmach instituted an increase to liquor mark-ups in the 2009 budget, projecting this would result in an additional \$180 million in the first year of implementation alone. But Stelmach rescinded the increase after just three months. The executive director of the Alberta Liquor Store Association (the retail industry's main representative) was quoted as being "extremely pleased" with the decision and admitted to extensively lobbying the government over the issue.¹⁴

Like any business, private liquor will seek to advance its economic interests through public policy. Indeed, Alberta-based private liquor companies have been consistently contributing financially to the Saskatchewan Party since its election.¹⁵ The reality is that the interests of the private liquor industry will almost certainly come into conflict with that of the public interest. Currently, under our public system, concerns such as public health can take priority in public policy. Will we be able to continue to make such issues a priority in the face of an economically powerful opposition determined to advance its own interests?

As I mentioned at the outset, privatization of liquor will mean trade-offs. Through privatization, the Saskatchewan people will receive greater convenience in exchange for greater social harms. If we believe that ease of access to alcohol for the individual consumer should be the number one priority of liquor regulation, then privatization is the way to go. If we believe that there is a greater public interest in regulating alcohol to maximize social welfare and public health, then we must remain committed to our public liquor stores.

Simon Enoch

Table 1. Price Comparison of Select Items

Product	Prices			
	SK Public	BC Public	BC Private (Mean)	AB Private (Mean)
Corona (6B)	\$14.29	\$12.59	\$15.58	\$15.01
Molson Canadian (12B)	\$22.98	\$23.19	\$26.85	\$25.62
Stella Artois (12B)	\$27.99	\$27.09	\$30.98	\$28.30
Miller Genuine Draft (6C)	\$13.49	\$12.59	\$15.35	\$13.20
Bud Light (6C)	\$12.99	\$12.29	\$15.15	\$13.19
Wolf Blass Red Label	\$15.99	\$13.59	\$22.09	\$16.08
Yellow Tail Casella	\$12.99	\$13.09	\$15.15	\$13.56
Jacob's Creek Wyndham Estate (Shiraz)	\$13.49	\$13.09	\$16.32	\$13.21
Jacob's Creek Wyndham Estate (Chardonnay)	\$11.99	\$12.09	\$15.40	\$14.40
Canadian Club	\$24.95	\$23.85	\$26.04	\$26.20
Crown Royal	\$28.99	\$28.09	\$31.43	\$31.90
Smirnoff Red	\$24.95	\$25.09	\$27.45	\$25.74
Absolut Vodka	\$25.45	\$25.09	\$28.60	\$27.56
Total	\$250.54	\$241.73	\$286.49	\$263.97

NOTES

¹ Jennifer Graham, "Saskatchewan Premier Brad Wall musing about privatizing liquor stores." *Star-Phoenix*. May 28, 2014.

<http://www.thestarphoenix.com/business/Saskatchewan+Premier+Brad+Wall+musing+about+privatizing+liquor+stores/9885310/story.html>

² Greg Flanagan & David Campanella, *Impaired Judgement: The Economic and Social Consequences of Liquor Privatization in Western Canada*. Regina: Saskatchewan Office, Canadian Centre for Policy Alternatives, pg, 20.

https://www.policyalternatives.ca/sites/default/files/uploads/publications/Saskatchewan%20Office/2012/10/Impaired_Judgement_Oct2012.pdf

³ Ibid., pg 21.

⁴ Ibid., pg 17.

⁵ Ibid., pg 33, See endnote 51.

⁶ Nuri Jazari, *The Impact of Privatizing the Liquor Control Board of Ontario*: Toronto, York University, 1994. <http://www.yorku.ca/nuri/lcbo.htm>

⁷ CAMH, *Strategies to Reduce Alcohol-Related Harms and Costs in Canada: A Comparison of Provincial Policies*. Toronto: Centre for Addiction and Mental Health, 2013.

http://www.camh.ca/en/research/news_and_publications/reports_and_books/Documents/Strategies%20to%20Reduce%20Alcohol%20Related%20Harms%20and%20Costs%202013.pdf

⁸ See Flanagan & Campanella, 2012, 18; CAMH, 2013, 3; Center for Disease Control, "Preventing Excessive Alcohol Consumption: Privatization of Retail Alcohol Sales," 2011.

<http://www.thecommunityguide.org/alcohol/RRprivatization.html>

⁹ See Center for Disease Control, 2011.

<http://www.thecommunityguide.org/alcohol/RRprivatization.html>

¹⁰ Office of the Provincial Health Officer, "Public Health Approach to Alcohol Policy." Victoria: B.C., 2008, 36.

<http://www.health.gov.bc.ca/library/publications/year/2008/alcoholpolicyreview.pdf>

¹¹ See Flanagan & Campanella, 2012, 23.

¹² Ibid., 24.

¹³ Ibid., 16.

¹⁴ Ibid., 22.

¹⁵ The Saskatchewan Party has received regular financial contributions from Alberta-based Liquor Stores GP Inc and Willow Park between 2008 to 2013. See Elections Saskatchewan, Registered Political Party Fiscal period returns, Saskatchewan Party 2008 to 2013.

<http://www.elections.sk.ca/finance/registered-political-partys-fiscal-period-return-e-521/>