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Balancing Convenience with Social Responsibility

Liquor Regulation in Manitoba

By Greg Flanagan

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Executive Summary

Experience with the prohibition of alcohol in the early 1900s across Canada was unsatisfactory. However, there was a consensus that liquor sales and consumption needed to be controlled by government. Each Canadian province created a Liquor Control Agency that fully controlled wholesale purchasing, pricing including markups, and retailing under highly controlled environments. Limitation and control of alcoholic beverages has undergone considerable and continuous reform as Canada has matured in its relationship to alcohol. However, in most jurisdictions government still dominates the retail industry, although its role is constantly being re-evaluated.

Ontario has had extensive debate over the last two decades but has chosen to maintain its strong government involvement and revenue. In a more ideological extreme, Alberta completely privatized the liquor distribution system more than 20 years ago, without any debate, discussion, or thorough evaluation. More recently, the Saskatchewan government has allowed private retailers into the larger urban markets and plans for much greater privatization. The BC government has been revising the rules of the industry almost continuously in recent history, attempt-

ing to balance its notions of the government's role with the opportunities for private enterprise — with mixed results.

Liquor privatization in Manitoba is debated from time to time, often as a result to changes in other provinces. This report does an in depth comparison of public and private systems, providing the public and policy makers with the information needed to understand all facets of the issue.

Any responsible government must control alcoholic beverages. Even Alberta retains some control of the industry through regulation of wholesale prices by adding mark-up (taxes). Alberta, though, has lost control over retail outlet density by allowing increased physical access. It can only administer compliance to its policies, for example minimum age legislation, by policing and charging violating retailers. This adds another set of costs on the government that publically owned retail systems do not incur. Because a privately run competitive retail system has inherently greater costs, final prices are greatly variable and generally higher than a public monopoly can achieve. The government derives less profit (tax), all other things constant, reducing revenue that is badly needed to com-

pensate for the negative social costs — crime, health, productivity, and property damage attributable to liquor consumption.

Part I of this report covers background material significant to the marketing of alcoholic beverages in Canada. It explains how the most common myths around alcohol persist with many people including some policy influencers. These myths include the idea that consumer alcohol is just like any other commodity and should be treated as such. They also include the myth that by creating a competitive free market in alcoholic beverage, costs will fall, prices will decline, and marketing efficiency will increase. Some even think that a competitive market will somehow increase government tax revenue from alcohol sales. This section finishes by outlining the role for responsible government action in marketing beverage alcohol.

Alcohol is no ordinary commodity. It is a legal psychoactive drug. Most people already know that the consumption of alcoholic beverages can be abused especially by youth and those addicted to alcohol, and that impaired driving is a criminal offense which can lead to loss of life and property damage. But few people are aware of the large social harms of alcoholic abuse including alcoholism, injury and loss of life, illness and loss of worker production, property damage, crimes and violence including homicide, social discord, and family tension, fetal alcohol spectrum disorder, and a host of other problems. Nor are most people aware of the health risks of alcohol consumption for diseases other than specific alcohol disorders: cancers, tuberculosis, epilepsy, stroke, and hypertension. Alcohol consumption is a causal factor in more than 200 disease and injury conditions, including mental and behavioural disorders, the World Health Organization (WHO) estimates overall 5.1 percent of the global burden of disease and injury is attributable to alcohol.

We can calculate the social costs, including direct economic costs, of alcohol consumption

from the financial records of the major institutions of societal response to harms: hospitals and the health system, the police and criminal justice system, unemployment assistance, and welfare systems. Direct health-care costs include a number of services: hospitalizations, ambulatory care, nursing home care, prescription medicines and home health care. Direct costs also include the justice system costs because of increased crime, property damage, and “drunk and disorderly” behaviour. In Canada most direct external costs of alcohol consumption are borne by governments.

We can also estimate indirect social costs that result from lost productivity due to absenteeism, unemployment, decreased output, reduced earnings potential and lost working years due to premature pension or death. Indirect costs are typically borne by society at large, because the alcohol-attributable loss in workforce productivity can affect the economic viability of an entire community. Although difficult to measure, we also have to consider intangible costs, including pain and suffering and a general diminished quality of life borne not only by abusers but their families and other individuals affected.

Part I includes some basic discussion of the economics of liquor retailing. It explains key concepts like demand theory and price elasticity, so we understand how much changes in price affect demand. The demand for alcohol is found to be relatively price inelastic, meaning that increasing alcohol taxes (price) can reduce alcohol consumption and associated harms somewhat, while generating proportionally greater government revenue. Responsible government policy would recognize the social benefit in setting alcohol taxes so that more revenue was collected on a lower volume of sales — reducing the social burden of alcohol consumption while simultaneously raising the necessary revenue to afford the required health and social programs.

Market structure, including monopoly and various forms of imperfect competition, is also dis-

cussed. Many assume the private sector, through a competitive market, could meet consumer desires and respond better to more localized market conditions, while also achieving the lowest retail prices. There are two things to note about this. First, this stance assumes a major change in attitude toward liquor as a product — treating as if it were just another innocuous consumer good. Second, it assumes that competition would lower prices, resulting in an increase in economic welfare. The experience in Alberta refutes this. Liquor prices rose in Alberta after privatization for most products and have continued to remain higher than public owned systems even though the percentage going to government has fallen. This is a deadweight welfare loss.

Part I also compares the public and private systems' abilities to sell liquor in a socially responsible way. Socially responsible marketing means promotion of moderate drinking behaviour, educating the public about the potential risks of alcohol, particularly fetal alcohol spectrum disorder, drinking and driving, and not selling to those underage or to intoxicated persons. The efforts to restrict or prevent sales to certain high-risk individuals are incompatible with the profit motive in private marketing, making increased regulation and enforcement (adding to public costs) necessary. Enforcing socially responsible behaviour is a cost to the retailer in time, store space for promotional material, and in lost revenue (profit) from not selling — especially to minors.

According to the WHO the most proven and effective methods for controlling the health consequences of alcohol consumption include restricting access by minors and minimizing retail outlets and the hours of operation. Indeed, population-level approaches that limit the availability of alcohol, whether through controlling physical availability or pricing, are some of the most effective ways to manage alcohol-related harm, despite the fact that such approaches have an impact on all drinkers, including those who do not misuse alcohol. A government re-

tail system can implement limitations on physical access. And high taxation through mark-up pricing is a proven, effective way of controlling financial access.

Part II considers the status of Manitoba's liquor control by comparing Manitoba with the other three Western Provinces, using easily acquired Statistics Canada data. Each province is compared on the success of achieving control of liquor use recommended by the (WHO), preeminent in analysing and evaluating the use of consumer alcohol, and other recommendations of prominent policy advocates such as the Canadian Centre on Substance Abuse (CASA).

Manitoba has a mixed public private system. The Manitoba Liquor and Lotteries Corporation (MLL), a crown corporation, is responsible for the distribution and sale of all alcohol beverages. The MLL directly operates 59 Liquor Mart and Liquor Mart Express (smaller) locations. The retail network includes more than 430 privately owned liquor vendors located throughout Manitoba. These include duty-free stores, privately owned beer vendors, and specialty wine stores. The MLL sets prices through an *ad valorem* mark-up (tax) system. The MLL controls the licensing, prices, and the gross revenue of system.

How does the liquor distribution and control system in Manitoba compare to other Western Provinces and implicitly to the recommendations of the World Health Organization? This report compares these provinces along a number of dimensions including:

- social costs,
- impaired driving,
- alcoholism and alcohol dependence statistics,
- alcohol related hospitalizations,
- alcoholic beverage volumes sold,
- pure alcohol equivalent consumed,
- price indices,
- revenue,

- density of liquor retail outlets,
- and liquor authority revenue and net profit (markups).

Manitoba had the lowest deficit in government revenue obtained from alcoholic beverage sales once the public costs of alcohol harm are considered (Figure 2). The health and social effect measures (Figures 3, 4, 5 and 6) indicate a mixed message for Manitoba. Manitoba fares well in comparison to the three other provinces considered but all four Western provinces are high against national levels. Heavy drinking rates in Manitoba are slightly less than the Canadian average and considerably lower than Saskatchewan (the highest) and Alberta but higher than BC (Figure 4). Again the four Western provinces are considerably higher in the Alcohol-Attributable Hospitalization rates (Figure 5). However, Manitoba is the lowest among the four on this measure of social harm.

Impaired driving rates in Manitoba are about equal to the Canadian average and considerably lower than Saskatchewan (the highest) and Alberta but higher than BC (Figure 6).

Manitoba consistently has the lowest per capita expenditure on alcoholic beverages (Figure 7). The volume per capita in Manitoba is much the same as Saskatchewan and BC, with Alberta well ahead of these provinces (Figure 8). Absolute alcohol consumption (Figure 9 & 10) in Manitoba is equal to the national average and very slightly below BC and Saskatchewan. Alberta is high relative to the other provinces in this study.

Privatization has made alcohol products much more accessible in Alberta. Figures 11 and 12 show the type and density of retail outlets. Alberta has the highest number of outlets per capita. Manitoba is second highest but still has 20 percent fewer than Alberta.

By 2015 Manitoba's and Saskatchewan's total revenue from sales caught up to BC's rate (Figure 13) which had been higher. Alberta's revenue continued to decline between 2005–15. The pub-

lic systems were able to increase their take from alcohol sales while the revenues declined for the private system found in Alberta. However, the net income from beverage alcohol sales is a better comparison as the non-private systems have an operating cost to run the public retail system that Alberta does not incur (Figure 14). Manitoba was the best until 2009 when all provinces were roughly equal. After this year the net income to Manitoba and Saskatchewan continues to increase while BC levels off and Alberta falls.

Figures 15 and 16 consider alcohol beverage price changes against the background inflation rate. Manitoba and Saskatchewan pulled ahead in the net income per capita (Figure 14) because they raised the prices of alcohol above the general rise in prices in each province. The revenue from these price increases went to the provincial treasury in Manitoba instead of a private retail industry.

The bottom line financially is the measure of net income or profit obtained from the retail liquor industry in each province (Figure 17). Government net income as a percentage of sales from the sale of alcohol are lowest in Alberta — fully privatized, and next lowest in BC — the furthest along on the public/private mix. Manitoba (and Saskatchewan) has done extremely well on this measure, with considerably higher net incomes.

Manitoba has the highest revenue and net government income per capita from its sales of alcoholic beverages. It has the best results, at least among the Western provinces, in mitigating the harms generated by alcohol consumption. It has the lowest deficit in the difference between revenue and costs of alcohol use. Manitoba has achieved these results as it managed to keep and raise prices of liquor products with consequent lower volumes of alcohol consumed and reduced consequential harm. Alberta with a privatized retail system has done the opposite: high volumes of alcohol consumed, low net income from sales, the highest deficit in public revenue and costs of alcohol use. The Alberta government

has effectively lost control of the liquor distribution industry.

Overall these results bode well for Manitobans. Because evidence on the direct correlation between alcohol consumption and social harms and costs is overwhelming, managing the supply of alcohol, both economically and physically, ensures the greatest level of social welfare. Evi-

dence indicates a public liquor monopoly is institutionally superior to succeed at this objective.

Manitoba exemplifies the responsible social practice of reducing the social burden of alcohol consumption while simultaneously raising the necessary revenue to pay for the health and social programs that alcohol consumption inevitably necessitates.

Introduction

Legislation for the prohibition of the sale and consumption of beverage alcohol has been enacted in every province and territory in Canada. Prohibition occurred as early as the mid-1800s but most commonly in the 1910s (including Newfoundland — not part of Canada at the time). Prohibition was repealed in most jurisdictions in the 1920s as prohibition did not work, causing more problems than it solved. However, following the lifting of prohibition in the 1920s, there was a consensus in Canada that liquor sales and consumption needed to be controlled by government. It was agreed that alcoholic beverage products would be made available but in a highly restricted system with high markups (taxes). Each province created a Liquor Control Agency that fully controlled wholesale purchasing, pricing including markups, and retailing under highly controlled environments. As an example, The Manitoba Liquor Control Commission (MLCC) was formed in 1923 as an agency of the Government of Manitoba under The Liquor Control Act. “The MLCC’s mandate is to purchase, sell and regulate beverage alcohol; to determine locations for retail liquor outlets; to licence and regulate facilities used by the consuming public; to provide revenue to the Prov-

ince from the activities of the MLCC; and to do all such things necessary to effect the provisions of The Liquor Control Act.”¹ Limitation and control of alcoholic beverages has undergone considerable and continuous reform as Canada has matured in its relationship to alcohol. However, in most jurisdictions governments still dominate the retail industry.

The role of government in the control of alcoholic beverage sales and consumption has been under re-evaluation across Canada in various jurisdictions and contexts. Ontario recently debated the role of the Beer Store in its distribution system. As well, the marketing of beer and wine through established food retailers was considered and allowed on a limited basis. The Saskatchewan government has allowed private retailers into the larger urban markets. The BC government has been revising the rules of the industry almost continuously in recent history, essentially attempting to balance its notions of the government’s role with the opportunities for private enterprise — with mixed results.

The process of this re-evaluation has taken different directions, under governments of differing ideological tendencies. In the one extreme, the premier of Alberta at the time Ralph Klein

and his colleague and friend Steven West² decided to privatize liquor retailing without any debate, discussion, or thorough evaluation. The plan implemented in 1993 had not even a mention in that year's election. The decision was made on their personal belief that liquor control was a paternalistic unnecessary intrusion in market freedom. They also believed a competitive private sector would bring innovation and lower prices. Alternatively, Mike Harris in Ontario although having a similar ideological perspective to Klein, created a committee to evaluate and report on the benefits and losses of privatising liquor retailing. The outcome was maintenance of the public system; however, improvements in the retail consumer experience and expanded choice of products resulted. Again in 2005 then Ontario Finance Minister Greg Sorbara commissioned a review of the province's liquor distribution.³ Sorbara rejected the report's recommendations for privatization, and argued for the continued public ownership of the LCBO. In Saskatchewan in 2007 the Saskatchewan Party rejected privatization of the Saskatchewan Liquor and Gaming Authority. However, more recently Brad Wall, Premier of Saskatchewan has publicly declared that "[t]he old public store-only option is not sitting with Saskatchewan people," and that "people are really interested in new stores being private or all stores being private."⁴ Wall went on to say that he would consider campaigning on the issue in the next provincial election. That election is now history with Wall's party winning a majority, so it remains to be seen how its campaign plan to privatize 40 SLGA liquor stores across the province will unfold.⁵

Any responsible government must control alcoholic beverages in some fashion. Even Alberta, with its strong free enterprise culture, where retailing alcoholic beverages was privatized more than two decades ago, retains some control of the industry. It retains control of the wholesale system and affects ultimate prices by adding mark-up (taxes) to the wholesale price. Alberta,

though, has lost considerable control over liquor retailing policies, and has little control over retail outlet density allowing increased physical access. It can only administer compliance to its policies, for example minimum age legislation, by policing and charging violating retailers. This adds another set of costs on the government, unnecessary to publically owned retail systems. Social responsible marketing policies can really only be applied through moral suasion exerted on private firms who have no incentive to comply. Because a privately run competitive retail system has inherently greater costs, final prices are greatly variable and generally higher than a public monopoly can achieve. The government derives less profit (tax), all other things constant, reducing revenue that is badly needed to compensate for the negative social costs — crime, health, productivity, and property damage attributable to liquor consumption.

Liquor privatization is debated in Manitoba from time to time, often as a result of changes that occur in other provinces. This report provides an in-depth comparison of public and private systems as they exist in the four Western provinces, providing the public and policy makers with the information needed to understand all facets of the issue.

The report has two Parts. Part I covers background material significant to the marketing of alcoholic beverages in Canada. There is nothing particularly new or unknown in this section. Most people familiar with the nature of alcohol as a consumer product will be familiar with these topics. However, the most common myths around alcohol persist with many people including some policy influencers. These myths include the idea that consumer alcohol is just like any other commodity and should be treated as such. They also include the myth that by creating a competitive free market in alcoholic beverage, costs will fall, prices will decline, and marketing efficiency will increase. Some even think that a competitive market will somehow

increase government tax revenue from alcohol sales. This section finishes by outlining the role for responsible government action in marketing beverage alcohol.

Part II considers the status of Manitoba's liquor control by comparing Manitoba with the other three Western Provinces using easily acquired Statistics Canada data. Each province is compared on the success of achieving control of liquor use recommended by the World Health Organization (WHO), preeminent in analysing and evaluating the use of consumer alcohol, and other recommendations of prominent pol-

icy advocates such as the Canadian Centre on Substance Abuse (CASA).

Governments should periodically evaluate their policies regarding the control of the distribution and sale of alcoholic beverages. When they do so it is best to steer clear of ideological perspectives and base policy on the evidence. Ontario has shown a reasoned approach while Alberta rushed into changes based on the ideology of the government at the time. It is difficult to turn back once implemented as the current government in Alberta has found. It is hoped that this report brings useful evidence to the determination of future policy.

Part I: Background

SOCIAL AND HEALTH EFFECTS OF ALCOHOL CONSUMPTION

“Alcohol is no ordinary commodity. It is a legal psychoactive drug that enjoys enormous popularity and special social and cultural significance in Canada. Evidence also suggests that alcohol consumed at low to moderate levels can benefit the health of some individuals. Alcohol also plays an important role in the Canadian economy, generating jobs and tax revenue for governments.”⁶

However, the personal abuse of alcohol can also result in harm to oneself and to others, such as family members, friends, co-workers and strangers. Moreover, the harmful use of alcohol results in a significant health, social and economic burden on society at large.

A responsible government must control liquor sales and consumption. Why? Most people already know that the consumption of alcoholic beverages can be abused especially by youth — inexperienced with the use of alcohol, and by those addicted to alcohol. People are also well aware that impaired driving is a criminal offense and that excessive alcohol consumption can lead to loss of life and property damage. Fewer people are aware of the damage done and the costs incurred to the public through crime, health effects, and production losses.

The helping professions are aware of the greater damage and costs of alcohol are well documented: the social, health, and economic burdens of alcoholic abuse include alcoholism, injury and loss of life, illness and loss of worker production, property damage, crimes and violence including homicide, social discord, and family tension, fetal alcohol spectrum disorder, and a host of other problems. Additionally alcohol harms disproportionately the young and the poor. Colonization has left many Indigenous people susceptible to alcohol abuse as they struggle to deal with systemic racism and the intergenerational trauma of residential schools.

Crime

Violent crime is associated with alcohol consumption. An established body of research consistently points to the co-occurrence of alcohol and crime in a substantial proportion of cases.⁷

Homicide

Over a decade of data, police reported alcohol and/or drug consumption in the majority of homicides — 59 percent of the victims and 72 percent of accused persons were under the in-

fluence of alcohol, drugs, or another intoxicating substance at the time of a homicide. More specific time series analysis indicates that over four decades of data, alcohol consumption was associated with changes in homicide rates. When the growth rate in alcohol consumption varies by 1 percent, the growth rate in homicides varies by approximately 1.38 percent — a direct relationship between homicide and rates of per capita alcohol consumption. As the effect of unemployment on homicide rates was significantly less (1 percent to 1 percent) this is a critical finding.⁸

Assault

Assault is another violent crime associated with alcohol use. For example, in approximately 51 percent of physical assault cases and in 48 percent of sexual assault cases, the victim of the assault believed the incident was related to the perpetrator's use of alcohol or drugs. Male physical assault victims were more likely than female victims (58 percent compared to 39 percent) to believe that the incident was related to the perpetrator's substance use. Sexual and physical assaults committed by strangers were more often thought to be alcohol or drug-related than those involving friends or acquaintances (77 percent vs. 49 percent for sexual assaults, and 62 percent vs. 49 percent for physical assaults). Research also indicates that personal consumption of alcohol may place one at greater risk of becoming a victim of crime.⁹ Other research indicates that a large proportion of those incarcerated in Canada (and internationally), were under the influence of alcohol or drugs at the time of the incident that led to their imprisonment.¹⁰

Spousal violence

Research has shown that rates of domestic violence are higher for men with alcohol problems than those who do not abuse alcohol. Women and men whose current spouses were considered heavy drinkers were almost three times as likely to be victims of spousal abuse (8 percent) than

those whose partner drank moderately or not at all (3 percent). Further, among those who experienced violence by current or previous spouses, approximately 44 percent of women and 26 percent of men indicated that their partners were usually drinking at the time the assault(s) took place. Women who reported that their partners were usually drinking at the time of the assault(s) were more likely than non-drinkers (53 percent compared to 36 percent) to have serious violence used against them (being beaten, choked, threatened with a gun or knife, or sexually assaulted). They were also more likely to report being injured (49 percent compared to 35 percent), requiring medical attention for their injuries (18 percent compared to 13 percent), attending a hospital to treat their injuries (14 percent compared to 8 percent), and fearing their life may be in danger as a result of the violence (48 percent compared to 31 percent).¹¹ "Family violence is an issue that impacts the victim, the family unit, and society as a whole."¹²

Health

The World Health Organization (WHO) is the leader in analysis and reporting on the effects of alcohol consumption globally. These are the key facts as reported:¹³ Alcohol is a psychoactive substance with dependence-producing properties that has been widely used in many cultures for centuries. The harmful use of alcohol causes a large disease, social and economic burden in societies. Alcohol impacts people and societies in many ways and it is determined by the volume of alcohol consumed, the pattern of drinking, and, on rare occasions, the quality of alcohol consumed. In 2012, about 3.3 million deaths, or 5.9 percent¹⁴ of all global deaths, were attributable to alcohol consumption.¹⁵

"Most people are not aware of the health risks of alcohol consumption for diseases other than alcohol use disorders. This is especially true for the impact of alcohol on cancers: from 4 percent

to about 25 percent of the disease burden due to specific cancers are attributable to alcohol worldwide. Alcohol consumption also contributes to about 10 percent of the disease burden due to tuberculosis, epilepsy, haemorrhagic stroke and hypertensive heart disease in the world.¹⁶

Alcohol consumption is a causal factor in more than 200 disease and injury conditions. Drinking alcohol is associated with a risk of developing health problems such as mental and behavioural disorders, including alcohol dependence, major non-communicable diseases such as liver cirrhosis, some cancers and cardiovascular diseases, as well as injuries resulting from violence and road crashes and collisions. Overall 5.1 percent of the global burden of disease and injury is attributable to alcohol, as measured in disability-adjusted life years (DALYs).¹⁷

Alcohol consumption causes death and disability relatively early in life. In the age group 20–39 years approximately 25 percent of the total deaths are alcohol-attributable. There is a causal relationship between harmful use of alcohol and a range of mental and behavioural disorders, other non-communicable conditions as well as injuries. A significant proportion of the disease burden attributable to alcohol consumption arises from unintentional and intentional injuries, including those due to road traffic crashes, violence, and suicides, and fatal alcohol-related injuries tend to occur in relatively younger age groups. The latest documented causal relationships are those between harmful drinking and incidence of infectious diseases such as tuberculosis as well as the course of HIV/AIDS. Alcohol consumption by an expectant mother may cause fetal alcohol spectrum disorder and pre-term birth complications.

Social Costs

The consumption of alcohol has considerable external costs — costs to society in addition to the production and retailing costs. The first category

is direct economic costs of alcohol consumption. These can be estimated from the financial records of the major institutions of societal response to harms: hospitals and the health system, the police and criminal justice system, unemployment assistance, and welfare systems. Direct health-care costs include a number of services: hospitalizations, ambulatory care, nursing home care, prescription medicines and home health care. Direct costs also include the justice system costs because of increased crime, property damage, and “drunk and disorderly” behaviour. In Canada most direct external costs of alcohol consumption are borne by governments.

The second major category of social costs is indirect costs. These result from lost productivity due to absenteeism, unemployment, decreased output, reduced earnings potential and lost working years due to premature retirement or death. Indirect costs are typically borne by society at large, because the alcohol-attributable loss in workforce productivity can affect the economic viability of an entire community. These costs cannot be measured by financial data but can be estimated.

Another category, impossible to measure and difficult to estimate but real nonetheless, is intangible costs. Intangible costs are costs of pain and suffering and a general diminished quality of life borne not only by abusers but their families and other individuals affected.

This section has outlined the harms and costs to society from the consumption of beverage alcohol. The next sections will provide a brief discussion of economic concepts relevant to the discussion of the liquor industry and governments role in it.

The Economics of Liquor Retailing

Demand Theory

If economists know one thing it is the “law” of demand: a reduction in the price of a commodity leads to an increase in the quantity purchased

(consumed) and vice versa. Consumers respond to changes in the price of alcohol as they do to changes in the price of any consumer product. This consumer response to changes in the price of liquor is consistent across jurisdictions, when controlling for overall consumption levels, beverage preferences and time period. Increased prices for alcohol beverages delay the age when young people start to drink, slow their progression toward drinking larger amounts, and reduce their heavy drinking and the volume of alcohol consumed on each occasion. Price increases reduce the harm caused by alcohol, which is an indicator that heavier drinking has been reduced.¹⁸

Responsible government policy would recognize the social benefit in setting alcohol taxes so that more revenue was collected on a lower volume of sales — reducing the social burden of alcohol consumption while simultaneously raising the necessary revenue to afford the required health and social programs.

Price elasticity is a more detailed look at the law of demand by measuring the precise change in demand in response to a change in price. Elasticity is an easy to measure and extremely useful concept. Specifically, price elasticity is the ratio of the percentage change in amount purchased to the percentage change in the good's price. A high value of this ratio (a raw number) signifies that demand is very responsive to a change in price, whereas a low value means demand is less responsive to a change in price. As such, price elasticity reveals the impact of a price change on the sales of any good. It can also tell us how revenue will change with price changes. To better predict the impact of taxes on alcohol consumption, it is important to know the price elasticity of liquor products.

The demand for alcohol is found to be relatively price inelastic, meaning sales are not greatly responsive to price changes. According to a meta-analysis of 132 academic studies on elas-

ticities related to alcohol, the median price elasticities for beer, wine, and spirits are -0.36, -0.7, and -0.68, respectively.¹⁹ Another meta-analysis of 112 studies reports similar findings.²⁰ These figures mean that if the price of items in these categories increased by 10 percent, sales would fall 3.6 percent for beer, 7 percent for wine, and 6.8 percent for spirits. For example, if an additional \$1 (unit) tax was levied on wine that previously cost \$10, the new price of \$11 would bring a decrease in sales of 7 percent.

The price inelasticity of alcohol means that increasing alcohol taxes can reduce alcohol consumption and associated harms only somewhat, while also increasing government revenue. If demand for alcohol were price elastic, a small increase in tax would lead to a large decline in demand. Because alcohol's price inelasticity allows only for a moderation of consumption from higher prices, higher taxes can translate into higher overall government revenue. Continuing with the example above, if a 10 percent tax leads consumers to purchase 1,000 bottles of \$11 bottle of wine, government revenue would be \$1,000 (\$1 multiplied by 1,000 bottles). If the tax increased to 20 percent and new price for the wine was \$12, sales would decline to 860 bottles but government revenue would more than double to \$2,064. Responsible government policy would recognize the social benefit in setting alcohol taxes so that more revenue was collected on a lower volume of sales — reducing the social burden of alcohol consumption while simultaneously raising the necessary revenue to afford the required health and social programs.

Note on Unit (flat) versus Ad Valorem Taxes

Most of the provincial and federal reports regarding beverage alcohol retailing refer to the government's return on alcoholic beverage sales as a mark-up, and refer to the sum of the revenue as a profit. The mark-up applied by provincial governments to liquor is more correctly termed an excise tax. Excise taxes can be either unit taxes or *ad valorem* taxes. A unit tax is a

certain charge on the product per unit sold. For alcohol the unit to which this charge is applied is usually per litre. For example, a \$2 per litre mark-up on beer would be a unit excise tax. In some cases the unit tax is applied to pure alcohol equivalent of an alcohol beverage. So a bottle of spirits would generate much more tax than the same quantity of beer or wine due to the higher alcohol percentage of the liquid.

An *ad valorem* tax is a percentage charge on the value of the product. For example, a liquor authority charges a 100 percent tax on a product's wholesale price. With an *ad valorem* tax, the tax revenue per product levied gets larger the higher its cost. Provincial and federal sales taxes are examples of *ad valorem* tax. An *ad valorem* tax causes a shift in the supply price by a constant percentage and has the advantage that it automatically rises with inflation. This type of tax also has a progressive tax effect if, as in the case for alcoholic beverages, the income elasticity of demand is positive and the price elasticity is low. What this means is that higher income earners buy higher quality/priced alcoholic products and with an *ad valorem* tax they will pay a higher tax rate.

A unit tax causes the supply to shift by a constant amount. For this reason a unit tax has also been referred to as a flat tax. The advantage of a unit tax is that the amount of tax is not affected by the cost of the product. A unit tax does not change with price fluctuations, an advantage where prices are volatile. A unit tax on alcoholic beverages will favour expensive products over cheap ones because the tax will comprise a smaller percentage of the purchase price of the expensive product. Tax incidence — who pays the tax — is also affected. If the expensive product has lower price elasticity of demand, the retailer can charge a higher markup while paying a smaller percentage in tax.

Both of these types of charges are used as excise taxes in Canada. Alberta uses strictly unit taxes on liquor products. This tax method means that the tax *rate* (like any flat tax) goes

down with the higher the price of the product. If there are any comparatively cheaper alcoholic beverages in Alberta they tend to be the very high cost products that do not count much in the total sales. From an income distributional perspective the unit tax on liquor is regressive.

Market Structure or Industrial Organization

Economists study a given industry using theoretical models to guide their analysis.²¹ These models range along a continuum, with monopoly at one end, through various forms of imperfect competition, including oligopoly (a few firms), and monopolistic competition, to the other end of the spectrum with perfect competition. Monopoly is a single seller with complete control of the market and barriers to prevent others from entering the market. The other extreme, perfect competition includes a large number of firms, easy entry into the industry, and (importantly) each firm provides a very similar (identical) product. Perfect competition results in the situation where each firm is a price taker and has no market power. Real world situations generally fall into the midrange of this continuum where varying degrees of market power and competition exists.

Monopoly can occur 'naturally' if there are large economies of scale or through multiple-output production (economies of scope) such that only one producer (seller) could achieve the lowest possible cost of production given the size of the market. Otherwise, a monopoly can only exist through government protection or ownership, or (illegal) anti-competitive behaviour. The economics literature explains the inherent inefficiency that arises when a private monopoly maximizes its profit through its ability to set price above cost, and restricts the quantities of the product on the market. The society incurs a welfare loss because less is produced and a higher price is charged than resource scarcity would require. This clearly can happen only when the monopoly is private and the firm's objective is profit maximization.

Public ownership of the monopoly, or regulation of a private natural monopoly, changes the firm's objective of maximizing profit to the public objective of maximizing output with a price equal to cost (including a normal profit) where welfare is maximized.²²

The reason for public control through near monopoly ownership of liquor retail outlets is neither to maximize profit nor is it for consumer convenience. And the objective was never to maximize output at the lowest possible price such as was the case for telephone service when they were publicly-owned. Public ownership of liquor retailing was put in place to limit the distribution of liquor in a reasonable and socially responsible manner and to ensure the implementation and collection of excise tax on alcoholic beverages. The public retailing of liquor through a monopoly is able to take advantage of any economies of scale available, and is able to plan for the number, size, location, and opening dates and times of retail stores in a socially responsible manner.

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In contrast, it appears that the Alberta government implemented liquor retail privatization on the ideological belief in competition: Adam Smith's idealized state of 'invisible hand' perfect competition where a large number of firms producing essentially the identical product with no cost advantage compete on price, and the market realizes a price equal to the lowest cost of production.

Many others also assume the private sector, through a competitive market, could meet consumer desires and respond better to more localized market conditions, while also achieving the

lowest retail prices. There are two things to note about this. First, this is a major change in attitude toward liquor as a product — treating as if it were just another innocuous consumer good. Second, it assumes that a competitive (read: perfectly competitive) industry would result where the lowest cost of production (retailing cost) would be achieved and prices would fall to this cost. As we will see, both these assumptions are problematic.

Market Structure

Private liquor retailing in Alberta was not and is not a perfectly competitive industry. It started in the early 1990s as a 'monopolistically competitive' industry, one in which there are a large number of firms, as in perfect competition, but each firm's product is differentiated from that produced by its competitors. Many other service industries are also examples of monopolistic competition. The current market structure in Alberta is reorganizing, or 'rationalizing' as economies of scale are exploited and chains expand their share of the market. As chain stores have developed, the market has moved towards oligopoly where a few large firms compete.

The number of firms that make up a monopolistically competitive industry can be very high, as it is relatively easy to enter and exit the industry. As a result, Alberta's density of retail outlets expanded greatly with no one of them large enough to dominate the market. In the liquor retail business in Alberta, there are over 2000 class D licensees, however the density of outlets per capita has started to fall with the rationalization of the market. The financial gains of this improved efficiency go to the private firms and not to government.

Product Differentiation

Unlike perfect competition, in which firms produce an identical product, in a monopolistically competitive industry each firm's product is slightly different from every other's; therefore each firm

has limited power as a price setter, and firms engage in considerable non-price competition. The considerable variability of prices of each liquor product in Alberta, the increasing differentiation of stores and products, and the increasing prevalence of advertising all support the view of the industry as monopolistically competitive. The key characteristic in a monopolistically competitive or oligopoly industry is product differentiation. Differentiation occurs in a number of ways. The predominant differentiation of retail outlets is location, with convenience of location being arguably the most important difference. For example, the proximity to a major grocery store has always been a great advantage. The grocery chains themselves are moving quickly to exploit this advantage and dominate the market. Other important characteristics create differences between outlets.

For example, there are now over 20,000 SKUs (stock keeping units) on the wholesale list in Alberta. Even the largest of retail stores can stock only a small fraction of these products. This plethora of products creates an opportunity for consumer confusion. The particular selection from this number of products alone differentiates the store. Some stores stock as few as 200 items. As all licensees must pay cash for their stock, they are therefore motivated to keep the items on the shelves restricted to those that turn over frequently.

Store decor has also become a point of differentiation. Some stores present a professional attractive environment. Obviously this involves costs. Others, such as deep discount stores, keep their store appearance and decor costs to a minimum, presenting a rather shabby public front. There are stores that have invested in obtaining considerable expertise in wines and differentiate themselves by offering wine-tasting events, and courses on wine selection. Some operators distinguish themselves by offering delivery service. Opening time was extended to 2:00 a.m. but most stores find it too costly to remain open

this late. However, some stores differentiate by staying open right up to this mandated closing time. Other stores have frequent-user discounts. Some offer air miles with purchases, such as Safeway stores. The Calgary Cooperative Association extends its member benefits to liquor store purchases. The Real Canadian Liquor Store also differentiates by having a lower price per unit if four or more of the same product are bought at once.²³

Liquor prices rose in Alberta after privatization for most products and have continued to remain higher than public owned systems even though the percentage going to government has fallen.²⁴ This is a deadweight welfare loss. What government lost was *not* gained by consumers; it was dissipated in the inefficiencies inherent in the type of competition developing from privatization.

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“International evidence indicates that privatization of retail sales is expected to be associated with: increase in density of alcohol outlets, longer hours of sales, increase in alcohol consumption and alcohol-related harm. No study was located that demonstrated that privatization was associated with one or more of the following: decrease in outlet density, reduced hours of sale, reduction in total volume of alcohol, reduction in high-risk drinking, or reduction in alcohol-related harm. Therefore, from a public and safety health perspective, there is no basis for favouring private alcohol retailing. There also are serious questions about the economic basis of privatization, as noted above. The Ontario Ministry of Finance rejected the privatization recommendation of

2005, and economic grounds were considered to be one of the key factors. Since then the empirical evidence in support of government retailing and control oriented system is even stronger than it was at that time.²⁵

Socially Responsible Marketing

The socially responsible marketing of alcohol is less effective with the private retailing of liquor when compared to a public retail system. The efforts to restrict or prevent sales to certain high-risk individuals are incompatible with the profit motive in private marketing. Increased regulation and enforcement becomes necessary and adds additional public costs. Unlike “normal” market commodities, the adherence to socially responsible marketing of consumer alcohol is an important public concern. Socially responsible marketing means promotion of moderate drinking behaviour, educating the public about the potential risks of alcohol, particularly fetal alcohol spectrum disorder, drinking and driving, and not selling to those underage or to intoxicated persons.

Enforcing socially responsible behaviour is a cost to the retailer in time, store space for promotional material, and in lost revenue (profit) from not selling. The private retailing of liquor creates an incentive-incompatible situation regarding socially responsible marketing. Although there are many conscientious business people who can appreciate more than the bottom line, the fact is that private stores exist to make a profit. When these retailers are running meagre margins, working long hours, and are open late at night (early morning), the incentive to sell to those who abuse alcohol and cause public damage is increased.

As WHO emphasizes, a particularly important concern to the public safety is the prohibition of liquor sales to minors. A change to private retail stores has changed the incentives to control this age-limitation. Liquor authorities in most jurisdictions require retailers to ask for identification

if a patron appears to be under 25. Failure to do so is a punishable offence if this identification is not performed when appropriate.

The Alberta government has had to use crime and punishment techniques to overcome and change private incentives. The effectiveness of this approach is in doubt. Compliance depends on the probability of loss to the offender. This loss, in turn, not only depends on the levels of fines but it also depends on the enforcement effort. Making this approach to regulation work, at the very least, adds additional costs on the administrative and regulatory regime, over and above that of a publicly-run system where the incentives for enforcement are compatible with the public control on sales. Under publicly owned liquor retailing sales, staff can be trained in how to handle and prevent under-age purchases, including procurement for a minor by an adult. The incentive structure is appropriate in this situation as the government employee has no self-interest in selling to a minor or an intoxicated person.

Government Control

A number of factors have been identified which affect the levels and patterns of alcohol consumption and the magnitude of alcohol-related problems in populations. Chief among the factors for Canadians is the availability of alcoholic beverages, both physical and financial, and the legal framework for sales and consumption of liquor, including the degree and effectiveness and enforcement of alcohol policies. The impact of alcohol consumption on health, crime and other harm is largely determined by two aspects of drinking: the total volume of alcohol consumed and the pattern of drinking. These things can (and should) be managed by government action.

One key argument for government control of liquor distribution, sale, and consumption is that harmful use of alcohol results in a considerable health, social, and economic cost on the public. Another key reason is to capture the revenue

from this control to pay for the public services necessitated to alleviate these harms. “Alcohol policy, as a collective noun, refers to the set of measures in a jurisdiction or society aimed at minimizing the health and social harms from alcohol consumption. These measures may be taken in any governmental or societal sector, and may include measures which are not directly aimed at alcohol consumption; for instance, the promotion of alternatives to drinking alcohol, where such a measure has the aim of minimizing alcohol-related harm.”²⁶

Physical and Financial Access

Research has clearly established that increased access to alcoholic beverages leads to increased alcohol consumption which leads to increased individual and public harms and costs. According to the WHO the most proven and effective methods for controlling the health consequences of alcohol consumption include restricting the access by minors and limiting the physical availability of alcohol — minimizing retail outlets and the hours of operation. The other effective control on access is financial — making liquor products relatively expensive. “The availability of alcohol includes pricing and taxation policies, controls on hours and days of sale and setting of minimum purchase ages. Indeed, population-level approaches that limit the availability of alcohol are some of the most effective ways to manage alcohol-related harm, despite the fact that such approaches have an impact on all drinkers, including those who do not misuse alcohol.”²⁷

For example, one study confirms the relationship between rates of alcohol-related deaths and the density of liquor outlets. The rates of alcohol-related death during a period of rapid increase in private stores in British Columbia (BC) were analysed. The total number of liquor stores per 1000 residents was associated significantly and positively with alcohol-related death after controlling for overall liquor store density. A conservative estimate is that rates of alcohol-related

death increased by 3.25 percent for each 20 percent increase in private store density. Alternative models also confirmed significant relationships between changes in private store density and mortality over time. The rapidly rising densities of private liquor stores in British Columbia from 2003 to 2008 were associated with a significant local-area increase in rates of alcohol-related death.²⁸

“Alcohol policy, as a collective noun, refers to the set of measures in a jurisdiction or society aimed at minimizing the health and social harms from alcohol consumption. These measures may be taken in any governmental or societal sector, and may include measures which are not directly aimed at alcohol consumption; for instance, the promotion of alternatives to drinking alcohol, where such a measure has the aim of minimizing alcohol-related harm.”

Strategies regulating availability of alcohol are very cost-effective policy options to reduce the harmful use of alcohol. Examples of evidence-based strategies to reduce the availability of alcohol include regulating the density of alcohol outlets, limiting the days and hours when alcohol sales are allowed, and setting minimum legal age at which alcohol can be purchased or consumed.²⁹ It is important to note how important a government retail system can implement limitations on physical access. Babor *et al*, in *Alcohol, no ordinary commodity: Research and public policy*, the definitive work on government’s role in alcohol control policy state: “Government ownership of alcohol outlets can regulate alcohol availability in a comprehensive way. There is strong evidence that off-premises monopoly systems limit alcohol consumption and alcohol-related problems if alcohol control is a central goal, and that elimination of those monopolies can increase total alcohol consumption, especially when privatization leads to increased outlets, expanded hours of sale and reductions

in the enforcement of policies such as not selling to underage customers”³⁰ Evidence in Part II supports this perspective when Alberta (private retail system) and BC (mixed public/private) are compared to the Saskatchewan and Manitoba with largely public retail systems.

Taxation and pricing

High taxation through mark-up pricing is a proven, effective way of controlling the availability and consumption of alcohol. “Governments can use a number of actions to influence and maintain the final price of alcohol, including setting taxes, markups and implementing minimum prices consistent across Canada to ensure that prices do not fall to a level that encourages misuse and increases alcohol-related harm.”³¹

As was discussed in the section on economics, higher prices translate into lower consumption and reduced alcohol-related harm, while lower prices lead to increases in consumption and related harm. Consumers will consider the retail price of beverage alcohol relative to their disposable income and the prices of all alternative goods. So to influence rates of consumption of alcohol in the context of stable disposable incomes, and the general price level, high and increasing prices of alcohol products decrease overall consumption and, by extension, lower alcohol-related harm.

A key strategy for controlling health and social harms requires pricing alcohol at relatively high levels that discourage heavy consumption. Real or constant-dollar high prices need to be maintained with the general inflationary rise in of prices over time. A direct advantage of high prices is that regular heavy drinkers are affected by pricing interventions to a greater degree than lighter drinkers simply because they spend more on alcohol. “Further, there is evidence that light drinkers can save more from reduced social costs than they pay in additional alcohol taxes when prices increase because of the relatively little amount they spend overall on alcohol.”³² High

alcohol prices have the added benefit of generating revenue for governments. As the social costs are generally incurred by the public this revenue can help fund programs and services that improve public health and safety.

Three pricing principles have been suggested:³³ 1. Establish an effective minimum price per standard drink for different settings (e.g., bars, clubs, liquor stores), apply these prices universally, (and adjust the minimum price for inflation at least annually); 2. Adjust alcohol mark-up schedules (i.e., taxes) to create price incentives for lower strength alcohol products and disincentives for higher strength alcohol products within beverage categories; and 3. Adjust all alcohol prices at least annually to keep pace with inflation. Implemented together, these three policies have the potential to reduce consumption among both occasional and regular risky drinkers and thereby substantially reduce alcohol-related harm and costs in Canada. Further policy should include a public health and safety perspective in the development of alcohol policy, and policy makers should conduct and share research and evaluations related to alcohol prices and the impact of alcohol pricing policies.

Recently in most Canadian jurisdictions there has been an erosion of control in several areas of liquor distribution, including, liberalized advertising and marketing of alcohol, privatization of alcohol outlets, and other increases in physical availability—such as longer hours, and use of discount pricing to stimulate sales.³⁴ Alberta is the most extreme example; BC is moving towards the Alberta approach. However, even where government control is the highest, public control of consumer alcohol distribution has been diminished. Provincial governments need to stop and carefully assess the serious consequences of this tendency. They need to assess the evidence, steer clear of ideological responses and critically evaluate the myths: alcohol is just an ordinary product; and that competition raises efficiency and lowers costs (prices).

In 2010, the World Health Assembly approved a resolution endorsing a global strategy to reduce the harmful use of alcohol. The resolution urges countries to strengthen national responses to public health problems caused by the harmful use of alcohol. Countries have a responsibility for formulating, implementing, monitoring and evaluating public policies to reduce the harmful use of alcohol. Substantial scientific knowledge exists for policy-makers on the effectiveness and cost-effectiveness of the following strategies:³⁵

- regulating the marketing of alcoholic beverages (in particular to younger people);
- regulating and restricting availability of alcohol;
- enacting appropriate drink-driving policies;
- reducing demand through taxation and pricing mechanisms;
- raising awareness of public health problems caused by harmful use of alcohol and

ensuring support for effective alcohol policies;

- providing accessible and affordable treatment for people with alcohol-use disorders; and
- implement screening and brief interventions programmes for hazardous and harmful drinking in health services.

The Global Information System on Alcohol and Health (GISAH) has been developed by the WHO to dynamically present data on levels and patterns of alcohol consumption, alcohol-attributable health and social consequences and policy responses at all levels. Successful implementation of the strategy will require action by countries, effective global governance and appropriate engagement of all relevant stakeholders. By effectively working together, the negative health and social consequences of alcohol can be reduced.

Canadian governments need to take note.

Part II: Comparison of the Effectiveness of Liquor Control Authorities in Four Western Provinces

The Different Systems

British Columbia

British Columbia has two branches of government responsible for the beverage alcohol industry reporting to the Attorney General and Minister of Justice. The Liquor Distribution Branch (LDB) has the sole right to purchase alcohol beverages both within BC and from outside the province. The LDB handles the importation and distribution of beverage alcohol in BC and operates the public wholesale business. The LDB operates a province-wide retail network of 196 BC Liquor Stores, a head office, two wholesale customer centres and two distribution centres, within a mixed public-private model. The second government branch, the Liquor Control and Licensing Branch (LCLB), licenses private liquor stores, restaurants, pubs and manufacturers, and enforces regulations. Both branches fall under the Ministry of Justice. The LDB and LCLB share responsibility for encouraging responsible consumption of alcohol beverages and work closely together to coordinate policies and programs to this end.³⁶

The BC system has been slowly evolving to greater private provision. In 2015 BC liquor stores sold 38 percent of all sales by revenue; private

retail stores sold 35.5 percent; agency stores 9.7 percent; and licensed premises made up 16 percent. The percent sold by public stores has been declining. Between 2010 and 2015 counter sales of BC Liquor stores went from 49.7 percent to 46.3 percent. Private sales have increased: agency stores went from 9.7 percent to 11.4 percent and licensee retail stores from 40.6 percent to 42.3 percent.³⁷ That is 53.7 percent of alcoholic beverages are now sold by private retail outlets.

A fundamental change which will facilitate greater privatization was implemented in 2015. LDB changed the way alcohol beverages are sold to retail stores. All retailers, including licensee operators and BC Liquor Stores, purchase from the LDB at a common wholesale price. “Launching the new model, designed to put all liquor retailers on an equal footing, was one of the largest transformations in the organization’s 95-year history.”³⁸ The change implemented was not limited to how private operators are charged. There are also mark-up (tax) changes. In response to feedback from retailers, the B.C. government decided to drop part of the wholesale markup planned for higher-priced wines. A base markup of 89 per cent was to be applied to the first \$11.75 per litre of wine, and a second tier markup of 67 per cent was to be applied

to the remainder, “In listening to this feedback, we concluded that adjustments needed to be made, so we have amended the wholesale markup for this category to better align wholesale prices with what industry sees today.”³⁹ Under the revised pricing, the second tier markup was reduced to 27 per cent.

Alberta

Alberta became the first Canadian jurisdiction to privatize liquor retailing, warehousing and distribution starting in 1993. In 1996 the Alberta Liquor Control Board (ALCB) was combined with Alberta Lotteries, the Alberta Gaming Commission, Alberta Lotteries and Gaming, and the Gaming Control Branch to create the Alberta Gaming and Liquor Commission (AGLC).

There are currently over 2,000 alcoholic beverage retailers province-wide and over 20,000 listed liquor products (SKUs). Private retailers include general merchandise liquor stores, off-sales, manufacturers’ off-sales, (for example, cottage wineries), delivery services, sacramental wine providers and commercial caterers.

The system is not a total free-for-all. Any liquor products sold in Alberta must be registered with the Alberta Gaming and Liquor Commission (AGLC), and suppliers and agents must register with the AGLC. However, private firms are responsible for all aspects of ordering, consolidation, shipping, and marketing. The Alberta government through the (AGLC) continues to administer and enforce regulations and liquor policy and collect revenue from sales through a unit (flat) mark-up (tax) system applied to the wholesale alcoholic beverages pricing and distribution.⁴⁰ The Alberta Gaming and Liquor Commission (AGLC) is a Crown commercial enterprise and agent of the Government of Alberta reporting to Minister of Finance and President of Treasury Board of the Government of Alberta.

Saskatchewan

The Saskatchewan Liquor and Gaming Authority (SLGA) is a Treasury Board Crown Corporation

and is responsible for the distribution and regulation of liquor (and gaming products) across the province. The SLGA reports to the Minister Responsible for the Saskatchewan Liquor and Gaming Authority.

SLGA has offices in Regina and Saskatoon, a liquor distribution centre in Regina, and a network of 75 liquor stores in 60 communities throughout the province. SLGA partners with 187 franchises throughout the province. SLGA also partners with 449 off-sale outlets in Saskatchewan and recently added four full-line private stores — two in Saskatoon and two in Regina. SLGA currently wholesales to and regulates all liquor-permitted premises in the province.⁴¹ Alcoholic beverage mark-up (tax) is administered through the wholesale price and distribution. An *ad valorem* mark-up on wine and spirits is applied as a levy in proportion to value. The mark-up is a percentage applied to the wholesale price from the supplier (up to a maximum amount) — 167 per cent on spirits; and 125 per cent on wine. A flat rate mark-up on beer is applied at the rate of \$1.993 per litre for national/multinational brewers, and at reduced rates for regional and micro-brewers.⁴²

The retail prices of all products listed in SLGA liquor stores and franchises are the same. Franchises that sell products not carried in SLGA liquor stores can set the price for those products as they choose. Small rural stores carry ~100–500 products (SKUs) while larger stores carry up to 2,300 SKUs. Private stores receive a 16 per cent discount from SLGA prices or the SLGA determined base price of alcohol. Private stores can sell all products, including SLGA listings, cold beer and special-order products, but must purchase them through SLGA’s warehouse or private beer distributors. Off-sale retailers and private liquor stores can adjust the prices for all of their products as they choose (open pricing system), as long as they are consistent with SLGA’s established Social Reference Pricing guidelines.

The Government announced on November 18, 2015 that if reelected in next provincial elec-

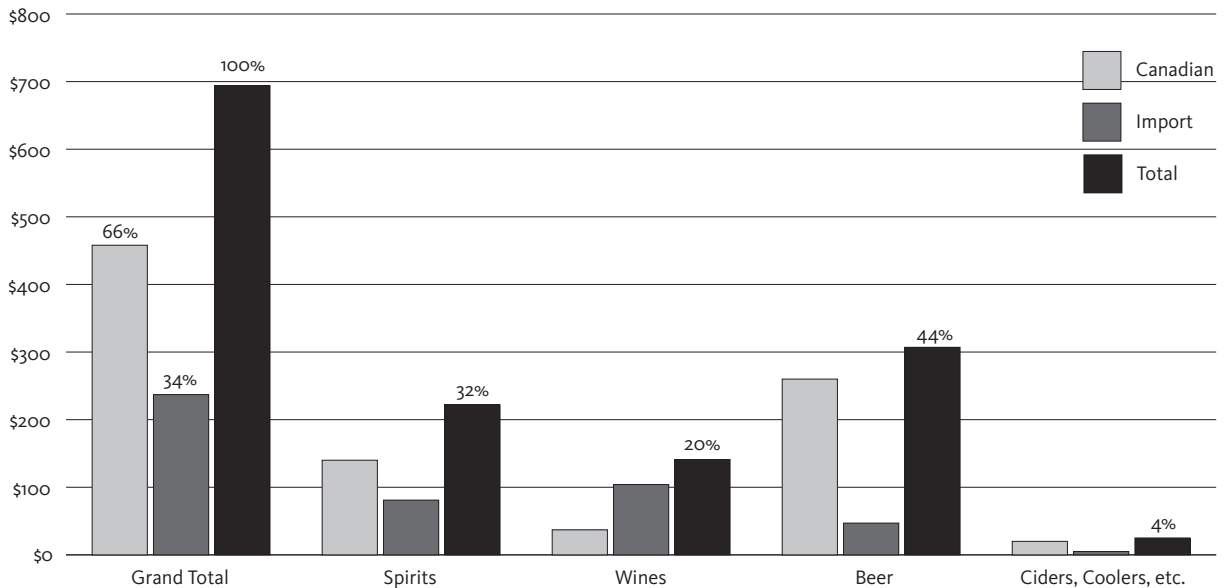
tion, it would implement an expanded private retail system of alcohol retailing in Saskatchewan. Forty (40) of the current SLGA stores will be converted to private retail. There would also be an additional 12 new retail opportunities in communities that are underserved. As well, all liquor retailers both public and private would pay the same wholesale prices, hours of operation, selection of products, chilling of beer products, and etc.⁴³ The Saskatchewan Party handily won the election on April 4, 2016 so we can expect these measures to come into effect.

Manitoba

Manitoba has a mixed public private system. In 2014 the newly formed Manitoba Liquor and Lotteries Corporation (MLLC — also referred to as the MLL) became solely responsible for the distribution and sale of liquor in Manitoba. At the same time, a new agency — the Liquor and Gaming Authority of Manitoba began regulating liquor licensing in Manitoba. The crown and agency fall under different acts and report to different minis-

ters. MLL is solely responsible for the distribution and sale of all alcohol beverages in the province. The MLL directly operates 59 Liquor Mart and Liquor Mart Express locations.⁴⁴ The latter are smaller retail locations that were introduced in 2011 in order to offer greater customer convenience. In addition the retail network includes more than 430 privately owned liquor vendors located throughout Manitoba. These include duty-free stores, privately owned beer vendors, and specialty wine stores. The MLL sets prices through an ad valorem mark-up (tax) system. The MLL controls the licensing, prices, and the gross revenue of system. The wholesale price is discounted for private vendors whose gross income is the difference between their wholesale cost and the price. As of 2015 there were 4,325 total listings: 913 Spirits, 2,344 Wine, 97 Refreshment Beverages, 971 Beer. Figure 1 shows the breakdown between products by source and sales for 2014. Beer sales dominate the dollar value at 44 percent, followed by spirits at 32 percent, and wine at 20 percent of dollar sales. Cider, coolers, and other products

FIGURE 1 Manitoba Alcoholic Beverage Sales 2014



SOURCE: Statistics Canada, Sales of alcoholic beverages of liquor authorities and other retail outlets, by value, volume, and beverage type, annual, Table 183-0024.

accounted for less than 4 percent. Canadian production accounted for 66 percent of sales while the remaining 34 percent was imported.

The Manitoba Liquor and Lotteries Corporation reports to the Minister of Tourism, Culture, Heritage, Sport and Consumer Protection.

The system is characterized in the latest annual report: “This model provides a balance of private and public retailers while ensuring Manitoba consumers enjoy uniform pricing throughout the province.” Liquor operations generated revenues of \$722.1 million in the 2014/15 year, an increase of \$25.9 million or 3.7 percent from the revenues of \$696.2 million of the previous year. In the 2014/15 year, liquor sales and gross profit increased across all product categories. Volume sales increased in the spirits, wine, and refreshment beverages categories. Beer volumes decreased modestly when compared to last year, however, the impact on dollar sales was somewhat mitigated by increasing customer preference for premium beer option.⁴⁵

How Does Manitoba Compare? — The Evidence

How does the liquor distribution and control system in Manitoba compare to other Western Provinces and implicitly to the recommendations of the World Health Organization? This section will compare these provinces along a number of dimensions including:

- social costs,
- impaired driving,
- alcoholism and alcohol dependence statistics,
- alcohol related hospitalizations,
- alcoholic beverage volumes sold,
- pure alcohol equivalent consumed,
- price indices,
- revenue,
- density of liquor retail outlets,

- and liquor authority revenue and net profit (markups).

This comparison has a health and welfare dimension and an economic dimension. Of course the two dimensions are dependant.

Social Harms

The Canadian Centre on Substance Abuse (CCSA), whose mandate is to reduce alcohol and drug related harm, has done extensive research into the social effects and costs of alcohol use. The CCSA produced a three volume report which provides context and evidence to support the implementation of the price policy recommendations contained in the National Alcohol Strategy (NAS). This set of three reports is relevant for analysts and decision makers, both inside and outside government.⁴⁶

The report explains that excessive and/or chronic alcohol consumption has substantial health and socio-economic consequences. For Canada the estimated total social costs of alcohol was \$14.6 billion in 2002. Alcohol has been identified as one of the leading risk factors for premature mortality in higher-income countries such as Canada. There were approximately 28,000 acute care hospitalizations in 2012 for a disease or condition for which alcohol was considered a necessary cause. The average cost estimates for just four alcohol-attributable hospital stays in 2012–13 is shown in Table 1.

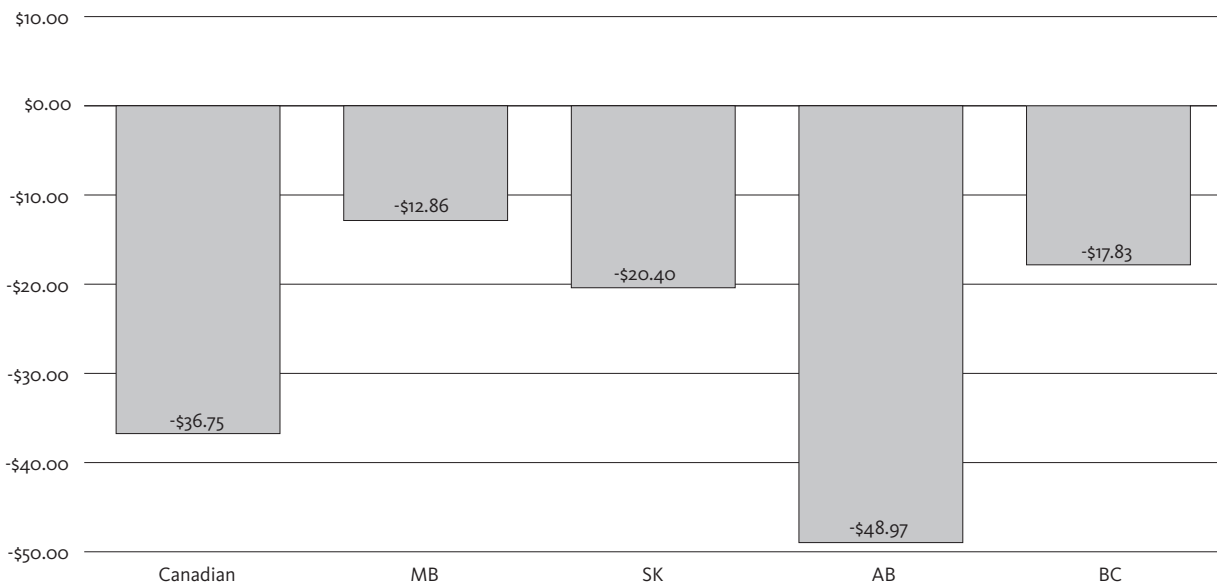
The social costs of consuming alcoholic beverages were estimated and reported on in the CCSA study. They fall into two major categories: indirect costs and direct costs. Indirect costs are estimated from productivity losses such as those owing to disability or premature death associated with problematic drinking. Direct costs include public expenditures on enforcement, health care and other functions. Alcohol is unique among psychoactive substances used in Canada because the costs associated with enforcing liquor-related laws and regulations are equivalent to the costs of treating health problems caused from alcohol abuse, indicating that

TABLE 1 Average Costs Estimates

Code	Condition	Average Cost	Number
285	Cirrhosis/Alcoholic Hepatitis	\$7,564	6579
698	Substance Abuse with Acute Intoxication	\$1,795	2954
702	Substance Abuse with Withdrawal and Delirium	\$7,119	1602
703	Substance Abuse with Residual/Late Onset/Psychotic Disorder	\$5,451	2474

SOURCE: Canadian Institute for Health Information, Hospitalization cost estimator: <https://apps.cihi.ca/mstrapp/asp/Main.aspx> Accessed April, 2016.

FIGURE 2 Government Revenue from Liquor Sales minus Social Costs, per capita (2002)



SOURCE: Thomas, Gerald, *Analysis of Beverage Alcohol Sales in Canada*, Alcohol Price Policy Series, Report 2 of 3, Canadian Centre on Substance Abuse, Nov 2012, p. 14.

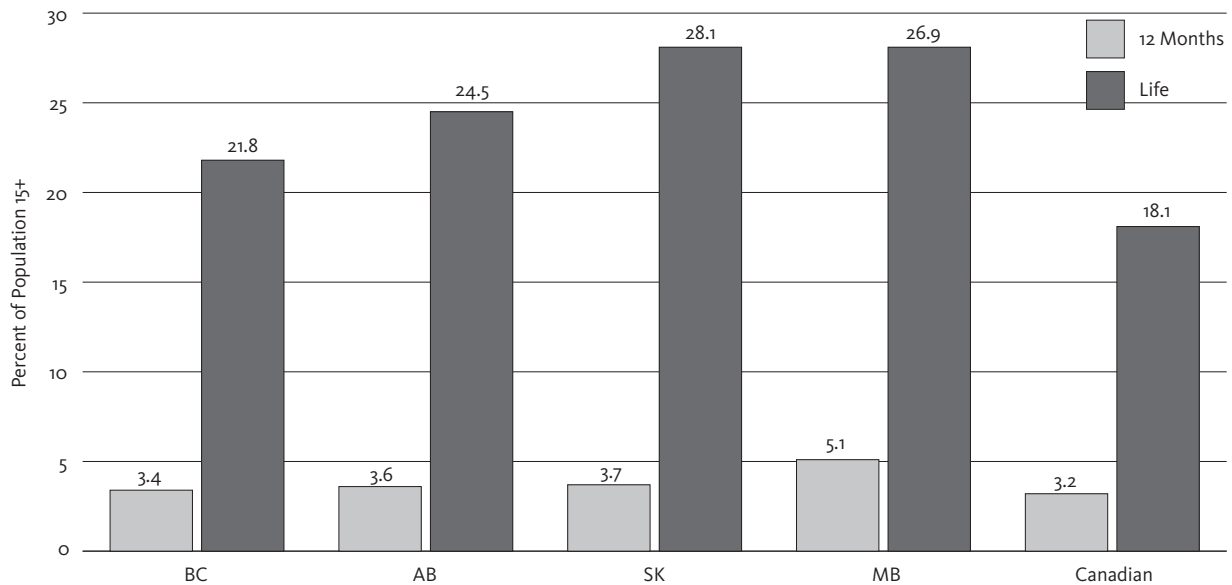
alcohol is as much a concern to public safety as it is to public health.⁴⁷ Costs normally incurred by private individuals and firms, such as those associated with traffic accidents and workplace losses are not included in the report.

The total revenue that governments obtain through both liquor mark-ups and consumption taxes on sales can be summed for Canada and for each of the provinces and territories. This sum is then compared to the estimated social costs of consumer alcohol use. For comparison these measures are calculated per capita for each jurisdiction.

Figure 2 compares the four Western provinces and the Canadian total. In no jurisdiction do the revenues obtained ever cover the costs incurred. Manitoba's net loss is a third of the national figure and the smallest of the compared provinces.

Statistics Canada periodically conducts a Canadian community health survey including mental health; the most recent came out in 2012. The mental health survey covers the population 15 years of age and over living in the ten provinces; however, it excludes persons living on reserves and other Aboriginal settlements, full-time members of the Canadian Forces, and

FIGURE 3 Alcohol Abuse or Dependence 2012



SOURCE: Statistics Canada, Canadian Community Health Survey - Mental Health (CCHS), 2012; Mental Health Profile, Canadian Community Health Survey, Canada and provinces, occasional, Table 105-1101.

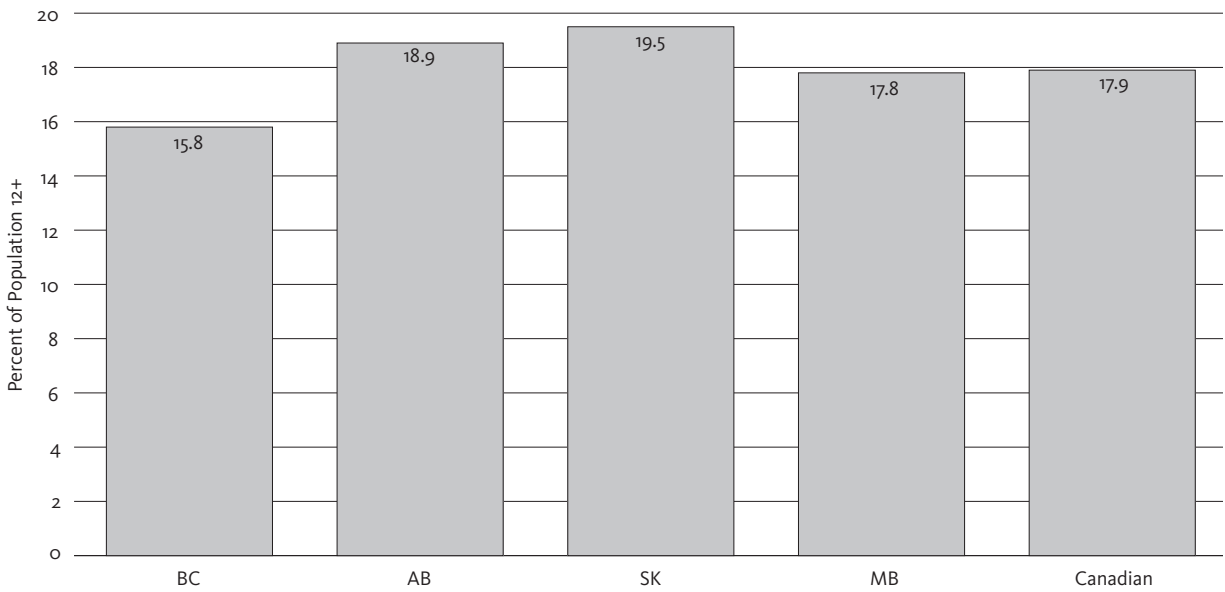
the institutionalized population — representing less than 3 percent of the population. The mental health survey is partially based on a modified World Health Organization composite International diagnostic interview, a standardized instrument for assessment of mental disorders and conditions.⁴⁸ Mental conditions or problems are derived from a set of questions pertaining to the feelings, the symptoms, severity, the intensity and the impact relative to each of the measured disorders. The alcohol dependence measure “is characterized by a recurrent pattern of use where at least three of the following occur in the same period of 12 month period: increased tolerance, withdrawal, increased consumption, unsuccessful attempts to quit, a lot of time lost recovering or using, reduced activities, and continued drinking despite persistent physical or psychological problems caused or intensified by alcohol.”⁴⁹ Two measures on alcohol dependence are conducted: alcohol abuse or dependence in one’s lifetime; and abuse or dependence in the 12 months prior to the interview.

Figure 3 shows the results of these measures. All of the Western provinces exceed the national average (which includes these provinces) by a substantial percentage. Manitoba does not fare well on this measure. It has the highest dependence on the 12 month measure and the second highest on the lifetime measure. Clearly all Western provinces need to address this problem.

Another measure surveyed annually is heavy drinking. This measure refers to males who reported having 5 or more drinks, or women who reported having 4 or more drinks, on one occasion, at least once a month in the past year. The measure conforms to the World Health Organization and Health Canada guidelines for heavy drinking. Figure 4 shows the resulting measures for 2014. With this measure Manitoba is the same as Canada and lower than Alberta and Saskatchewan, but BC is 12.6 percent lower than Manitoba.

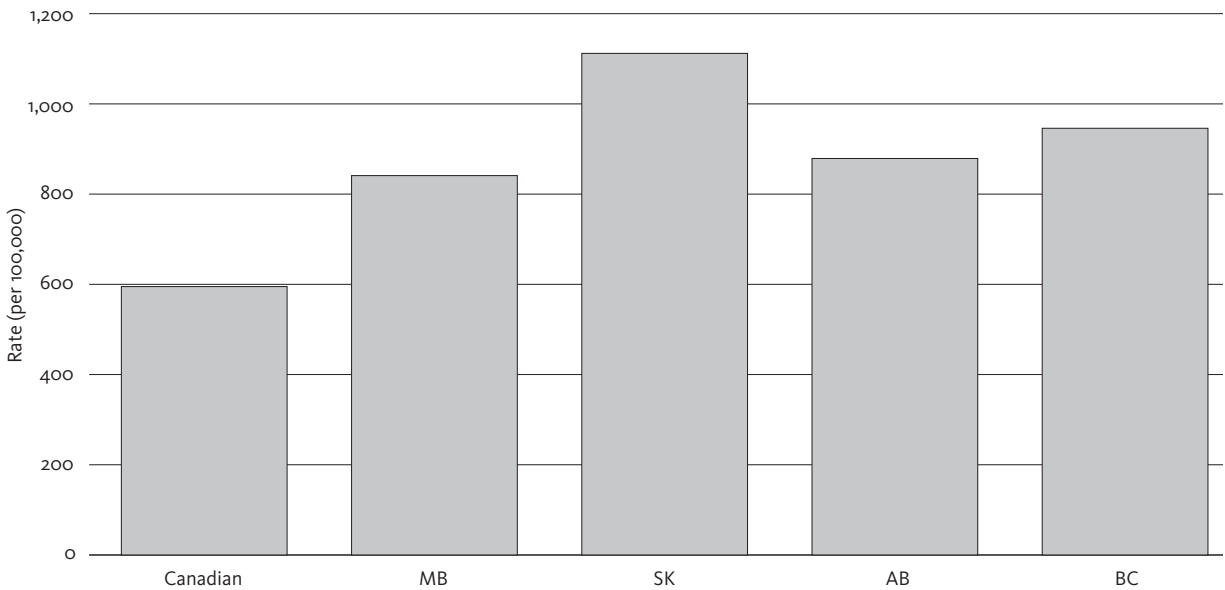
Figure 5 shows a third measure of the social harms of alcohol beverage sales and consumption: the rate of Alcohol-Attributable Hospitalization Indicator. This indicator captures inpa-

FIGURE 4 Heavy Drinking 2014



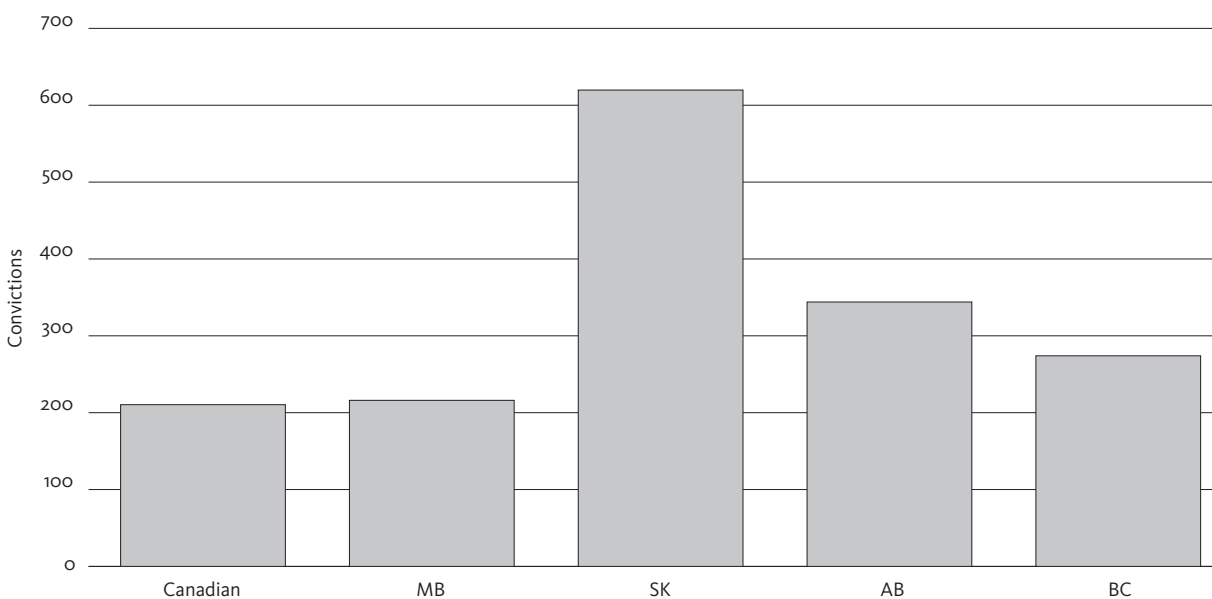
SOURCE: Statistics Canada, Canadian Community Health Survey (CCHS). Health indicator profile, annual estimates, by age group and sex, Canada, provinces, territories, health regions (2013 boundaries) and peer groups, occasional, Table 105-0501.

FIGURE 5 Alcohol-Attributable Hospitalization Age-Standardized for Patients age 15 and older



SOURCE: Alcohol-Attributable Hospitalization Trends in Income-Related Health Inequalities in Canada: Alcohol-Attributable Hospitalization Canadian Institute for Health Information (CIHI), November 2015.

FIGURE 6 Impaired Driving Convictions per 100,000 Population 2014



SOURCE: CANSIM, Statistics Canada, Estimates of population 18+ years Table 051-0001; Incident-based crime statistics, by detailed violations Table 252-0051.

tient treatment at general hospitals for chronic diseases or conditions (~60 percent, acute pancreatitis and liver cirrhosis (~22 percent), and mental and behavioral disorders (~16 percent), that have been classified as entirely attributable to alcohol. For example, acute intoxication, withdrawal, and dependence syndrome are some of the most common conditions that require hospitalization. The measure excludes alcohol-related injuries, including motor vehicle-related injuries, and suicides.⁵⁰

Again the Western provinces rates of hospitalization are high compared to the national average. However, Manitoba is also lowest on this measure compared to the other Western Provinces.

Another social indicator of the harm associated with the consumption of alcohol is the impaired driving rate. Statistics are regularly and consistently recorded for criminal offenses including impaired driving. Criminal rates are dependent on many variables including the age distribution of the population and the budgets and effort made by enforcement agencies. Figure

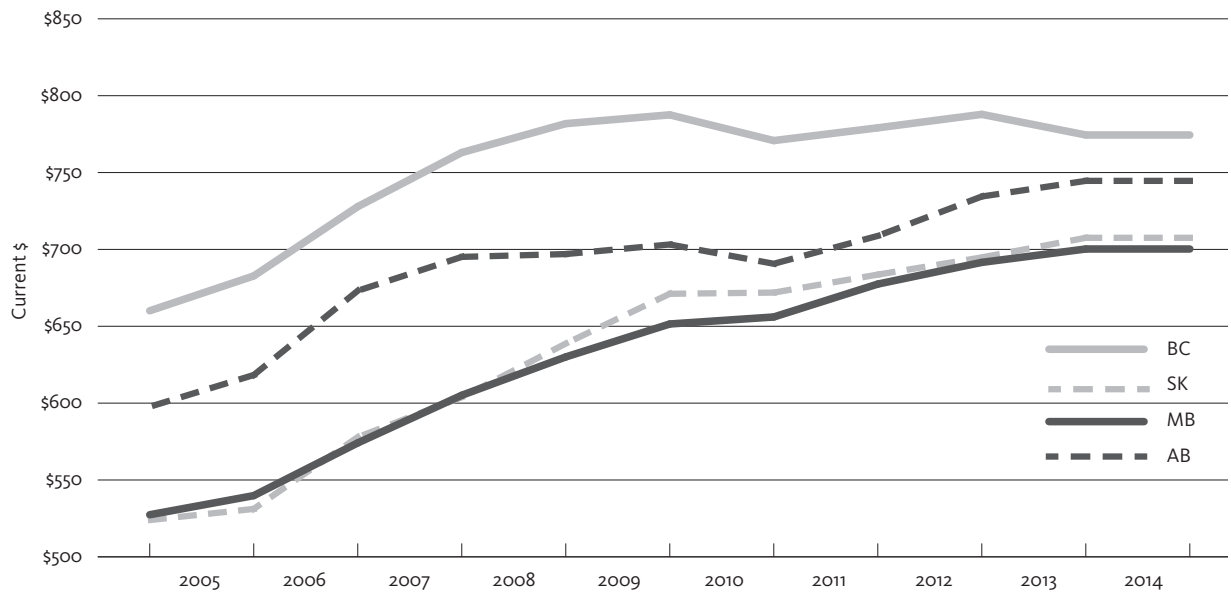
6 compares the recorded rates of impaired driving convictions. Manitoba has the lowest rate of impaired driving convictions in Western Canada and slightly higher than the Canadian average.

The Economic Picture

In Figure 7 the per capita expenditure on alcoholic beverages is plotted for the Western provinces. These data indicate that BC has seen the highest levels of expenditure on alcoholic beverages in the last decade but has leveled out. Alberta has been lower but appears to be climbing. Saskatchewan and Manitoba are lower than BC and Alberta and have been tracking closely but also appear to be increasing. This picture is interesting from a general perspective and illustrates the relative importance economically of the liquor retail industry. However, this view is limited as expenditure (or revenue) is a result of volume times price, so changes in price alone will cause levels to fluctuate.

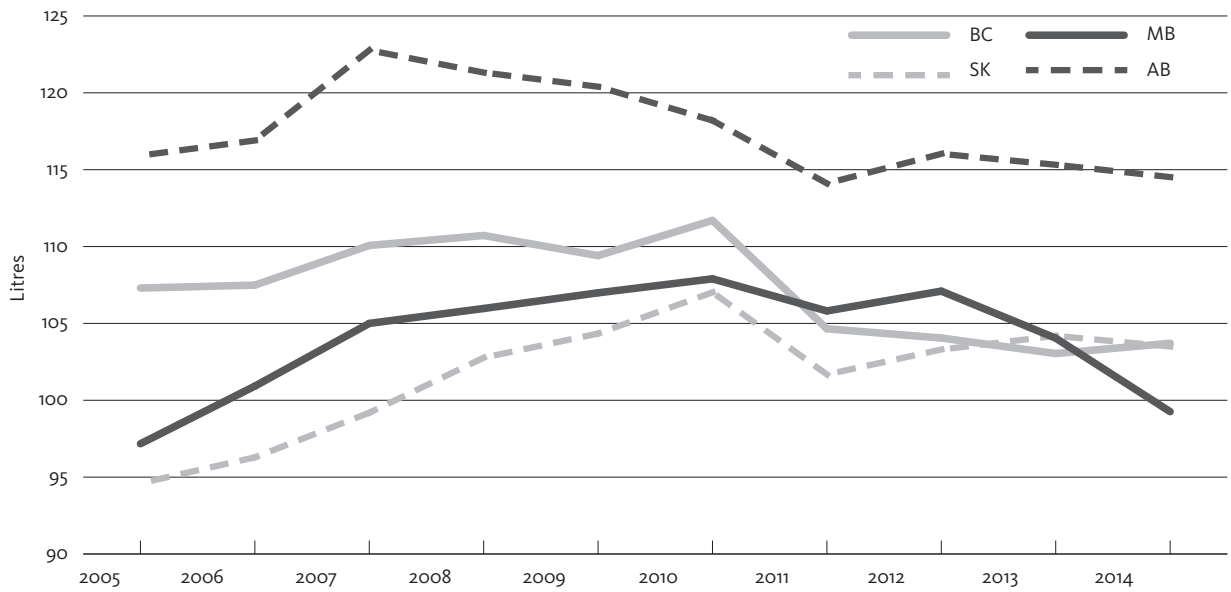
The data in Figure 8 show the litre volumes of liquor sales. All of the provinces shown have de-

FIGURE 7 Expenditure on Alcoholic Beverages in per Capita (18+) Current Dollars



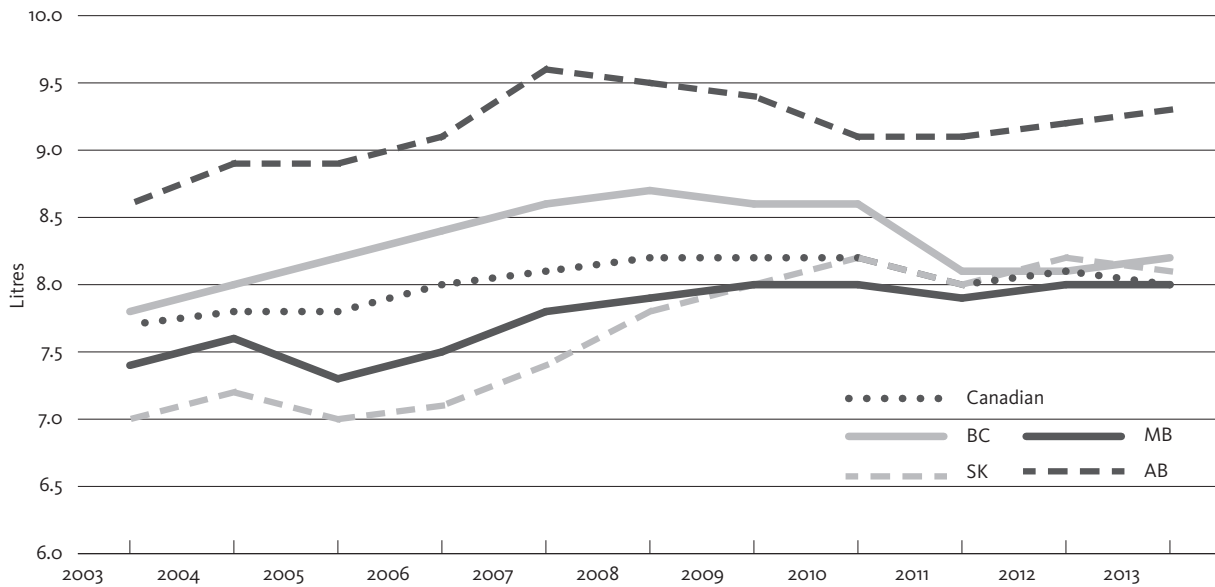
SOURCE: CANSIM, Statistics Canada, Estimates of population 18+ years Table 051-0001; Sales of alcoholic beverages of liquor authorities and other retail outlets, by value, volume, and beverage type, annual, Table 1830024.

FIGURE 8 Per Capita Volume of Alcohol (Litres) Purchased



SOURCE: CANSIM, Statistics Canada, Estimates of population 18+ years Table 051-0001; Sales of alcoholic beverages of liquor authorities and other retail outlets, by value, volume, and beverage type, annual, Table 1830024.

FIGURE 9 Absolute Alcohol Consumption per capita (15+)



SOURCE: CANSIM, Statistics Canada, Volume of sales of alcoholic beverages in litres of absolute alcohol and per capita 15 years and over, fiscal years ended March 31, annual, Table 183-0019.

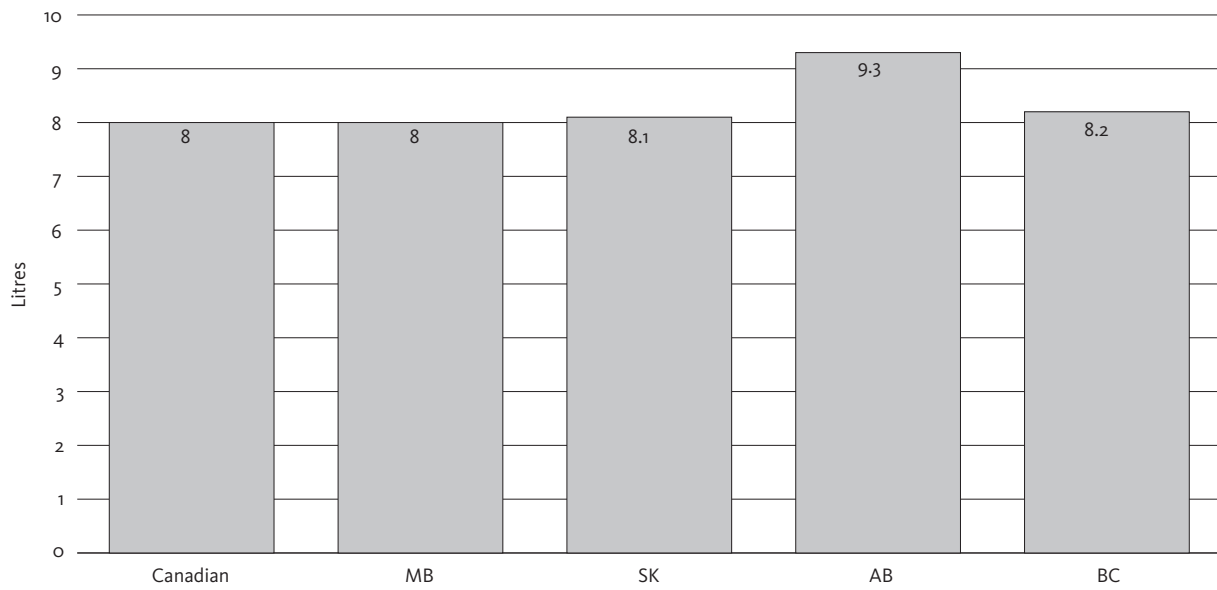
creased volume consumption in recent years. By volume Alberta’s purchases have been far ahead of BC, Saskatchewan and Manitoba. Saskatchewan has been the lowest up until 2014 when Manitoba had the lowest level of purchases by volume.

When considering a more absolute measure of alcohol use, we can look at the quantity of pure alcohol consumed per capita (15 years and older) per year. As illustrated in Figure 9 below, per capita consumption of pure alcohol equivalent in Alberta has been substantially above the national average for the last decade. Between 2003 and 2013 consumption increased from 8.6 litres of absolute alcohol per person to 9.2 litres per person, peaking at 9.6 litres per capita in 2006–07. BC has been the closest to Alberta for most of the decade. Manitoba and Saskatchewan had considerably lower levels of alcohol consumption but have risen recently to the Canadian average. The following Figure 10 compares the most recent data on the Western provinces (2013). Manitoba’s average was the same as the Canadian average of 8 litres; Saskatchewan and

BC were slightly higher than the national average at 8.1 and 8.2 respectively. In 2013 Albertans consumed considerably higher — 16 percent — than other jurisdictions at 9.3 litres of pure alcohol equivalent. Alberta’s consumption has been consistently higher than the other provinces. Generally though, alcohol consumption has grown over the decade, in some cases by a whole litre per capita (14 percent).

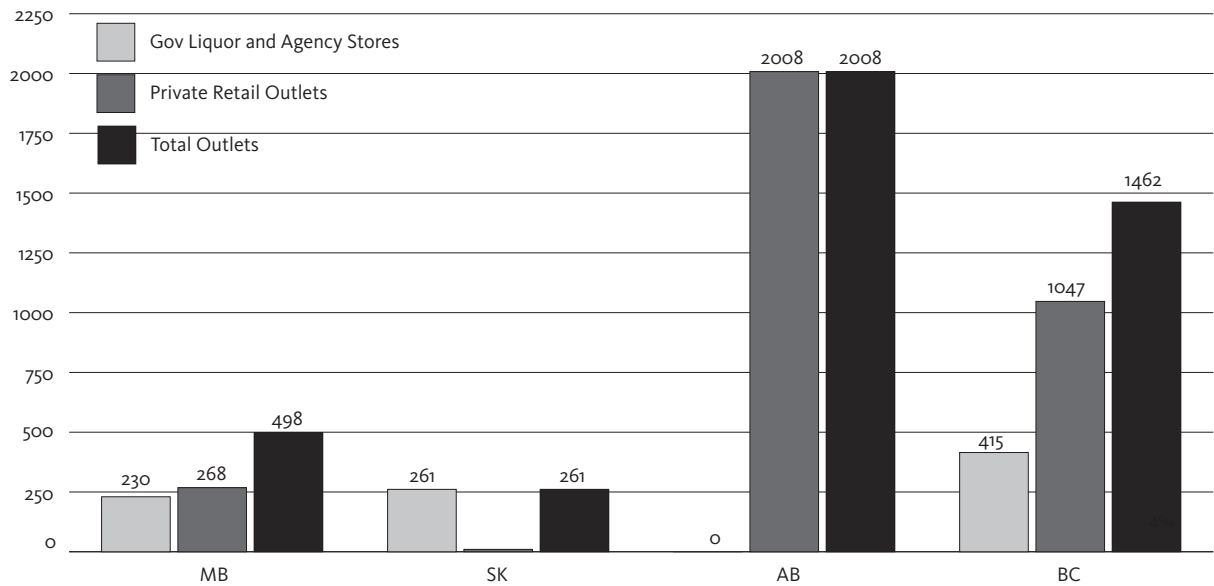
One component of availability is physical access measured by number of alcoholic beverages retail outlets. Figure 11 shows the number of total outlets and the proportion of these that are private and public in each of the four Western provinces. Agency stores are generally privately run stores allowed to market alcoholic beverages at public prices under license. These outlets are usually small and located in remote or rural communities where large public store would not be economic. All outlets in Alberta are private. All but a few are public in Saskatchewan (for now). Alberta has the greatest number of outlets with BC the second highest; however, these provinc-

FIGURE 10 2013 Absolute Alcohol Consumption per capita (15+)



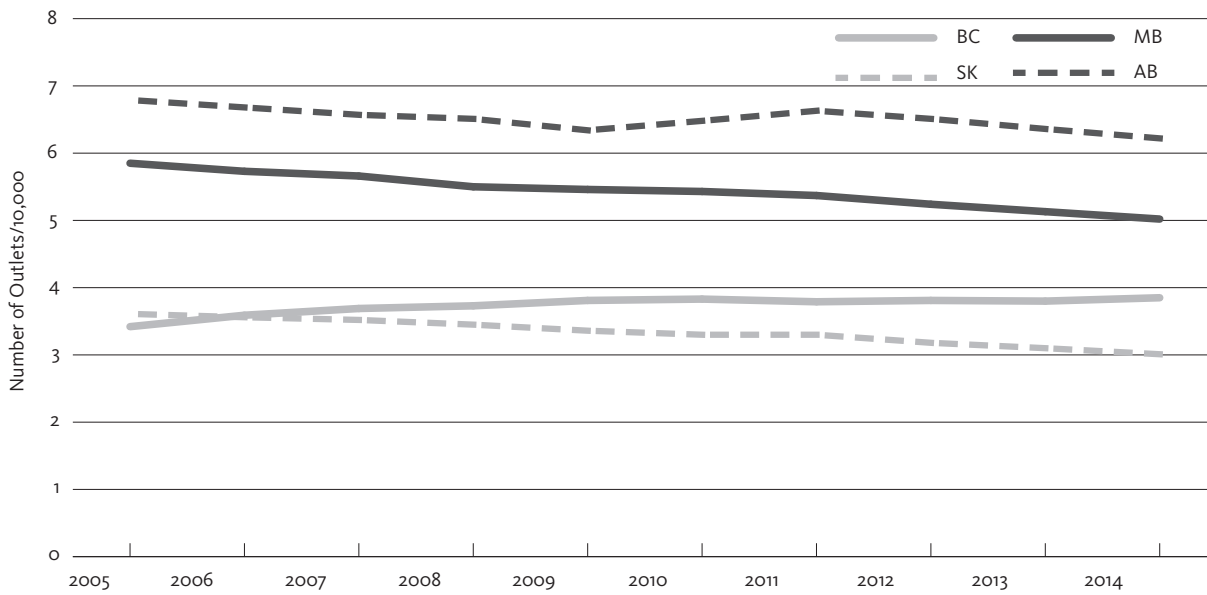
SOURCE: CANSIM, Statistics Canada, Volume of sales of alcoholic beverages in litres of absolute alcohol and per capita 15 years and over, fiscal years ended March 31, annual (litres), Table 183-0019.

FIGURE 11 Number of Alcohol Beverage Retail Outlets



SOURCE: CANSIM, Statistics Canada, Sales of alcoholic beverages by liquor authorities and other retail outlets, by type of outlet, annual, Table 1830026.

FIGURE 12 Number of Retail Outlets Selling Alcoholic Beverages per 10,000 Persons (18+ years)



SOURCE: CANSIM, Statistics Canada, Estimates of population 18+ years Table 051-0001; Sales of alcoholic beverages by liquor authorities and other retail outlets, by type of outlet, annual, Table 1830026.

es have greater populations. Manitoba and BC have a mixed public private system. However, in Manitoba the private vendors buy at reduced ad valorem markup rates which give them price room to make a gross profit. In BC all private and public retailers pay the same wholesale price and can set prices at will subject to minimums.

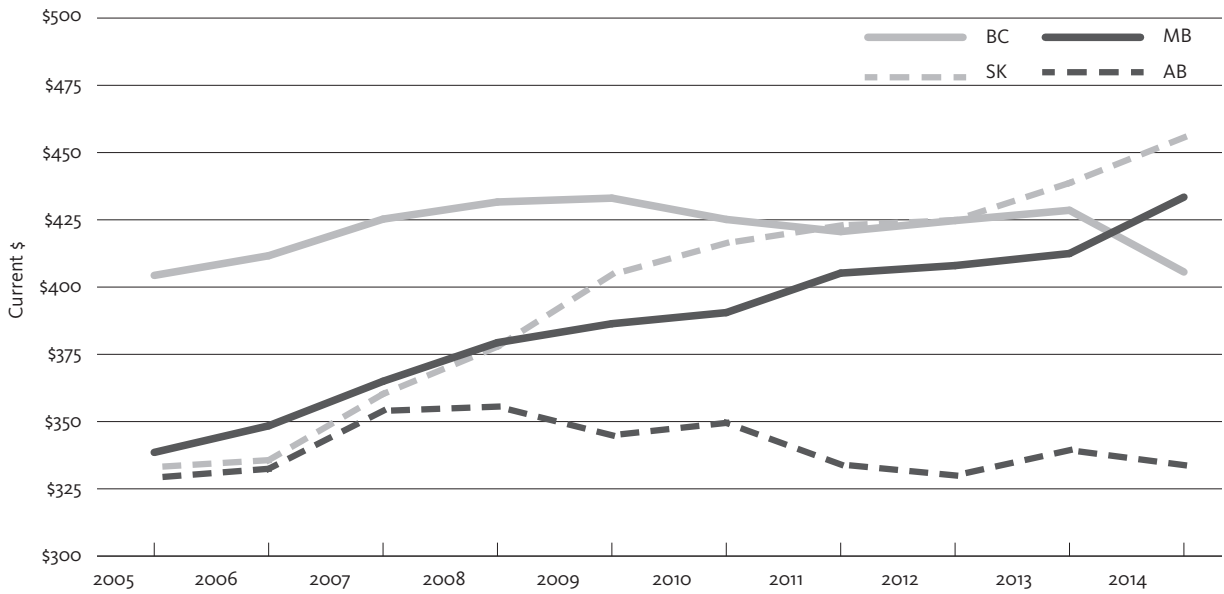
Figure 12 illustrates how the total number of alcoholic beverage retail outlets per 10,000 persons has changed over time in the Western provinces. Alberta has the greatest number with its fully privatised retail sector. Manitoba is next highest; however, Alberta’s and Manitoba’s densities are falling over time. BC and Saskatchewan have the fewest numbers, which were the same in 2005/06 after which the density in BC leveled out. Saskatchewan’s density has declined.

Next, price indices, government revenue and net profits from the sale of alcohol are considered and compared across the Western provinces. Figure 13 shows the total income to governments from the sale of alcohol. BC had the highest per capita income for the decade up to

2010 before it began to fall off. Alberta had the lowest government income for the whole decade and it decreased even further after 2010. Saskatchewan starting very low — just higher than Alberta — and has increased steadily to be the highest in 2014. Manitoba also starting comparatively low has risen continuously to be second highest in 2014.

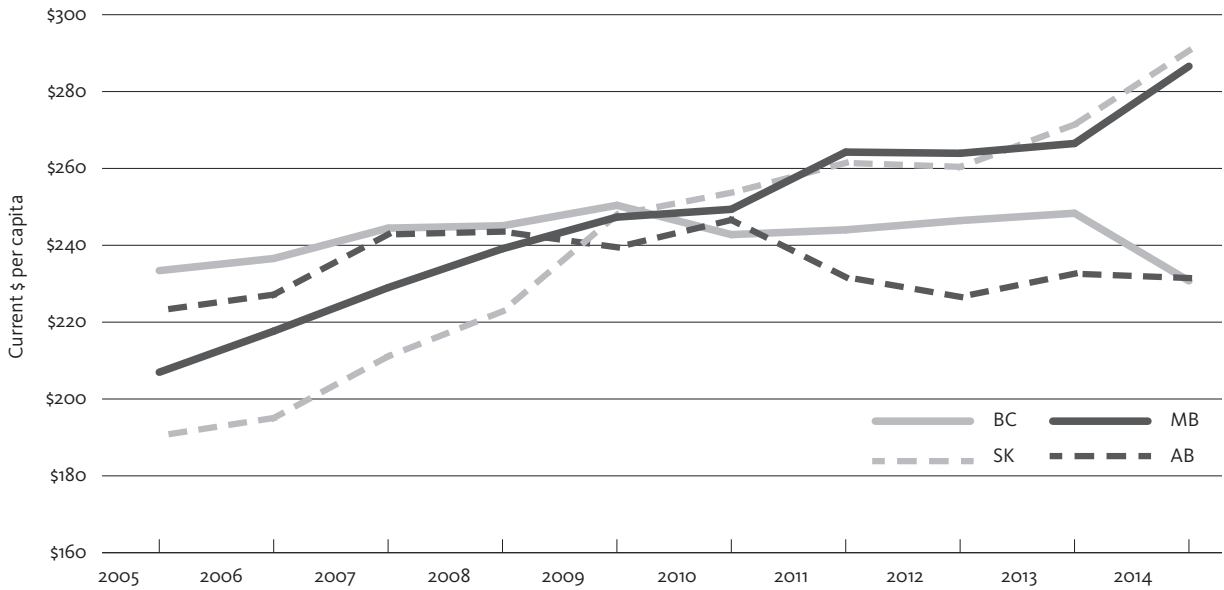
The following Figure 14 shows the net income to governments. These data subtract administrative and other costs from total income and best reflect the tax revenue from alcohol sales going to each provincial government. The difference in the income streams shown in Figures 13 and 14 reflect that Alberta has no retail store costs and each of the other three provinces have varying degrees of public/private mixtures and therefore greater but differing retailing costs. Alberta’s income stream is still lowest. BC seems to be doing as poorly as Alberta. Saskatchewan, with the smallest private component of retailing has the highest net per capita income from sales. Manitoba follows closely behind.

FIGURE 13 Government Income and Tax Revenue from Alcoholic Beverage Retail Sales, per capita



SOURCE: CANSIM, Statistics Canada, Estimates of population 18+ years Table 051-0001; Net income of liquor authorities and government revenue from the control and sale of alcoholic beverages, annual, Table 1830025.

FIGURE 14 Net Government Income from Alcoholic Beverage Sales, Current \$ per capita



SOURCE: CANSIM, Statistics Canada, Estimates of population 18+ years Table 051-0001; Net income of liquor authorities and government revenue from the control and sale of alcoholic beverages, annual, Table 1830025.

FIGURE 15 Points Difference Between Provincial CPI All Items and CPI Alcoholic Beverages



SOURCE: Statistics Canada, Consumer Price Index, monthly (2002=100), Table 326-0020.

The next two figures consider changes in the Consumer Price Index (CPI) in the four Western Provinces. The CPI is based on a fixed-basket of goods which is adjusted periodically to reflect what people actually buy.

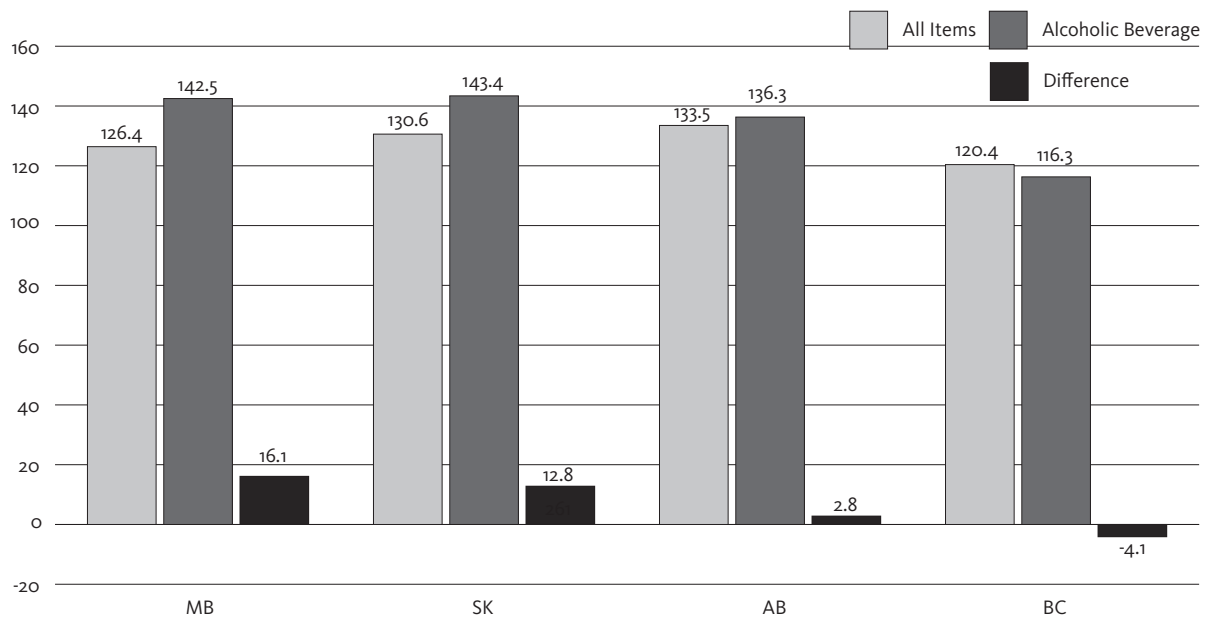
The basket of goods and services that make up the (CPI) are organized according to a hierarchical structure with the “all-items CPI” as the top level. All-items CPI has eight major components: food, shelter, household operations, furnishings and equipment, clothing and footwear, transportation, health and personal care, recreation, education and reading, and alcoholic beverages and tobacco products. These eight components are broken down into a varying number of sub-groups which are in turn broken down into other sub-groups. We are interested in “all items” in order to get an overall sense of price changes relative to changes in the “alcoholic beverage” or liquor products sub category.

Comparisons of CPI changes among provinces tell us nothing about the differences in actual prices of alcoholic beverages between the prov-

inces. There have been many price comparisons done, all of which have shown that prices in Alberta were no lower and often higher than the provinces considered.⁵¹ However, we can compare the *difference* between the changes in “all items” and the changes in “alcoholic beverages”. Figure 15 looks at the divergence of “alcohol beverage” prices and “all items” prices. In Alberta the two CPI measures track closely until 2005, when liquor prices do not keep up with the general index, then rise slightly in 2012 and 2015. In BC the CPI measures show little difference until after 2013, when the alcoholic beverages index falls below all items. Both Saskatchewan and Manitoba show a continuous increase in liquor prices above the general price level.

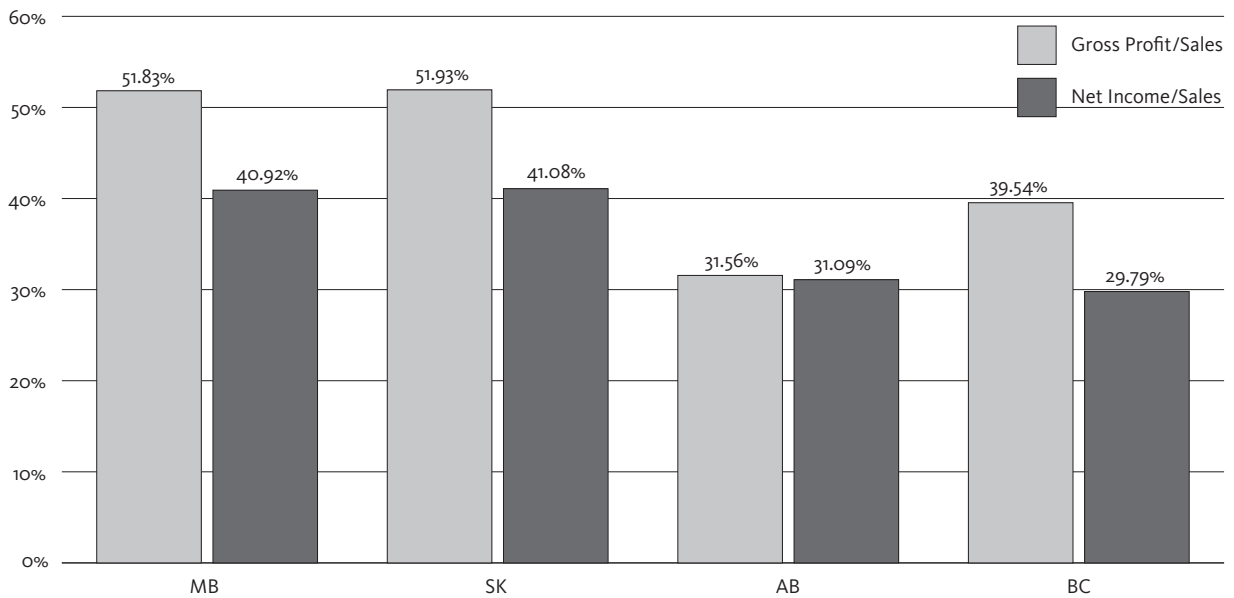
Figure 16 shows the current comparison of the CPI “all items” and “alcoholic beverages” for the single year 2015. In BC all prices have risen 20.4 percent since 2002 and liquor prices rose 16.1 percent, 4.3 percent points lower than all items. In Alberta, liquor price increases, at 36.3, exceeds “all items” — where the increase

FIGURE 16 Consumer Price Index 2015 (2002=100)



SOURCE: Statistics Canada, Consumer Price Index, monthly (2002=100), Table 326-0020.

FIGURE 17 Gross Profit and Net Income from Retail Alcoholic Beverage Sales 2014



SOURCE: CANSIM, Statistics Canada, Net income of liquor authorities and government revenue from the control and sale of alcoholic beverages, annual, Table 1830025.

is 33.5 percent — by 2.8 percentage points. Saskatchewan “all items” prices have increased 30.6 percent while liquor prices increased 43.4 percent, a positive 12.8 point difference. Manitoba has had the lowest inflation rate with “all items” prices increasing 26.4 percent over the 13 year period. Manitoba has also had greatest difference in price increases for alcoholic beverages. When considered in isolation liquor prices have increased 43.5 percent, a 16.1 point difference.

Figure 17 considers the financial bottom line for a given year (2014) for each of the provinces liquor distribution systems. Gross profit is the difference between sales revenue and the costs of the products sold. It includes liquor authority mark-up but does not include any other government taxes. Net government income shows the difference between gross profit and all of the

costs incurred to market products, including all of the operating costs of a wholesale and retail network. Alberta has a privatized network so the difference between the gross profit and net income is small. Because of the differing ratio of public and private marketing/retailing among the different provinces, net government income is the best measure to compare the success of the public authority in obtaining revenues from the sale of alcoholic beverages in each province. Figure 17 indicates that both Manitoba and Saskatchewan, with the greater public participation in retailing, have a 10 percent net income advantage over Alberta and BC. This 10 percent greater net income means that Manitoba and Saskatchewan collect over 30 percent greater revenue from alcoholic beverage sales than Alberta and BC.

Conclusion

Evidence on the direct correlation between alcohol consumption and social harms and costs is overwhelming. Although somewhat dated, the most recent data show Manitoba had the lowest deficit in government revenue obtained from alcoholic beverage sales once the public costs of alcohol harm are considered (Figure 2). In the ensuing years Manitoba's liquor prices have increased more than the background inflation rate, and (Figure 16) than other provinces. From a public policy perspective this suggests that net social costs from alcohol consumption is even better for Manitoba.

The health and social measures (Figures 3, 4, 5 and 6) indicate a mixed message for Manitoba. Manitoba fares well in comparison to the three other provinces considered but all four Western provinces are high against national levels (which include these high provinces). The levels of alcohol abuse or dependence are much higher in all four Western provinces than the Canadian average (Figure 3). Although Manitoba's lifetime measure is lower than Saskatchewan's, it is higher than both Alberta and BC, indicating concerns that the MLL and Health Ministry need to study and address. Heavy drinking rates in Manitoba are slightly less than the Canadian average and

considerably lower than Saskatchewan (the highest) and Alberta but higher than BC (Figure 4). Again the four Western provinces are considerably higher in the Alcohol-Attributable Hospitalization rates (Figure 5). However, Manitoba is the lowest among the four on this measure of social harm.

The only crime measure with easily obtained data is impaired driving convictions. Impaired driving rates in Manitoba are about equal to the Canadian average and considerably lower than Saskatchewan (the highest) and Alberta but higher than BC (Figure 6).

Manitoba consistently has the lowest per capita expenditure on alcoholic beverages in the Western provinces (Figure 7). Expenditure is the result of price times volume.⁵² The volume per capita in Manitoba is much the same as Saskatchewan and BC, with Alberta well ahead of these provinces (Figure 8). This total volume consumed translates closely, as one would expect, into absolute alcohol consumption (Figure 9 & 10). Manitoba is equal to the national average, very slightly below BC and Saskatchewan. Alberta is high relative to the other provinces in this study.

Even though prices are as high or higher, privatization has made alcohol products much more

accessible in Alberta. Figures 11 and 12 show the type and density of retail outlets. Alberta has the highest number of outlets per capita. Manitoba is second highest but still has 20 percent fewer than Alberta. Manitoba likely should not increase the retail outlet density if it wishes to restrict physical access to liquor as per the recommendations of the World Health Organization.

Manitoba exemplifies the responsible social practice of setting alcohol taxes so that more revenue is collected on a lower volume of sales — reducing the social burden of alcohol consumption while simultaneously raising the necessary revenue to pay for the health and social programs that alcohol consumption inevitably necessitates.

In 2005 BC obtained 25 percent greater total revenue per capita from beverage alcohol sales, including liquor profits and taxes, than the other three provinces (Figure 13). Over the following decade Manitoba and Saskatchewan caught up to BC. Alberta's revenue continued to decline over the decade. The public systems were able to increase their take from alcohol sales while the revenues declined for the private system found in Alberta. However, the net income from beverage alcohol sales is a better comparison as the non-private systems have an operating cost to run the public retail system that Alberta does not incur (Figure 14). On this measure Manitoba was the best up until 2009 when all provinces were roughly equal. After this year the net income to Manitoba and Saskatchewan continues to increase while BC levels off and Alberta falls.

Figures 15 and 16 consider alcohol beverage price changes against the background inflation rate. Manitoba and Saskatchewan pulled ahead in the net income per capita (Figure 14) because they raised the prices of alcohol above the general rise in prices in each province. The revenue

from these price increases went to the provincial treasury in Manitoba instead of a private retail industry.

The Last Word

The bottom line financially is the measure of net income or profit obtained from the retail liquor industry in each province (Figure 17). Government net income as a percentage of sales from the sale of alcohol are lowest in Alberta — fully privatized, and next lowest in BC — the furthest along on the public/private mix. Manitoba (and Saskatchewan) has done extremely well on this measure, with considerably higher net incomes.

Manitoba has the highest revenue and net government income per capita from its sales of alcoholic beverages. It has the best results, at least among the Western provinces, in mitigating the harms generated by alcohol consumption. It has the lowest deficit in the difference between revenue and costs of alcohol use. Manitoba has achieved these results as it managed to keep and raise prices of liquor products with consequent lower volumes of alcohol consumed and reduced consequential harm. Alberta with a privatized retail system has done the opposite: it now experiences high volumes of alcohol consumed, low net income from sales, and the highest deficit in public revenue and costs of alcohol use. The Alberta government has effectively lost control of the liquor distribution industry.

Overall these results bode well for Manitobans. Socially responsible marketing of liquor can help educate the public about the potential dangers of drinking alcoholic beverages irresponsibly, with drinking and driving being just one example. 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

incompatibly of incentives. Socially responsible marketing of liquor has greater probability of effectiveness if the liquor control is maintained under a public authority.

Maximizing social welfare is not achieved through establishing low liquor prices or increased customer convenience. Managing the supply of alcohol, both economically and physically, ensures the greatest level of social welfare, and evidence indicates a public liquor monopoly is institutionally superior to succeed at this objective. Manitoba exemplifies the responsible social practice

of setting alcohol taxes so that more revenue is collected on a lower volume of sales — reducing the social burden of alcohol consumption while simultaneously raising the necessary revenue to pay for the health and social programs that alcohol consumption inevitably necessitates.

Manitoba does seem to have achieved balanced system providing reasonable access (convenience) of a large variety of alcohol products while retaining solid control on the consumption levels and generating large net profits used in the provision of public services.

Endnotes

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