



## **ENDING THE PROHIBITION ON COMPETITION**

### The Case for Competitive Liquor Sales in British Columbia

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# **ENDING THE PROHIBITION ON COMPETITION:**

## ***The case for competitive liquor sales in British Columbia***

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# EXECUTIVE SUMMARY

This study from the B.C. division of the Canadian Taxpayers Federation (CTF), *Ending the Prohibition on Competition – The Case for Competitive Liquor Sales in British Columbia*, analyzes three areas of liquor sales in British Columbia and Alberta. The chief policy question behind the analysis is whether government should view retail liquor sales as a business necessary to be involved in. A brief review of the history of government liquor sales in British Columbia is given, and three main areas of liquor sales are examined:

- **Part One – History, Prices, Taxes, Mark-Ups, “Minimum” Prices, Sales, and Revenues to Governments** - compares liquor products available in both British Columbia and Alberta in order to answer the question: where is the lowest price found?
- **Part Two – Competition, Product Selection** - examines how competitive the market is for liquor sales in British Columbia and Alberta.
- **Part Three – Non-Economic Issues** - examines issues surrounding the move to full competition in Alberta and the possibility of such in British Columbia.
- **Recommendations** for a more competitive liquor retail market in British Columbia complete the study.

## HISTORY / PRICES / TAXES / MARK-UPS / “MINIMUM” PRICES / SALES / REVENUES TO GOVERNMENTS

- After a 1916 referendum, British Columbia introduced a prohibition on the sale of alcoholic beverages. Four years later, a 1920 plebiscite advised the government to lift Prohibition and allow the controlled sale of alcohol and the first government stores opened on June 15, 1921.
- In 1924, following another plebiscite that narrowly opposed selling beer by the glass in licensed premises, the government subsequently changed the legislation anyway, and allowed the sale of beer by the glass in licensed premises. Hotel beer parlours began to open in 1925.
- *Main Price Comparison:*  
**1845 products available at B.C. Liquor Stores and two Alberta chain stores**
  - *Out of 1845 price comparisons made between B.C. Liquor Stores and two Alberta liquor store chains, 82.6% of liquor products were cheaper in Alberta, while only 17.4% were more inexpensive in British Columbia.*

- *Secondary Price Comparison:*  
**166 products at B.C. Liquor Stores and 100 Alberta stores**
  - Out of 166 products available at both B.C. Liquor Stores and (some of) 100 Alberta stores surveyed by Westridge Marketing, 90 % could be purchased cheaper in Alberta. This includes beer, spirits, B.C.-made wine and foreign wine.
- Because of the lack of full competition, and also because of the “minimum pricing policy” by BC Liquor Stores, sales are less common in B.C. and when sales prices do occur, they cannot fall below the “minimum price.”
- Revenues: Alberta garnered \$486 million in revenues from its mark-up on provincial liquor sales in retail stores (and not including served beverages in bars for example) in fiscal year 2001. In British Columbia, the government garnered \$741.6 million from the B.C. Liquor Distribution branch. That was comprised of \$642.4 million in transfers from B.C. Liquor Stores as well as another \$99.2 million from the 10% sales tax applied to liquor sales in those stores.
- **The argument against privatization because of a potential revenue loss of the \$741.6 million transferred annually to the province from B.C. Liquor stores is a red herring.** The provincial government collects billions in sales taxes from retail stores every year and does so without owning most retail stores – liquor stores excepted. The B.C. government could still levy the existing mark-up on liquor sales, as well as the tax, even if it did not own the stores.
- Uniform pricing: It has been argued that uniform pricing is one reason for keeping B.C. Liquor Stores in government hands. Uneven pricing is to be expected in a truly competitive retail environment, but it should not be assumed that liquor prices in rural areas would rise after the introduction of full competition. After all, store lease rates are much cheaper in rural areas than in urban centres. And in addition, house prices in Vancouver can be four, five or six times that of house prices in a rural community. If the government (properly) declines to set uniform province-wide prices for house prices or for necessities of life such as food, it is hardly a core function of government to set uniform prices for non-necessary purchases such as alcoholic beverages.

## COMPETITION / PRODUCT SELECTION

- In Alberta, the number of stores rose from 304 government-owned liquor stores in 1993 to 907 completely private stores in 2001 or **one store for every 3,400 people**.
- In comparison, B.C. currently has 224 government-owned liquor stores with 544 stores either under license to B.C. Liquor Stores or private stores (the latter of which are limited to beer and wine sales only), or 768 in total or **one store for every 5,300 people**.

- Expressed differently, in **Alberta, 156 liquor stores compete for the same number of customers that 100 stores would compete for in British Columbia.** That means Alberta has a much more competitive market, especially since there is no dominant and government –owned retailer as is the case in B.C.
- In terms of product selection, there is no comparison. Alberta has 18,876 products listed, while B.C. Liquor Stores reports 11,977 currently listed (including those about to be de-listed and those about to be listed).
- Employment: In Alberta since privatization, the number of jobs in the liquor retailing business has jumped from 1,300, pre-privatization full and part-time jobs, to 3,500 full and part-time jobs. Given that stores in B.C. have access to more customers (the ratio noted above) than is the case in Alberta, there is every reason to believe that a more competitive marketplace would stimulate employment creation in B.C.
- **Private grocery stores also pay union wages.** One objection to privatization is that wages might be lower in the new private liquor stores (as compared to existing wages in government-owned liquor stores) if privatization is introduced in British Columbia.

However, it should not be assumed that clerks in now-government liquor stores would make less in a private store. For example, some of B.C.'s largest grocery store chains pay union wages. Privatization may affect wage rates, or it may not. It would depend on the retailer. In any event, there is no compelling reason for the new government to protect the quasi-monopoly in liquor store retail prices and wages any more than it does in other businesses.

## NON-ECONOMIC ISSUES

- The rate of crime per 100 liquor stores in Calgary has, with one rare exception, mostly declined according to Calgary Police Services. The CPS also cautions against drawing unsubstantiated conclusions from its data, and in its report notes that much more study is required of the issue.
- Alcohol sales per capita have declined in Canada (and in Alberta specifically since privatization) over the last 20 years, with the exception of the last several years where per capita sales have risen in every province with the exception of B.C.

## CTF RECOMMENDATIONS

### Recommendation One:

- *Sell B.C. Liquor Stores in individual locations or in units of 10 or 30 (at maximum) to promote competition. Offer the stores to existing employees, while concurrently opening up the market for the sale of alcoholic beverages to full competition.*
  - **Rationale:** *Price competition and the promotion of an entrepreneurial culture within alcohol beverage retailing.*

### **Recommendation Two:**

- *Allow grocery stores to sell alcoholic beverages provided that a secure and separate retail area with separate checkouts is designed – in effect a “store within a store.” Alternately of course, such retailers (or any other entrant into the business) could build stand-alone stores.*
- **Rationale:** *Lower infrastructure costs and more efficient staffing for retailers, competition (with the resulting price benefits) and convenience for consumers, as well as providing appropriate and better security than stand-alone stores.*

### **Recommendation Three:**

- *Change the mark-up system from the current “ad valorem” system to the simpler “flat” mark-up system based on alcohol content.*
- **Rationale:** *Simplicity for retailers, producers, and consumers.*
- *The current system has evolved for various reasons and for various interests over decades. Current mark-up structures are completely unintelligible to the general public that pays the hefty mark-up “tax.” Simplicity is a desirable policy goal so the public has a better understanding of what it is they pay, but also for day-to-day operations and decisions (about what product to carry for example) by producers and retailers.*

### **Recommendation Four:**

- *Do not go “half-way” in a privatization effort as it is the worst of all options*
- **Expanding spirits availability and lifting the moratorium on more stores – without privatization of the government-owned B.C. Liquor Stores – would be a significant policy mistake.**
- **Rationale:** *Simply allowing more private beer and wine stores – even with the allowance to sell spirits as the current government is considering – would be the worst of all choices. The government would then allow more retail competition with government-owned liquor stores, which would then cut into the profit margins of such stores, creating a possible drain on the government-owned corporation, while preserving the overall monopoly of government stores.*
- *This would hobble both private retailers who must still compete with a government-owned and operated “Leviathan” and yet make some B.C. Liquor Store branches uneconomical – the worst of all worlds and one that pleases no one. It would also send out a confusing and contradictory signal to those who would invest significant dollars in liquor retailing in British Columbia. The government should instead open up the market to full competition with the parallel track to full privatization for B.C. Liquor Stores.*

# **PART ONE**

## **HISTORY OF GOVERNMENT LIQUOR STORES IN BRITISH COLUMBIA**

### **CURRENT PRICE COMPARISONS**

#### **TAXES**

#### **MARK-UPS**

#### **“MINIMUM” PRICES**

#### **SALES**

### **REVENUES TO GOVERNMENTS**

## **EARLY HISTORY OF GOVERNMENT LIQUOR SALES IN B.C.**

### **Prohibition from 1917 to 1921 /**

### **First government liquor stores in 1921 /**

### **Province's first beer parlours open in 1925**

- After a 1916 referendum approved proposed legislation prohibiting alcohol sales in British Columbia, the government passed a 1917 law to prohibit the sale of alcoholic beverages. (In the 1916 referendum, 39,843 votes – or 56% - were cast in favour of Prohibition, while 30,839 – or 44% - were cast against.)
- In 1920, a plebiscite was conducted in which voters were given the choice to continue Prohibition or to allow government to sell alcoholic beverages. Voters advised the government to lift Prohibition by a margin of 62% to 38%. An election was also fought on the issue that year, and a returned Liberal majority (albeit reduced) introduced the *Government Liquor Act* in 1921. It established the Liquor Control Board and B.C. was thus the first province to choose government control of liquor distribution. The first post-Prohibition government liquor stores in B.C. opened on June 15, 1921.
- In 1924, another plebiscite was held in which voters narrowly declined (by 50.5% to 49.5% / 73,853 votes against and 72,214 in favour) to allow the sale of beer by the glass in a licensed premise. After a subsequent election, the returned Liberal government changed the legislation anyway and allowed the sale of beer by the glass in licensed premises. Hotel beer parlours began to open in 1925.



## RECENT PRICE COMPARISONS

### *Main Price Comparison*

#### **1845 products available at B.C. Liquor Stores and two Alberta chain stores**

- **Overall average:** Out of 1845 price comparisons made between B.C. Liquor Stores and two Alberta chains, 82.6% of liquor products were cheaper in Alberta, while only 17.4% were more inexpensive in British Columbia.
- **B.C. Wine:** Out of 192 B.C.-made wines, 48% could be purchased cheaper in Alberta while 52% were available for less in British Columbia.
- **Foreign Wine:** Out of 844 foreign bottles of wine, 93% were cheaper in Alberta, while only 7% were priced lower in British Columbia.
- **Beer, Coolers, and Cider:** Out of 205 beer and coolers comparisons, 92.5% could be purchased cheaper in Alberta; 7.5% were available at lower prices in B.C.
- **Sparkling Wines:** Out of 68 domestic and foreign bottles of champagne-style products, 90% were lower-priced in Alberta while only 10% were lower-priced in B.C.
- **Spirits:** Out of 536 types of spirits (i.e., whisky, gin, vodka, rum etc.), 74% were lower-priced in Alberta while 26% were lower-priced in B.C.

### *Main Price Comparison*

#### ***B.C. Liquor Stores v. two Alberta chain stores / 1845 products compared***

Type of product	Lowest-priced product found in:				Totals
	British Columbia		Alberta		
British Columbia wines	<b>100</b>	(52%)	<b>92</b>	(48%)	192
Foreign wines	<b>59</b>	(7%)	<b>785</b>	(93%)	844
Beers, coolers, and ciders	<b>16</b>	(7.5%)	<b>189</b>	(92.5%)	205
Champagnes	<b>7</b>	(10%)	<b>61</b>	(90%)	68
Spirits	<b>139</b>	(26%)	<b>397</b>	(74%)	536
<b>Totals</b>	<b>321</b>	(17.4%)	<b>1524</b>	(82.6%)	<b>1845</b>

Source: B.C. Liquor Stores Price Guide September 2001 / OK Liquor Stores / Willow Park Liquor Stores same time period. All products at all stores include all mark-ups, fees, duties, and taxes. Refundable deposits have been excluded from the above comparison.

**Secondary Price Comparison**  
**166 products at B.C. Liquor Stores and 100 Alberta stores**

- Out of 166 products available at both B.C. Liquor Stores and (at least some of) the 100 stores in a September 2001 Westridge survey, 90% could be purchased cheaper in Alberta. This includes beer, coolers, ciders, spirits, B.C.-made wines and foreign wines.

**Secondary Price Comparison**  
**B.C. Liquor Stores v. 100 Alberta Stores / 166 products compared at all stores**

Type of product	Lowest-priced product found in:	
	British Columbia	Alberta
Beer – 32 products	1	31
Whisky – 28 products	3	25
Scotch – 14 products	0	14
Vodka – 17 products	1	16
Rum – 19 products	5	14
Other Spirits, Liqueurs, and misc. - 21 products	1	20
White, Zinfandel, & Sparkling 17 products	3	14
Red Wine – 9 products	1	8
Coolers and Ciders – 9 products	1	8
<b>Total: 166 products</b>	<b><u>16 (9.6%)</u></b>	<b><u>150 (90.4%)</u></b>

Source: Westridge Marketing Survey September 17, 2001/ BC Liquor Stores Product Guide September 2001. Refundable deposits have been excluded from the above comparison in both provinces.

**FIVE B.C./ALBERTA EXAMPLES**

In the following five charts, each product is compared in B.C. Liquor Stores and in Alberta. In each example, the B.C. Liquor Store price is given, followed by the lowest price according to the Alberta 100-store survey, followed by the price in two Calgary chains – Willow Park Liquor and OK Liquor. The basic price, all federal taxes (regardless of whether they are called mark-ups, duties or taxes), and all provincial taxes (regardless of whether they are called mark-ups, duties or taxes) are then listed. *All of the prices are retail. None of the examples in either province includes refundable deposits – also the case for all other prices noted in this study.*

- Note that the price is grouped according to “share” (i.e., the province or the federal government, as well as the original “cost” including freight charges and then retail), not necessarily in descending order of how the final price is calculated.
- Note as well that prices of each product can fluctuate, and the retail price comparisons for the following products is based on retail comparisons made in late August and early September 2001. Because of the difference from when a product is bought wholesale as to when it is sold, the retail “mark-up” component in the lowest-

priced Alberta product may appear to be small in some cases in the following charts. The reader should note that the retail mark-up component may (or may not) be slightly higher depending on when that product was first purchased from the wholesaler. Original "cost" is courtesy of the BC Liquor Distribution Branch and Alberta Liquor and Gaming. Original "cost" is what a liquor store would pay to the producer of a product once freight is included, but not including federal and provincial mark-ups. The profit to the producer is included in the "cost" ledger and is unknown.

- For example, in the case of the popular Wolf Blass Cabernet Sauvignon Yellow Label that sold for \$11.94 in Alberta, the retail price mark-up was only 10 cents in the lowest price found in Alberta during the survey period. However, in reality, the store that bought that product wholesale may have purchased it at a time when the wholesale price was lower than that quoted to the CTF for this study. Thus, a larger share of that \$11.94 price might indeed accrue to the retailer.
- Retail prices are courtesy of BC Liquor Stores, and Westridge Marketing that conducts monthly price surveys in Alberta. Two Alberta chains, Willow Park Liquor and OK Liquor, also provided their retail price lists for this survey. Readers should note that some products can be found at higher prices in Alberta. This CTF study assumes that consumers in British Columbia and Alberta want to know whether their favorite beer, wine or spirits could be purchased more inexpensively in the competing province. In answer to the question; "where is the product in question found at the cheapest price?" the answer is more often than not: Alberta.
- The reader should also keep in mind that the retail price comparisons in this survey are from late August /early September 2001 and that prices obviously fluctuate in a competitive retail environment. For example, the same Wolf Blass Yellow Label that retails for \$17.94 in British Columbia Liquor Stores, is noted in following survey as having sold for as low as \$11.94 in Alberta (all taxes included). But it has at times sold for even less than that in Alberta. One flyer obtained by the CTF shows a price (once the GST is added) as low as \$11.00 for the same product.

## FIVE INDIVIDUAL PRICE COMPARISONS

- Wolf Blass Cabernet Sauvignon Yellow Label
  - Labatt Blue 6-pack
  - Mission Hill Merlot
  - Seagram Crown Royal
    - Chivas Regal

Example #1—Foreign Wine:

### Wolf Blass Cabernet Sauvignon Yellow Label - 750 ml (in \$)

Breakdown of price	B.C.		Other Alberta	
	Liquor Stores	Alberta lowest	Willow Park Liquor	OK Liquor
“Cost”(producer cost & profit/freight/miscellaneous)	6.59 (36.7%)	8.32 (69.7%)	8.32	8.32
Total provincial mark-ups/ taxes/fees/ etc.	9.88 (55%)	2.35 (19.7%)	2.35	2.35
Total federal mark-ups/ taxes/fees/duties, etc.	1.48 (8.3%)	1.17 (9.8%)	1.27	1.23
Retail mark-up	(Inc. in provincial mark-up above)	.10 (.8%)	1.66	1.00
<b>Final retail price</b>	<b>17.95</b>	<b>11.94*</b>	<b>13.60</b>	<b>12.90</b>

Note that “cost” includes cost to producer, their profit, wholesaler mark-ups and freight. “Total provincial” includes any and all mark-ups and taxes and other fees. Note that not all of the money collected by the B.C. Liquor Distribution branch in various forms is transferred to the government, just as not all retail mark-ups in the case of Alberta equal “profit.” In both cases, there is a cost of doing business. The breakdown is an attempt to show, in general, where the money per bottle “flows.” Retail prices from Westridge Marketing Services, B.C. Liquor Stores, OK Liquor and Willow Park Liquor. Refundable deposits have been excluded from all stores and all comparisons. Because GST is not charged on the provincial sales tax portion of B.C. products, but is charged on mark-ups in both provinces, GST totals in Alberta may be slightly higher than those in B.C. even on a similarly priced product, as the GST is applied to a larger share of that product in Alberta (due to the absence of Alberta PST and the fact that all provincial mark-ups are thus taxed by the GST). Final retail price may be off by one cent due to rounding.

\*Note that the Real Canadian Liquorstore has at times offered Wolfblass Yellow Label for as little as 11.00 (taxes included) according to sale ads obtained by the CTF.

Example #2 – Beer:  
**Labatt Blue 6-pack (6x.355) (in \$)**

Breakdown of price	Other Alberta			
	B.C. Liquor Stores	Alberta lowest	Willow Park Liquor	OK Liquor
“Cost” (producer cost & profit/freight/miscellaneous)	3.46 (40.5%)	4.24 (54.5%)	4.24	4.24
Total provincial mark-ups/ taxes/fees/ etc.	3.97 (46.5%)	1.86 (23.9%)	1.86	1.86
Total federal mark-ups/ taxes/fees/duties, etc.	1.11 (13%)	1.11 (14.2%)	1.14	1.15
Retail mark-up	(Inc. in provincial mark-up above)	.58 (7.5%)	.96	1.10
<b>Final retail price</b>	<b>8.55</b>	<b>7.79</b>	<b>8.20</b>	<b>8.35</b>

Note that the federal mark-up for BC Liquor Stores and Alberta lowest price is the same in this example despite differing overall final retail prices. The reason is that the pre-retail price subject to GST in both cases is nearly identical. For an explanation of other components of this table, see bottom of Example 5. Final retail price may be off by one cent due to rounding.

Example #3 – B.C. Wine:  
**Mission Hill Merlot - 750 ml (in \$)**

Breakdown of price	Other Alberta			
	B.C. Liquor Stores	Alberta lowest	Willow Park Liquor	OK Liquor
“Cost” (producer cost & profit/freight/miscellaneous)	3.37 (35.7%)	4.19 (56.3%)	4.19	4.19
Total provincial mark-ups/ taxes/fees/ etc.	5.13 (54.3%)	2.35 (31.5%)	2.35	2.35
Total federal mark-ups/ taxes/fees/duties, etc.	.95 (10.0%)	.87 (11.7%)	.95	1.07
Retail mark-up	(Inc. in provincial mark-up above)	.04 (0.5%)	1.21	2.84
<b>Final retail price</b>	<b>9.45</b>	<b>7.45</b>	<b>8.70</b>	<b>10.45</b>

For explanation of breakdown, see bottom of Example 5. Final retail price may be off by one cent due to rounding.

## Example #2: Labatt Blue – 6 pack

Total federal  
markups/taxes  
/fees/etc.

**\$1.11**

Total provincial  
and retail markups/  
taxes/  
fees/etc.

**\$3.97**

Cost (producer  
cost & profit/  
freight/misc.

**\$3.46**



**B.C.**

**\$8.55**

Retail markup

**0.58**

Total federal  
markups/taxes/fees/etc.

**\$1.11**

Total provincial  
markups/taxes/fees/etc.

**\$1.86**

Cost (producer  
cost & profit/  
freight/misc.

**\$4.24**



**Alberta**

**\$7.79**

## Example #3: BC Wine: Mission Hill Merlot 750 ml

Total federal  
markups/taxes  
/fees/etc.

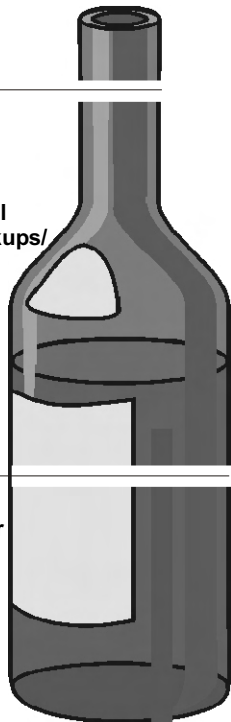
**\$0.95**

Total provincial  
and retail markups/  
taxes/  
fees/etc.

**\$5.13**

Cost (producer  
cost & profit/  
freight/misc.

**\$3.37**



**B.C.**

**\$9.45**

Retail markup

**0.04**

Total federal

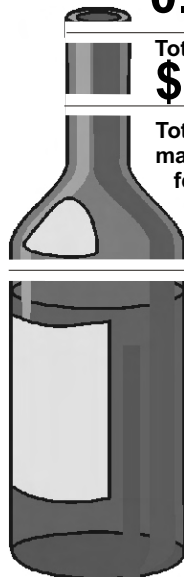
**\$0.87**

Total provincial  
markups/taxes/  
fees/etc.

**\$2.35**

Cost (producer  
cost & profit/  
freight/misc.

**\$4.19**



**Alberta**

**\$7.45**

Example #4 – Spirit:  
Crown Royal -750 ml (in \$)

Breakdown of price	Other Alberta			
	B.C. Liquor Stores	Alberta lowest	Willow Park Liquor	OK Liquor
“Cost” (producer cost & profit/freight/miscellaneous)	5.08 (19.7%)	5.86 (29.4%)	5.86	5.86
Total provincial mark-ups/taxes/fees/ etc.	15.81 (61.4%)	9.39 (47.1%)	9.39	9.39
Total federal mark-ups/taxes/fees/duties, etc.	4.86 (18.9%)	4.62 (23.2%)	4.91	4.79
Retail mark-up	(Inc. in provincial mark-up above)	.06 (0.3%)	4.13	2.38
<b>Final retail price</b>	<b>25.75</b>	<b>19.94</b>	<b>24.29</b>	<b>22.42</b>

For explanation of breakdown, see bottom of Example 5. Final retail price may be off by one cent due to rounding.

Example #5 – Spirit:  
Chivas Regal - 750 ml (in \$)

Breakdown of price	Other Alberta			
	B.C. Liquor Stores	Alberta lowest	Willow Park Liquor	OK Liquor
“Cost” (producer cost & profit/freight/miscellaneous)	10.97 (25%)	15.70 (49%)	15.70	15.70
Total provincial mark-ups/taxes/fees/ etc.	27.03 (61.5%)	9.44 (29.4%)	9.44	9.44
Total federal mark-ups/taxes/fees/duties, etc.	5.95 (13.5%)	5.42 (16.9%)	5.75	5.54
Retail mark-up	(Inc. in provincial mark-up above)	1.51 (4.7%)	6.26	3.22
<b>Final retail price</b>	<b>43.95</b>	<b>32.07</b>	<b>37.15</b>	<b>33.90</b>

Note that “cost” includes cost to producer, their profit, wholesaler mark-ups and freight. “Total provincial” includes any and all mark-ups and taxes and other fees. Note that not all of the money collected by the B.C. Liquor Distribution branch in various forms is transferred to the government, just as not all retail mark-ups in the case of Alberta equal “profit.” In both cases, there is a cost of doing business. The breakdown is an attempt to show, in general, where the money per bottle “flows.” Retail prices from Westridge Marketing Services, B.C. Liquor Stores, OK Liquor and Willow Park Liquor. Refundable deposits have been excluded from all stores and all comparisons. Because GST is not charged on the provincial sales tax portion of B.C. products, but is charged on mark-ups in both provinces, GST totals in Alberta may be slightly higher than those in B.C. even on a similarly priced product, as the GST is applied to a larger share of that product in Alberta (due to the absence of Alberta PST and the fact that all provincial mark-ups are thus taxed by the GST). Final retail price may be off by one cent due to rounding.

## B.C.–ALBERTA PRICE COMPARISONS: BEST ALBERTA BARGAINS

### Best Alberta bargains for beer Top 10 examples

#### Beer bargains in Alberta: Total price excluding refundable deposits

Product	Size	B.C. Price	Alberta Price	% Difference
Labatt – Wildcat Can	6 x.355	7.95	5.51	-31%
Newcastle Brown Ale	6 x.355	11.95	8.76	-27%
Asahi Super Dry	6 x.355	10.85	7.97	-27%
Castle Lager Tall Can	6 x.450	11.40	8.35	-27%
Kirin Lager	6 x.355	11.25	8.38	-26%
Kirin Ichiban	.633	3.85	2.85	-26%
Labatt Ice Can	6 x .355	7.20	5.35	-26%
Heineken Lager	12 x.330	20.95	15.72	-25%
McEwans Scotch Malt	6 x.355	13.95	10.49	-25%
Faxe Premium Lager Tall Can	.500	2.10	1.57	-25%
Holsten Premium Tall Can	.500	1.95	1.46	-25%

All prices include all federal and provincial taxes, mark-ups, and duties in both provinces. Refundable bottle deposits are not included in prices in either province. B.C. Liquor Stores, Willow Park Liquor and OK Liquor were compared for the lowest price.

### Best Alberta bargains for B.C. wines Top 10 examples

#### B.C. wine bargains in Alberta: Total price excluding refundable deposits

Product	Size	B.C. Price	Alberta Price	% Difference
Calona Heritage Coll. Cab. Sauv.	.750	8.95	6.37	-29%
Sumac Ridge Pinot Noir	.750	11.95	8.89	-26%
Cedar Creek Pinot Auxerrois	.750	11.95	8.80	-26%
Calona Heritage Coll. Sauv. Blanc	.750	8.45	6.37	-25%
Calona Heritage Coll. Merlot	.750	8.95	7.18	-20%
Mission Hill – Vintner’s Select Chardonnay	.750	9.25	7.48	-19%
Peller Estates Founders GN	.750	11.95	9.90	-17%
Cedar Creek Dry Riesling	.750	12.95	10.80	-17%
Jackson Triggs Proprietor’s Select Merlot	.750	9.45	7.90	-16%
Sawmill Creek Chardonnay	.750	8.45	7.15	-15%
Jackson Triggs Prop. Select Cab. Merlot	.750	9.25	7.90	-15%

All prices include all federal and provincial taxes, mark-ups, and duties in both provinces. Refundable bottle deposits are not included in prices in either province. B.C. Liquor Stores, Willow Park Liquor and OK Liquor were compared for the lowest price.



## Top Alberta bargains for foreign wines

### Top 20 examples

#### Top foreign wine bargains in Alberta: Total price excluding refundable deposits

Product	Origin / type	Size	B.C. Price	Alberta Price	% Difference
Amarone Della Valpolidcella - Zenato 93&95	Italy (Red)	.750	73.95	32.30	-56%
Cab. Sauvignon-Columbia Crest-Columbia Valley	U.S.-(Red) Washington	.750	32.95	15.70	-52%
Cotes Du Luberon Les Patres – Marrenon	France (White)	.750	12.95	7.48	-42%
Merlot Del Veneto – Zonin 1997	Italy (Red)	.750	10.95	6.39	-42%
Cabernet Sauvignon – E&J Gallo North Sonoma	U.S. (Red) California	.750	69.95	41.99	-40%
Barlo – Fontanafredda 94	Italy (Red)	.750	31.95	19.90	-38%
Chardonnay – Mystic Cliffs 1998	U.S. (White) California	.750	12.95	8.20	-37%
Chianti Classico Riserva Ducale – Ruffino	Italy (Red)	.750	26.95	16.90	-37%
Cabernet Sauvignon - Mystic Cliffs 1995	U.S. (Red) California	.750	12.95	8.20	-37%
Merlot – Mystic Cliffs 1996	U.S. (Red) California	.750	12.95	8.20	-37%
Cabernet Sauvignon – Sterling Estate Bottled	U.S. (Red) California	.750	34.95	22.20	-36%
Cabernet Sauvignon-Sable View Stellenbosch	South Africa (Red)	.750	11.95	7.81	-35%
Selectionne – Kressman	France (White)	1	13.65	8.89	-35%
Shiraz – Wynns Coonawarra Estate 1996	Australia (Red)	.750	20.95	13.86	-34%
Cabernet Sauvignon – Caliterra Reserve 1995	Chile (Red)	.750	17.95	11.90	-34%
Cabernet Sauvignon-Fetzer Valley Oaks 1997	U.S. California (Red)	.750	17.95	11.90	-34%
Brollo Chianti – Barone Ricasoli Classico DOCG	Italy (Red)	.750	23.95	15.90	-34%
Cabernet Sauvignon-Longridge Hawkes Bay1998	New Zealand (Red)	.750	16.95	11.18	-34%
Shiraz – Banrock Station	Australia (Red)	.750	12.95	8.71	-33%
Chardonnay – Drostdy Hof	South Africa(White)	.750	10.50	7.05	-33%

All prices include all federal and provincial taxes, mark-ups, and duties in both provinces. Refundable bottle deposits are not included in prices in either province. B.C. Liquor Stores, Willow Park Liquor and OK Liquor were compared for the lowest price.

## Best Alberta bargains for spirits

Top 20 examples

### Spirits - bargains in Alberta: Total price excluding refundable deposits

Product	Size	B.C. Price	Alberta Price	% Difference
Cabo Wabo Reposado	.750	102.20	54.90	-46%
Cognac-Remy Martin – VSOP	.050	5.95	3.40	-43%
Coffee – Kahlua Liquer de Café	.050	3.60	2.11	-41%
Drambuie Scotch	.050	4.35	2.70	-38%
Raspberry Liquer–Chambord–Royale de France	.750	47.95	29.45	-39%
Scotch Malt Highland-Balvenie Doublewood 12 yr old	.750	64.95	40.90	-37%
Scotch-Malt-Wes.Islands-Laphroaig 10 Yr Old	.750	52.45	32.89	-37%
Scotch-Malt-Wes.Islands-Bowmore Islay 12 Year Old	.750	58.95	36.89	-37%
Cognac- Remy Martin XO Special	.750	184.95	115.89	-37%
Scotch Malt Highland – Glenfiddich	.050	3.50	2.25	-36%
Scotch Malt Highland – Macallan 12 Year Old	.750	69.95	44.90	-36%
Scotch-Irish-Bushmills Black Bush 10-yr.old	.750	49.95	31.89	-36%
Cognac-Courvoisier – VS	.750	50.95	32.90	-35%
Liqueurs-Herbal – Chartreuse Green	.750	31.45	20.37	-35%
Scotch Malt Highland–Glenmorangie–10 Yr. Old	.750	49.95	33.38	-33%
Cognac-Martell – Cordon Bleu	.750	145.95	99.90	-32%
Liqueurs-Herbal – Jagermeister	.100	5.95	4.02	-32%
Liqueurs-Herbal – Galliano	.375	18.95	12.89	-32%
Scotch-Blended-Chivas Bro.Ch. Regal 12yrs old	.750	132.70	89.90	-32%
Scotch Malt Highland-Dalwhinnie 15 Year Old	.750	65.95	44.90	-32%
Tequila – El Conquistador Blanco	.750	79.95	54.45	-32%
Drambuie Scotch	.375	24.45	16.70	-32%

All prices include all federal and provincial taxes, mark-ups, and duties in both provinces. Refundable bottle deposits are not included in prices in either province. B.C. Liquor Stores, Willow Park Liquor and OK Liquor were compared for the lowest price.

## TAXES, MARK-UPS, AND OTHER FEES EXPLAINED

In both Alberta and British Columbia, federal excise taxes, and the Goods and Services Tax (GST) are both applied. Depending on the beverage – foreign or domestic for example - from a favoured trading nation or no, federal duties may also be applied. As it concerns provincial mark-ups and taxes in Alberta and British Columbia, both are a large part of the final retail price in both provinces.

### **British Columbia**

In British Columbia, in addition to the 10% provincial sales tax on liquor sales, there is also the Liquor Distribution Branch (LDB) mark-up that ranges from 53% on draught beer, to 110% on wine and 159% on spirits. Because so much of the LDB's revenues are transferred to the provincial government (\$642.4 million in fiscal 2001), the LDB "mark-up" really should be labeled for what it is: a tax.

In addition to the provincial sales tax and mark-up taxes, the Liquor Distribution Branch also applies: a volume mark-up, a cost-of-service mark-up (imported wines only), and a bottle fee (small, but non-refundable and *not the same as the refundable bottle deposit fee*). In addition, after federal and provincial taxes, duties, mark-ups and bottle fees are applied, the Liquor Distribution branch also "rounds up" the price of the product to the nearest nickel. It should be noted that the LDB also rounds the price down to nearest nickel as well in certain instances.

### **Alberta**

In Alberta after privatization in 1993, the government switched from a system where mark-ups were similar in number and complexity to B.C. – the "ad valorem" system - to a simpler "flat" mark-up system, where alcoholic beverages are marked up (i.e., taxed) according to alcohol content. In the case of beer, exceptions to the general mark-up rule are made based on the volume of hectolitres produced.

Spirits up to 22% alcohol content are "marked-up" by government (i.e., taxed) at \$9.50 per litre, while those over 22% alcohol content are marked up by \$12.50 per litre. Wine under 16% alcohol content is subject to a per litre mark-up of \$3.05 per litre, while over 16% alcohol content is taxed at \$5.50 per litre. Coolers and ciders are marked up by \$1.25 per litre. Beer is marked up depending on the volume produced by the manufacturer; therefore smaller producers are marked up less than large-scale breweries. Anything under the first 50,000 hectolitres is marked up at \$.50 per litre, and that progressively climbs to \$.88 per litre after 100,000 hectolitres.

In Alberta – excepting the mark-up tax - there are no additional sales taxes on alcoholic beverages. There is a small environmental fee per bottle (non-refundable) of a maximum of \$.06 per bottle. Beyond the mark-up and the environmental fee, there are no extra provincial fees. Similar to B.C., the mark-up system serves as the main tax on alcoholic beverages.

To understand the difference in complexity between the two mark-up systems, the following pages illustrate the provincial mark-ups (federal taxes, duties, and excise taxes are excluded in the following lists) in the two provinces.

### Mark-Up Rates - B.C. Liquor Stores

		<u>Volume Mark-up+</u> (\$ per Litre)	<u>Percentage Mark-up+</u> (Applied to landed Cost + Volume Mark-up)	<u>Cost of Service Differential Mark-up**</u> (\$ per litre)
<b>Spirits/Liqueurs</b>				
▪ Canadian		0.12	159%	-
▪ U.S.		0.12	159%	0.31
▪ Other		0.12	159%	0.39
<b>Fortified Wine</b>				
▪ B.C.		0.12	129%	-
▪ Other		0.12	129%	0.56
<b>Table Wine</b>				
▪ B.C.		0.12	110%	-
▪ Other		0.12	129%	0.56
<b>Coolers/Cider</b>				
▪ B.C. packaged		.06	92%	-
▪ Other packaged		.06	92%	.20
▪ Draught		.06	69%	-
<b>Beer-Commercial</b>				
▪ B.C.-packaged	4.1%-5.7% Alc.*	.06	74%	-
	5.8%-6.5% Alc.*	.06	77%	-
	6.6%-8.5% Alc.*	.06	87%	-
▪ Other packaged	4.1%-5.7% Alc.*	.06	74%	.24
	5.8%-6.5% Alc.*	.06	77%	.24
	6.6%-8.5% Alc.*	.06	87%	.24
▪ Draught		.06	57%	-
<b>Beer – Regional</b>				
▪ B.C.-packaged	4.1%-5.7% Alc.*	.04	70%	-
	5.8%-6.5% Alc.*	.04	73%	-
	6.6%-8.5% Alc.*	.04	83%	-
▪ Other packaged	4.1%-5.7% Alc.*	.04	70%	.24
	5.8%-6.5% Alc.*	.04	73%	.24
	6.6%-8.5% Alc.*	.04	83%	.24
▪ Draught		.04	53%	-

\*Packaged beer distributed by LDB is subject to a distribution charge of \$.10 per litre applied before percentage mark-up.

\*\*Cost of Service differential mark-up applied after the application of percentage mark-up.

Note that B.C.'s 10% sales tax is levied in addition to the mark-ups noted above.

## Mark-Up Rates – Alberta\*

<b>Spirits</b>	
▪ Up to 22% alcohol content	\$ 9.50 /litre
▪ Over 22% alcohol content	\$ 12.50 /litre
<b>Wine</b>	
▪ Up to 16% alcohol content	\$ 3.05 /litre
▪ Over 16% alcohol content	\$ 5.50 /litre
<b>Coolers / Ciders</b>	
▪ All	\$1.25 / litre
<b>Beer</b>	
▪ First 50,000 hectolitres (HL)	\$0.50 /litre
▪ Next 20,000 HL	\$0.60 /litre
▪ Next 30,000 HL	\$0.75 /litre
▪ Over 100,000 HL	\$0.88 /litre

Source: Alberta Gaming & Liquor

\*Note that a non-refundable environmental fee of up to \$.06 per bottle is sometimes applied depending on the product. It is not to be confused with the refundable bottle deposit.

## MINIMUM RETAIL PRICES AT BC LIQUOR STORES

In addition to the British Columbia mark-ups noted on the previous page, the B.C. Liquor Distribution Branch specifies minimum prices in B.C. Liquor Stores. They are as follows:

### Minimum Retail Prices at B.C. Liquor Stores

- Spirits will not be sold below a display price of \$ 25.91 per litre (i.e., a 750 ml bottle of spirits cannot be sold for less than \$19.43)
- Liqueurs will not be below \$16.15 per litre (i.e., a minimum \$12.11 for a 750 ml bottle)
- Wine will not be sold for below \$7.20 per litre (i.e., a minimum \$5.40 for a 750 ml bottle) for any package size smaller than 10 litres
- Wine will not be sold for less than \$6.45 per litre for package size 10 litres and greater
- Packaged beer, coolers, and cider will not be sold below a display price of \$3.00 per litre (i.e. – a 6-pack of 355 ml beer cannot be sold for less than \$6.39 per six-pack or \$12.78 for a 12-pack.)
- Draught cider will not be sold below a display price of \$2.45 per litre
- Draught beer will not be sold below a display price of \$2.05 per litre.

Source: British Columbia Liquor Distribution Branch, Notes to the Mark-up Schedule. Note that the above prices are given to illustrate the minimum price structure, not the maximum possible price. In practice, the final minimum price may differ by a few pennies as B.C. Liquor Stores adjusts final retail prices to the nearest nickel.

**Examples: Minimum Pricing in B.C. Liquor Stores in standard sizes**

<b>Product</b>	<b>Minimum price</b>
<b>Spirit</b>	<b>\$19.43</b> for a 750 ml bottle
<b>Liqueur</b>	<b>\$12.11</b> for a 750 ml bottle
<b>Wine (for any package below 10 L.)</b>	<b>\$5.40</b> for a 750 ml bottle / <b>\$28.80</b> for a 4 litre cask
<b>Beer</b> - 6-pack x .355 ml	<b>\$ 6.39</b> for a 6-pack /
- 12-pack x .355 ml	<b>\$12.78</b> for a 12-pack
- 6-pack x .341 ml	<b>\$6.14</b> for a 6-pack
- 12-pack x .341 ml	<b>\$12.28</b> for a 12-pack

Source: British Columbia Liquor Distribution Branch, Notes to the Mark-up Schedule  
 Note that the above prices are given to illustrate the *minimum* price structure in B.C., not the maximum possible price. Also, in practice, the final minimum price may differ by a few pennies as B.C. Liquor Stores adjusts final retail prices to the nearest nickel.

**MISSED SALES FOR CONSUMERS**

Because of the minimum mark-ups in effect at B.C. Liquor Stores (and because of the lack of a truly competitive market for alcohol sales in British Columbia), sale prices, as regularly occur in Alberta, are less common in British Columbia. A sample of flyers from the Edmonton region reveal examples of prices that would fall below B.C. Liquor Stores prescribed minimum prices.

**Advertised specials in Alberta that could not be matched in price in B.C. due to the minimum mark-up policy and lack of competition**

<b>Product</b>	<b>On sale in Alberta at:</b>	<b>Alberta Sale Price</b> (Inc. taxes/not inc. deposit)	<b>Minimum pricing for such products at B.C. Liquor Stores*</b>
PC Ultimate beer - 12 x.341	Real Canadian Liquorstore	<b>10.68</b>	12.28
Granville Is. Natural Draft 12x.335	Real Canadian Liquorstore	<b>10.66</b>	12.78
Upper Canada Lager (6x.355)	Liquor Depot	<b>5.34</b>	6.39
Labatt Wildcat (6x.355)	Liquor Depot	<b>5.87</b>	6.39
Bacardi White Rum	Real Canadian Liquorstore	<b>19.13</b>	19.43
Smirnoff Vodka	Real Canadian Liquorstore	<b>19.13</b>	19.43
Island Rum	Real Canadian Liquorstore	<b>17.11</b>	19.43
Maple Leaf Rye	Real Canadian Liquorstore	<b>17.11</b>	19.43
Radka Vodka	Real Canadian Liquorstore	<b>17.11</b>	19.43
Walker Special Old	Liquor World	<b>18.18</b>	19.43
Royal Reserve	Solo Liquor Stores	<b>18.14</b>	19.43
Alberta Vodka	Solo Liquor Stores	<b>19.21</b>	19.43
Russian Prince Vodka	Solo Liquor Stores	<b>18.14</b>	19.43
Canadian Mist	Liquor Depot	<b>17.11</b>	19.43
Silk Tassel Whisky	Liquor Depot	<b>17.11</b>	19.43
Highwood Rum	Liquor Depot	<b>17.11</b>	19.43
Silver Wedding Vodka	Liquor Depot	<b>17.11</b>	19.43
Spumante Bambino Sparkling Wine	Real Canadian Liquorstore	<b>5.11</b>	5.40
Rossini red or white wine	Real Canadian Liquorstore	<b>4.90</b>	5.40
Toscana red or white wine 4L	Real Canadian Liquorstore	<b>24.59</b>	28.80

Prices are at point-of-sale retail and include GST. Refundable deposits are not included in either example. Sales prices taken from flyers inserted in Alberta newspapers in 2001. Minimum B.C. Liquor Store prices from British Columbia Liquor Distribution Branch, Notes to the Mark-up Schedule. Note that the above prices are given to illustrate the minimum price structure in B.C., not the maximum possible price. In practice, the final minimum price may differ by a few pennies as B.C. Liquor Stores adjusts final retail prices to the nearest nickel. \*Note that not all brands above are necessarily available in British Columbia. The comparison serves to illustrate what the minimum price in B.C.L. Stores would be if the product was available.

## A NOTE ON AVERAGE PRICES IN ALBERTA

The main price comparison in this study analyzes 1945 products at two Alberta chains and B.C. Liquor Stores and finds the vast majority of products to be lower-priced in Alberta. The secondary comparison, from Westridge Marketing Services, compares 166 products available at both B.C. Liquor Stores and at least some of the 100 stores used in the Westridge survey. Westridge provides low, high, and average prices.

### Averages: Example One

It should be noted that in the case of the latter survey, the average price is determined by adding up the price for the product in each store that carries it, and then dividing by the number of stores that carry it to arrive at the average. The Westridge method is fine insofar as averages go, but such a calculation does not account for the volume of each product that may be sold, and that has the potential to significantly affect the average Alberta price. For instance, and in a simple example, suppose store “A” in Alberta sells Wolf Blass Yellow Label at \$11 and store “B” sells the same for \$17. **An average price would thus be \$14.00.** (\$11 plus \$17 = \$28 divided by 2 equals an average of \$14.)

### Averages: Example Two

However, suppose the volume of sales is included. In that case, assume store “A” sells 20 bottles per month of Wolf Blass at \$11. Assume store “B” sells only 2 bottles at \$17.00. **That results in an average price of \$11.54** (assuming for the sake of simplification that total sales that month were 22 bottles). (20 bottles sold at \$11 each = \$220, plus 2 bottles sold at \$17 each = \$34, for a total value of \$254, divided by 22 for a per bottle average of \$11.54.)

### Example of how “average” pricing can differ

“Average” Example One	# of sales of product	Price per bottle	“Average” price Example One
Alberta Store “A”	Not counted	\$11	<b>\$14</b>
Alberta Store “B”	Not counted	\$17	
“Average” Example Two	# of sales of product	Price per bottle	“Average” Price Example Two
Alberta Store “A”	20	\$11	<b>\$11.54</b>
Alberta Store “B”	2	\$17	

The reverse could also be true of course, where the average price once all actual sales of a bottle are accounted for ends up as higher if high-volume stores price their products higher than stores with fewer sales for the same product.

Both methods are legitimate ways of arriving at the “average price per bottle”, though the second method is more comprehensive as it includes the number of bottles sold and at what price in order to determine the average. The Westridge survey uses only the first method for obvious reasons: a comparison of the second type would necessitate tracking every product sold at the retail price in every retail store in the province of Alberta in a given time frame – an impossible analysis. But the reader should be aware of the problems with average prices in any event. Consumers do not pay average

prices; they pay prices that are lower, the same, or higher in comparison to a price paid by someone else at a different store.

## **A NOTE ON UNIFORM PRICING IN BRITISH COLUMBIA**

It has been argued that uniform pricing (i.e., the customer at a rural BC Liquor Stores outlet pays the same price for a liquor product as does someone in downtown Vancouver) is one reason for keeping B.C. Liquor Stores in government hands.

Uneven pricing is to be expected in a competitive retail environment, but it should not be assumed that liquor prices would rise after the introduction of full competition. After all, rents are much cheaper in rural areas than in urban centres and that and other factors affects the price of products. And in addition, house prices in Vancouver can be four, five or six times that of house prices in a rural community. Is it really a core function of government to set uniform prices for a non-necessary purchase (i.e., alcoholic beverages), when it obviously (and properly) declines to set uniform province-wide prices for house prices, or for necessities of life such as food?

## **PRICES IN ALBERTA AND BRITISH COLUMBIA – A SUMMARY**

This study examines prices in British Columbia and Alberta, with a large selection of products (1845) available at two chain stores and B.C. Liquor Stores, and asks: if a consumer in either of the two provinces wants to know where they are more likely to find the lowest price on alcoholic beverages – what would the answer be? *The answer is clearly Alberta in the vast majority of cases.* The reason has to do with higher B.C. taxes and hidden mark-ups, but also with the lack of competition on the retail side.

Most alcoholic beverages can be found at cheaper prices in Alberta. Obviously, some products in Alberta are also more expensive. There is a wide range of prices in Alberta, some low in comparison to B.C. and some higher; that is how a competitive market for goods functions. The price paid – similar to any widely available product in a competitive market - will depend on how diligent the consumer is in search of the best bargain. The question for British Columbians is: does the government need to control prices on their behalf, which leads to many products being higher-priced than would otherwise be the case in a fully competitive market, or whether they prefer to act as consumers for alcoholic beverages in the manner they are for other products.

## **REVENUES TO GOVERNMENTS: THE RED HERRING ARGUMENT**

**Alberta:** Alberta garnered a total of \$486 million in revenues from it's mark-up on provincial liquor sales in the most recent budget year.

**British Columbia:** B.C. garnered \$741.6 million in the most recent budget year. That was comprised of \$642.4 million in transfers from B.C. Liquor Stores as well as another \$99.2 million from the 10% sales tax applied to liquor sales (not including sales tax revenues from private beer and wine stores).



**The anti-competition argument because of “potential revenue loss” is a red herring:**

The argument against full competition in B.C. liquor retail sales because of potential revenue loss of the \$741.6 million from B.C. Liquor stores (the \$642.4 million in B.C. Liquor Store transfers plus the \$99.2 million in sales tax revenue from B.C.L. Stores) is a red herring. The reason is simple: *the provincial government collects billions in sales taxes from retail stores every year and does so without owning most retail stores – liquor stores being the exception.*

The B.C. government could still levy the existing mark-up on liquor sales if every government-owned store was privately owned, as well as the 10% liquor tax. Alternately, it could switch to a simpler mark-up system. Regardless, how governments collect a tax is separate from the fact that they can collect the tax.

The Alberta government suffered no revenue loss after introducing a full competitive liquor retail market, and has in fact reduced its mark-up four times since privatization because of that government’s promise to keep the privatization switch revenue neutral to government.

# **PART TWO**

## **COMPETITION**

### **PRODUCT SELECTION**

## COMPETITION AND THE NUMBER OF STORES IN ALBERTA / B.C.

In Alberta, the number of stores jumped from 304 government-owned liquor stores in 1993 to 907 fully private stores in 2001 (eight years after privatization), or **one store for every 3,400 people in Alberta**.

In comparison, B.C. currently has 224 government-owned liquor stores with 544 stores either under license to B.C. Liquor Stores (i.e. – rural agents) or private stores (the latter of which are limited to beer and wine sales only), or winery / brewery / specialty stores, for 768 in total, or **one store for every 5,300 people in B.C.**

Expressed differently: *In Alberta, 156 liquor stores compete for the same number of customers that 100 stores would compete for in British Columbia.* That means Alberta has a much more competitive market, especially since there is no dominant and government-owned retailer as is the case in B.C.

### Number of stores: British Columbia and Alberta

Type of store	Province			
	British Columbia		Alberta	
	Government	Private	Government	Private
Government-owned	224			
Rural agency stores*		290	0	81
Cold Beer & Wine**		144		826
Manufacturer / VQA stores***		110		
Sub-total	224 govt.	544 private - with limitations on products	0	907 private -no limitations
<b>Total # of stores in each province</b>	<b>768</b>		<b>907</b>	
<b>Population</b>	<b>4.095 million</b>		<b>3.064 million</b>	
<b>Stores per number of people</b>	<b>1 store for every 5,300 people</b>		<b>1 store for every 3,400 people</b>	

\*Stores whose products may be that primarily other than alcoholic beverages but are permitted to carry alcoholic beverages.

\*\*Cold beer and wine stores are attached to hotels/motels, and pubs. Currently, they are not permitted to sell spirits.

\*\*\* Includes wineries with on-site stores, brewery stores, and specialty wine stores.

Number of stores accurate as of October 2001 in Alberta and February 2002 in British Columbia

Population per store rounded to nearest 100 people.

The number of stores relative to the number of people is critical in examining the advantage to the consumer for two reasons. First, where there are more stores, the cost of getting to those stores is a cost saving in itself for consumers, (West, 1997). While this may be a minor saving, another more significant cost saving occurs because of the second reason: vigorous competition itself.

In Alberta, there is one store for every 3,400 people, compared to one store for every 5,300 people in British Columbia. ***Expressed differently, 156 stores in Alberta compete for the same number of residents that 100 B.C. stores would compete for in British Columbia.*** Thus, the average Alberta store must compete more vigorously for customers because there are fewer of them available for each store.

That means those 156 stores in Alberta must compete on service, selection and price much more vigorously – especially since most of those stores are not owned by one chain. That is unlike British Columbia where the major player – B.C. Liquor Stores - by government decree carries the most products (private beer and wine stores cannot now carry spirits for example) and thus has a privileged position in the marketplace.

***B.C. Liquor Store locations do not compete with each other on price, only with the private beer and wine stores and vice-versa, if at all.***

Given that the private beer and wine stores obtain their product from the government-owned B.C. Liquor Distribution Branch (LDB) – which operates B.C. Liquor Stores - the “competition” is limited or non-existent in some cases. Ultimately, private beer and wine stores are in “competition” with the very agency that sells such stores their products at the wholesale level. The B.C. Liquor Distribution Branch runs the B.C. Liquor Store chain, and at the same time, sells wholesale products to the private beer and wine stores at a wholesale price it (the Liquor Distribution Branch) determines. (It should be noted that this is a policy decision made by a government that determines what revenues it wishes to derive from B.C. Liquor Store operations will be. The LDB and B.C. Liquor Stores are merely following the dictates set down by government, not vice-versa.)

**If the Ford Motor Co. distributed all automobiles....**

This is similar to if the Ford Motor Company manufactured and distributed all cars to all auto dealerships – its own dealerships and those of all other “competitors.” Of course, under such a scenario, Ford would set the wholesale prices. “Competition” between Ford dealers and non-Ford dealers would be hampered by the fact that Ford would distribute all products to non-Ford dealers at a price of its own choosing. This is precisely the scenario that private B.C. beer and wine stores are in vis-à-vis the B.C. Liquor Distribution Branch.

## **THE GROWTH OF LIQUOR STORE CHAINS IN ALBERTA**

Consumers are helped by vigorous competition in Alberta because of the existence of several chains that vigorously compete with each other and single outlets on price and service. (On service for example, several chains have a delivery service for their products and one, Calgary-based OK Liquor, provides a web ordering service in addition).

Unlike British Columbia, where one major firm owned by the government dominates the marketplace, no single chain dominates the landscape in Alberta. Chains range in size and geography from Edmonton-focused Liquor Depot with 24 stores, to Calgary-

focused Willow Park Liquor with 11 stores, to the Real Canadian Liquorstore, with 17 stores spread across Alberta in large, medium and small cities.

In the case of the Real Canadian Liquorstore (owned by grocery retailer Westfair Foods which operates the Real Canadian Superstore), that chain operates 17 stand-alone stores in the large Alberta cities of Edmonton and Calgary, as well as mid-sized cities of Medicine Hat and Red Deer, and smaller communities such as Grande Prairie, Fort McMurray, Spruce Grove, and St. Albert. (Because Alberta does not permit alcoholic beverages to be sold in grocery stores, the grocery retailer, the Great Canadian Superstore chain built smaller freestanding stores on the same property as its grocery stores.) Given that chain's aggressive approach to low-cost retailing, the consumer in those cities has benefited from its presence. In addition, it can be argued that nearby cities have also seen their prices become more competitive given the proximity of lower-priced chain products.

Other chains are similarly aggressive and have also spurred province-wide competition. The Liquor Barn and Liquor World, both based out of Edmonton, also have provincial reaches with stores in Medicine Hat, Lethbridge, and Banff for example.

### Examples of major liquor store chains in Alberta

Chain	# of Stores	Location(s)
Real Canadian Liquorstores	17	Calgary, Edmonton, Medicine Hat, Red Deer, St. Albert, Spruce Grove, Fort McMurray, Grande Prairie
Willow Park Liquor	11	Calgary and area
Liquor Barn	16	Edmonton, Calgary, Medicine Hat
Liquor Depot	24	Edmonton and area
Liquor World	15	10 in Edmonton, 3 in Calgary, 1 in Lethbridge, 1 in Banff.

Data compiled by the Canadian Taxpayers Federation

### PRODUCT SELECTION

In terms of product selection, there is no contest. Alberta has 18,876 products available, while B.C. Liquor Stores reports 11,977 currently listed, about to be listed, or in the process of being de-listed.

#### *Product Selection: British Columbia and Alberta*

	Province	
	British Columbia	Alberta
Number of listed* products	11,977*	18,876

\*B.C. number includes those in the process of being de-listed or added.  
Sources: B.C. Liquor Distribution Branch and Alberta Liquor and Gaming.

## RENOVATION AT BC LIQUOR STORES: \$9.5 MILLION

As opposed to simply collecting revenues from the sale of alcoholic beverages in British Columbia, the government – through B.C. Liquor Stores - is also spending money on store renovations.

Unlike Alberta, where liquor store owners pay for their own renovations, the cost of liquor store renovations in government-owned or government-leased stores are borne indirectly by the government in B.C., given the transfers to the province of revenues from the Liquor Distribution Branch.

In addition, existing private beer and wine outlets in B.C. must also compete with stores who have their renovations supplied by government, or more precisely – the government-owned Crown Corporation. This is unfair competition.

Another reason to privatize liquor stores in British Columbia is to leave the cost of renovations wholly up to private owners. The government can, just as it does now with sales tax, collect the revenue it desires, while not paying the bill for the renovation of commercial retail stores. Between 1995 and 2001, \$8.6 million was spent on renovations. Another \$1 million is slated for the next two years – for a total of over \$9.5 million.

### Money spent on renovations at B.C. Liquor Stores 1995-96 to 2002-03\*

Fiscal Year	Leased Stores	LDB-owned Stores	Total
1995/96	1,428,209	68,681	1,496,890
1996/97	270,805	25,724	296,529
1997/98	1,674,624	37,687	1,712,311
1998/99	1,075,890	110,734	1,186,624
1999/00	1,505,051	201,836	1,706,887
2000/01	2,031,643	180,422	2,212,065
<b>Fiscal years 1995/96 to 2000/01</b>			<b>8,611,306</b>
2001/02	321,400	82,000	403,400
2002/03	498,400	48,000	546,400
<b>Projected 2002 and 2003 fiscal</b>			<b>949,800</b>
<b>Total 1995-2001 + estimated 2002 and 2003 cost of renovations:</b>			<b>\$9,561,106</b>

\*Projected in 2001/02 and 2002/03 / Source: B.C. Liquor Distribution Branch

## EMPLOYMENT AND WAGES

Job creation is one reason why B.C. Liquor Stores should be turned over to the private sector. In Alberta since privatization, the number of jobs in the liquor retailing business increased from 1,300 pre-privatization full and part-time jobs, to 3,500 full and part-time jobs since privatization.

It should be noted that in addition to those jobs, Alberta also has spin-off jobs in other sectors. For example, one Edmonton liquor store chain (which asked not to be identified for competitive reasons) spends \$400,000 every year in advertising costs. Job creation is one result of privatization in Alberta and new employment has also been diffused throughout the economy in more areas than just liquor retailing.

### **Private grocery stores also pay union wages**

One objection to privatization is that wages might be lower in the new private liquor stores (as compared to existing wages in government-owned liquor stores) if privatization is introduced in British Columbia. While the “lower wages” argument is generally not true in most privatization cases (where cost-savings are not generally found in lower wages but in fewer staff at the beginning of a privatization venture, employment loss that is often later reversed as a newly privatized company becomes more profitable and expands market share and hires more people) the privatization of government-owned liquor stores in Alberta did result in layoffs of government liquor store employees.

However, some of those government liquor store staff were involved in buying and running new private liquor stores. Others found new jobs elsewhere. What their post-privatization wages were in the latter case is impossible to determine.

That noted, it should not be assumed that clerks in government liquor stores would make less in a private store. For example, most of B.C.’s largest grocery store chains pay union wages. If the government allows grocery stores to enter into liquor retailing, then presumably Safeway, Save-On Foods, Overwaitea, Superstore, Thriftys, IGA and other **major chains would pay the same union wages to employees who stock liquor shelves and operate liquor store tills, as they now pay to those who stock food shelves and operate grocery checkouts.**

Given that grocery stores may well shift staff back and forth between the “liquor store within a store” concept that the CTF recommends, and their regular food operations, such staff would be paid the same union wage that they are now. The efficiencies for private retailers would be found in the number of people needed to operate liquor stores (or separate liquor sections of grocery stores), as well as in the efficiencies and competition that are routine in the private sector.

The consumer benefits because of such competition and innovation in the grocery store; similar benefits in price, selection and service would accrue if alcoholic beverages were sold in a similar though slightly more controlled and secure fashion than regular groceries.

Moreover, there is no compelling reason for the government to artificially set wage rates for one part of any sector any more than it was proper for the last B.C. government to do so with highways construction under the “fair wage” policy, a policy discontinued by the current B.C. government.

## Temptations

None of this is to suggest that the current arrangement does not work to the advantage of some existing retailers. Without question, the 1992 N.D.P. government decision to impose a moratorium on the expansion of private beer and wine outlets in B.C. artificially limited competition.

The previous government's moratorium shielded government stores - and thus dues-paying union members whose union later contributed to the governing N.D.P. - from competition. The current government will likewise face a temptation to limit competition but this time from a different corner: that of some existing beer and wine retailers who might prefer the more closed and non-competitive arrangement that now exists. The government should resist such pressure and instead govern for all British Columbians and in favour of full competition.

This is not to suggest that every private retailer of beer and wine would prefer the status quo. Most businesses prefer to expand, and current private retailers of alcoholic beverages are prevented from any significant expansion. This has prevented the emergence of any significant chain stores in B.C. (the government chain obviously being the exception). The result is little in the way of significant price competition for consumers, to say nothing of the lost economic activity.

*It should be remembered that significant business investment in private liquor retailing is now held back because of the lack of full competition.* Those interested in investing in British Columbia – as well as expansion minded private retailers in B.C. – will not invest scarce resources if they must still compete against a government-owned quasi-monopoly wholesaler and retailer. The “playing field” is simply too uneven.

## Competition benefits mill-workers more than it does millionaires

It is often forgotten that competition benefits not high-income earners the most, but low- and middle-income earners. Putting aside even the economic benefits of competition, where more robust job creation and thus lower unemployment rates benefit marginal workers in an economy, *lower prices benefit low and middle-income earners the most.*

The reason for this is simple and demonstrated by examining competition among grocery stores. Competitive food prices are of most benefit to those whose income is low. A difference in an \$80 food bill versus a \$100 food bill per week matters little to a millionaire, if at all. It does matter, significantly, to low-income earners.

Unlike food, alcoholic beverages are not a necessity of life. But the same economic arguments and benefits apply. Whether wine is \$11 a bottle or \$13 a bottle, or beer is \$6 per six-pack or \$8 per six-pack, matters not at all to the millionaire. But competition and consumer choice does matter to the mill-worker.



# **PART THREE**

## **NON-ECONOMIC ISSUES**

## NON-ECONOMIC ISSUES

While competition on price and on service are the natural result of a more competitive market for alcoholic beverages in Alberta, a question naturally arises as to whether the greater immediate access to such beverages has affected the population in any negative ways. Crime and alcohol abuse are legitimate concerns.

### CALGARY AFTER PRIVATIZATION

To examine this aspect of liquor retailing in Alberta, the CTF asked the Calgary Police Service to provide as comprehensive a picture as possible of crime trends in and around liquor stores in Calgary before and after privatization in 1993. The CTF asked whether the police department noticed any significant trend one way or another. Calgary saw the number of liquor stores jump from 24 pre-privatization to 201 post-privatization, so it is a city that researchers should look at more closely as they examine the issue of liquor privatization.

In general, and important to note, the Calgary Police Service wrote to the CTF that, **“further research is required to assess the relative impact of business type and of other factors on the vulnerability to crime.”**

However, the Calgary data does at least provide some numbers to examine. And the CPS provided data on the total number of criminal code offences at liquor stores both in *raw form* and also in *number and rate of offences per 100 liquor stores*. CPS initially provided 1992 to 1999 data, and then later sent 2000 data.

As the Calgary Police Service (CPS) states in their letter accompanying the data that examined the 1992 to 1999 data:

*Raw numbers should be converted to rates in order to compare them through time.*

The CPS also notes that:

*Caution should be exercised when comparing across years due to differences in how information was obtained. **It is possible the changes observed may be related to the different methodologies as much as anything else.***

For example, between 1992 and 2000, total criminal code offences at liquor stores in Calgary rose from 90 (1992) to 357 (2000). (Criminal code offences include both “person crimes” and “property crimes”.) Interpreted alone, this would – at first glance – *appear* to indicate a significant jump in criminal code offences since the number of offences was four times higher in 2000 as compared to 1992.

However, since the number of liquor stores rose from 24 in 1992 to 204 in 2000 – *an eight-fold increase* – one could also make the opposite claim – that crime around liquor stores actually dropped when one compares criminal code violations per 100 stores.

### **Total criminal offences per 100 stores:**

And in fact, the data from CPS shows precisely that: *the total rate of criminal code offences per 100 stores dropped from 375 in 1992 and 382 in 1993 (the year in which privatization was announced but not yet implemented) to 175 in 2000.* Post-privatization, it has been as high as 260 offences per 100 stores in 1999, still less than in 1992 and 1993.

### **Property crimes only:**

Examining property crimes alone, the total property crime rate (per 100 stores) was never as high as it was in 1992 and 1993. The rate was 354 property crimes per 100 stores in 1992 and 351 per 100 stores in 1993. It dropped to only 200 property crimes per 100 stores in 1994, about where it has stayed since, with the exception of 1997 when the rate was even lower at 158 crimes and in 2000 when it dropped to 131 – the lowest rate ever.

### **Per person crimes only:**

However, examining person crimes shows an increase from pre-privatization from five and six crimes in 1992 and 1993 respectively, to as high as 79 in 1999, though it dropped to 43 in 2000. But again – the number of stores has increased dramatically since 1992 and 1993, and as the CPS notes:

***Raw numbers should be converted to rates in order to compare them through time.***

Thus when the person crimes “per 100 stores” rate is examined, person crimes per 100 liquor stores was 20.8 in 1992, 20.7 in 1993, about where it was in 2000 – at 21.1 crimes per 100 stores. The lowest year was in 1994, immediately after privatization when the rate dropped to 17.5 crimes per 100 stores, and the highest year was the anomaly year of 1999, when 39.3 crimes were committed.

### **Conclusions: From the Calgary Police Service**

In general, the Calgary Police Service had this to say – and note that this analysis applies only to 1995 to 1999 data:

***The general trends in offence rates for liquor stores and for the city as a whole do not differ substantially over this time period.***

About the only consistent upward crime trend pointed to by the Calgary Police Services has been the increase in commercial robberies, listed under “person crimes”, not only in raw numbers but per 100 stores: From 8.3 crimes per 100 stores in 1992 to 11.3 in the most recent year (2000). In between, incidents of robbery have ranged from 3.4 in 1993 (before privatization took effect) to as high as 26.4 in 1999.

With regards to the above data, the Calgary Police Service makes this comment:

***Unfortunately, it is not possible to determine if liquor stores are becoming more vulnerable to these types of crime, and whether they are more vulnerable than other types of commercial premises (e.g., convenience stores, fast food restaurants, and gas stations). Factors other than the type of premise, such as extended hours of operation, may be more important in explaining the noted increases in offence rates. Further research is required to assess the relative impact of business type and of other factors on vulnerability to crime.***

### **Crime substitution?**

As Douglas West pointed to in his 1997 study regarding Alberta liquor store privatization, the increase in the number of commercial robberies at liquor stores in Calgary after 1993 – though not in the overall rate once one examines the number of stores vis-à-vis the crimes - hardly argues for artificially limiting the number of liquor stores because of the risk of commercial crime:

*There are those who would still criticize the “population at risk” interpretation of liquor store robberies. They would simply argue that under government ownership there were fewer liquor stores and fewer liquor store robberies. However, this view ignores the fact that besides liquor stores, there are many targets for commercial robberies. Hence, if there are fewer liquor stores to rob, perhaps convenience stores and gas stations would be the targets of choice.*

*Few people would suggest that the numbers of convenience stores or gas stations be reduced in order to reduce the chances of a convenience store or gas station being robbed. And surely fewer people would suggest that the government should own and operate convenience stores and gas stations in order to reduce the number of convenience store and gas stations holdups. (West, 1997)*

### **SALES OF ALCOHOLIC BEVERAGES PER PERSON**

Another important issue is whether the availability of alcoholic beverages will itself lead to higher consumption, along with the possibility for abuse.

In terms of sales (*sales* – not consumption) per person, Alberta has followed the same trend as every other province over the past two decades. That trend has seen a continual decrease in the amount of alcoholic beverages bought per person followed by a slight increase in the late 1990s. This trend holds true for all provinces except British Columbia.

It is also interesting to note that British Columbia is the only province where – in the late 1990s – per capita consumption did not rise. One can only speculate why that was the case: economic conditions could be one reason. The price of alcoholic beverages in Alberta relative to B.C. could be one reason, and cross-border shopping may be another.

**Sales of alcoholic beverages in litres (L) of absolute alcohol per person, aged 15 or older, Canada and the provinces, 1982-83 to 1999-00**

PROVINCE	1982-83	1983-84	1984-85	1985-86	1986-87	1987-88	1988-89	1989-90	1990-91
NFLD	10.39	9.91	9.78	8.75	9.9	10.0	9.7	9.3	9.1
PEI	9.35	8.83	8.76	8.44	8.2	7.8	7.9	7.8	7.5
NS	9.64	9.28	9.15	8.91	8.7	8.4	8.3	8.1	7.6
NB	8.58	8.03	7.84	7.61	7.4	7.0	6.9	6.8	6.5
QUE	8.92	8.92	8.77	8.58	8.3	8.6	8.1	7.8	7.4
ONT	10.73	10.38	10.10	10.05	10.1	9.7	9.3	8.9	8.6
MAN	10.56	10.06	10.10	9.72	9.3	8.7	8.4	8.0	7.6
SASK	9.78	9.47	9.16	8.86	8.5	8.1	7.9	7.4	7.0
<b>ALTA</b>	<b>12.46</b>	<b>11.62</b>	<b>11.12</b>	<b>11.14</b>	<b>10.6</b>	<b>9.8</b>	<b>9.6</b>	<b>9.3</b>	<b>9.3</b>
<b>B.C.</b>	<b>12.22</b>	<b>11.59</b>	<b>11.36</b>	<b>10.93</b>	<b>11.1</b>	<b>10.3</b>	<b>9.8</b>	<b>9.7</b>	<b>9.8</b>
YUKON	18.16	17.24	17.38	16.50	16.9	15.6	15.5	15.4	14.9
NWT	13.11	12.73	12.75	12.02	11.6	10.7	10.9	10.7	10.2
<b>CANADA</b>	<b>10.44</b>	<b>10.09</b>	<b>9.86</b>	<b>9.88</b>	<b>9.4</b>	<b>9.3</b>	<b>8.9</b>	<b>8.6</b>	<b>8.3</b>

PROVINCE	1991-92	1992-93	1993-94	1994-95	1995-96	1996-97	1997-98	1998-99	1999-00
NFLD	8.8	8.5	8.2	7.8	7.6	7.5	7.3	7.6	7.9
PEI	7.1	6.9	6.8	6.6	6.5	7.0	6.6	6.9	7.0
NS	7.5	7.3	7.2	6.9	6.8	6.8	6.8	7.1	7.4
NB	6.1	6.0	6.1	3.9	6.2	5.9	6.1	6.3	6.5
QUE	7.0	6.9	6.8	6.8	6.9	6.9	6.9	7.3	7.5
ONT	8.1	7.5	7.3	7.3	7.4	7.1	7.1	7.4	7.6
MAN	7.6	7.3	7.3	7.4	7.3	7.2	7.3	7.4	7.4
SASK	7.0	6.7	6.5	6.6	6.7	6.6	6.7	6.8	6.9
<b>ALTA</b>	<b>8.9</b>	<b>8.5</b>	<b>8.7</b>	<b>8.4</b>	<b>8.2</b>	<b>8.1</b>	<b>8.5</b>	<b>8.7</b>	<b>8.6</b>
<b>B.C.</b>	<b>9.3</b>	<b>8.9</b>	<b>8.7</b>	<b>8.7</b>	<b>8.1</b>	<b>8.0</b>	<b>7.9</b>	<b>7.7</b>	<b>7.6</b>
YUKON	14.2	13.9	12.2	12.3	12.6	13.1	12.7	12.4	12.6
NWT	9.5	8.9	8.7	8.7	7.9	7.9	8.0	8.0	7.9
<b>CANADA</b>	<b>8.0</b>	<b>7.5</b>	<b>7.4</b>	<b>7.3</b>	<b>7.4</b>	<b>7.2</b>	<b>7.3</b>	<b>7.5</b>	<b>7.6</b>

Source: 1986-87 – 1999-00 data from Statistics Canada, Public Institutions Division. Previous years from Statistics Canada – The Control and Sale of Alcoholic Beverages in Canada, various years. Note that the above measures do not measure consumption – but sales - measured in absolute litres of alcohol sold per person. As Statistics Canada notes, “consumption would include all of these sales, plus homemade wine and beer, wine and beer manufactured through the brew on premises operations, all sales to Canadians in duty free shops and any unrecorded transactions.” Statistics Canada tracks sales but not consumption levels.

**Could BC sales be higher per capita without increasing consumption?**

It is worth speculating whether B.C. sales could be higher – along with business activity, employment, and tax revenues for government – under a private and competitive system, *with no increase in per British Columbian consumption.*

One possibility is that more liquor store locations and more inexpensive alcoholic beverages as a result of that increased competition could result in more sales to visitors. This is a likely prospect given B.C.’s attractiveness as a tourist destination, and its growing popularity as a tourist destination for wine tourism. As it concerns wine tourism, anything that can make such tourism more accessible, attractive and available to tourists and tourism-promotion stands to benefit the B.C. economy in general, and employment in specific as well as tax revenues to governments based on increased

sales. And not only in direct retail sales but also in spin-off jobs such as hotel and wine industry tourism for example.

Another possibility for consideration is that sales now lost to Alberta might instead be redirected back to B.C. In discussion with several stores in Alberta, this author was told that B.C. residents are known to buy large quantities of alcoholic beverages in Alberta and bring such product back to B.C.

While technically prohibited, such cross-border shopping is impossible to prevent (and nor in a country without provincial border controls should governments attempt to prevent cross-border shopping).

One story told to this author involved a Kamloops doctor who filled his trunk with Alberta-bought product. Price was the obvious reason. It was not the only such story relayed to this author, and while anecdotal, Alberta liquor store owners in conversation with customers who are on business or vacation in Alberta, note that it is a phenomenon; how much so is impossible to estimate. But some sales and some tax revenues are lost to Alberta's (generally) cheaper prices according to the very people who deal with customers every day in Alberta.

In addition, increased sales in British Columbia to Albertans could result if prices are more competitive. And the latter possibility is likely to be a more significant factor in increased sales given the number of Albertans who holiday in B.C. As it stands now, there is little incentive for Albertans on vacation in B.C. to "stock up" on B.C. wine for the trip home – or any other product – given that with little effort the same products might well be found more inexpensively in Alberta.

On the Canada-U.S. border issues of smuggling, the Association of Canadian Distillers notes a 1995 KPMG study that points to cross-border liquor smuggling as problematic in Ontario, Quebec and British Columbia.

**CTF**

**RECOMMENDATIONS**

**&**

**STUDY SUMMARY**

## STUDY SUMMARY & CTF RECOMMENDATIONS

- Out of 1845 price comparisons made between B.C. Liquor Stores and two Alberta chains, 82.6% of liquor products were cheaper in Alberta, while only 17.4% were more inexpensive in British Columbia.
- Out of 166 products available at both B.C. Liquor Stores and 100 stores in Alberta, 90 % could be purchased cheaper in Alberta. This includes beer, spirits, B.C.-made wine and foreign wine.
- In Alberta, 156 liquor stores compete for the same number of customers that 100 stores would compete for in British Columbia. That means Alberta has a much more competitive market, especially since there is no dominant and government-owned retailer as is the case in B.C.
- In terms of product selection, Alberta has 18,876 products listed, while B.C. Liquor Stores reports 11,977 currently listed (including those about to be de-listed and those about to be listed).
- In Alberta since privatization, the number of jobs in the liquor retailing business has jumped from 1,300, pre-privatization full and part-time jobs, to 3,500 full and part-time jobs. Given that stores in B.C. have access to more customers (the ratio noted above) than is the case in Alberta, there is every reason to believe that a more competitive marketplace would stimulate employment creation in B.C.
- On wages, it is also not a given that clerks in now-government liquor stores would make less in a private store. For example, some of B.C.'s largest grocery store chains pay good union wages. Privatization may affect such wage rates, or it may not. It would depend on the retailer.
- Alberta garnered \$486 million in revenues from its mark-up on provincial liquor sales in retail stores in fiscal year 2001. In British Columbia, the government garnered \$741.6 million from the B.C. Liquor Distribution branch. That was comprised of \$642.4 million in transfers from B.C. Liquor Stores as well as another \$99.2 million from the 10% sales tax applied to liquor sales.
- **The argument against privatization because of a potential revenue loss of the \$642.4 million transferred annually to the province from B.C. Liquor stores (plus the \$99.2 million in sales tax revenue) is a red herring.** The provincial government collects billions in sales taxes from retail stores every year and does so without owning most retail stores – liquor stores excepted. The B.C. government could still levy the existing mark-up on liquor sales, as well as the tax, or switch to the simpler mark-up system employed by Alberta after privatization, where every product sold is charged a mark-up price based on alcohol content.
- Alcohol sales per capita have declined in Canada (and in Alberta specifically since privatization) over the last 20 years, with the exception of the last several years where per capita sales have risen in every province with the exception of B.C.



- The *rate* of crime per 100 liquor stores in Calgary has, with one rare exception, mostly declined according to Calgary Police Services. The CPS also cautions against drawing unsubstantiated conclusions from its data, and in its report notes that much more study is required of the issue.

## **RECOMMENDATIONS**

### ➤ **Recommendation One:**

- *Sell B.C. Liquor Stores in individual locations or in units of 10 or 30 at maximum. Offer the stores to existing employees while also opening up liquor retail sales to full competition.*

- **Rationale:** *Competition and the promotion of an entrepreneurial culture.*

- *Selling stores in isolation or in larger units of 10 or 30 stores would promote competition in British Columbia.*
- *Given that some will argue wages might be negatively affected, offer the stores first to employees. They can then decide what wages will be paid to themselves.*
- *Competition and, importantly – an entrepreneurial culture within current B.C.L. Store employees-turned-owners – would both be spurred as a result of competition and privatization.*
- *The new B.C. government has said it wants government to exit spheres where there is no necessity for government to be involved. The private sector can well import, distribute, and sell beer, wines, and spirits, while the government can still collect the revenues it currently receives. The operation of any part of the chain that brings alcoholic beverages to consumers is not a core function of government, nor is there any market failure that would argue for continued government involvement.*

### ➤ **Recommendation Two:**

- *Allow grocery stores to sell alcoholic beverages provided that a secure and separate retail area with separate checkouts is designed – in effect a “store within a store.” Alternately of course, such retailers (or anyone) could build stand-alone stores.*

- **Rationale:** *Lower infrastructure costs and more efficient staffing for retailers, competition (with the resulting price benefits) and convenience for consumers, as well as providing appropriate and better security than stand-alone stores.*

- *Many existing retail chains would likely wish to enter into the sale of alcoholic beverages. It would be onerous to require completely separate stand-alone stores, as does Alberta, which is also impractical in some jurisdictions. It would also be more costly. A better solution is to require*

*completely separate and secure area and checkout till(s) within existing retail stores if they can accommodate the products. Obviously, such stores would also have the option of a stand-alone store. This would allow for flexibility in that employees can more easily be transferred from one till (i.e., in grocery sales) to another (in liquor sales in another part of the store).*

- *This also provides for the possibility that a portion of the store – that which sells beer, wine and spirits – could have different opening hours than that of the regular store, which is likely a desirable option.*
- *The convenience for consumers is obvious; groceries and alcoholic beverages can thus be bought in one store – albeit at two different tills – much the way tobacco sales are now handled.*
- *Security of the product - to prevent both underage theft and to prevent commercial crime (i.e. robberies) is more secure within a large grocery store for example than in a stand-alone store. While the province should allow for both stand-alone stores and “stores within a store,” commercial robberies are less likely in large retail stores in general and thus should not be discouraged.*
- **Recommendation Three:**
  - *Change the mark-up system from the current “ad valorem” system to the simpler “flat” mark-up system based on alcohol content, and if necessary for smaller breweries, consider the “volume produced” exception as well.*
  - **Rationale:** *Simplicity for retailers, producers, and consumers.*
    - *The current system has evolved for various reasons and for various interests over decades. Current mark-up structures are completely unintelligible to the general public that pays the hefty mark-up tax. Simplicity is a desirable policy goal so the public has a better understanding of what it is they pay, but also for producers and retailers.*
- **The option the government should NOT choose:**
  - **The Worst Option: “King Solomon’s solution”**  
*Expanding spirits availability and lifting the moratorium on more stores –without privatization of the government-owned B.C. Liquor Stores – would be a significant policy mistake.*
  - *Simply allowing more private beer and wine stores without full privatization – even with the allowance to sell spirits as the current government is considering - would be the worst of all choices. The government would then allow more retail competition with government-owned liquor stores – which would then cut into the*

profit margins of such stores – likely creating uneconomic stores that it itself owns. Meanwhile, private retailers would still have to compete with BC Liquor Stores.

- ***This would hobble both private retailers and make some B.C. Liquor Store branches uneconomical – the worst of all possible policy options. It would also prevent any significant new investment in the retail liquor industry in B.C., as new retailers would be faced with an existing government-sanctioned quasi-monopoly from which they must purchase their wholesale products.***
- It could in fact be called the faulty “King Solomon’s solution,” after the ancient King who proposed that the disputed ownership of a newborn child be solved by splitting the child in half and giving one-half to each of the claimed mothers.<sup>a</sup> If the government retains ownership of B.C. Liquor Stores at the same time as it opens the market to wider competition, it will harm both interests financially, discourage any significant new investment in the industry and not benefit consumers in any meaningful way.
- The sensible – and pro-competition and pro-consumer solution – is to open up liquor sales to full competition while continuing to take a mark-up (i.e. – tax) that the government currently receives in order to preserve revenue flows it deems necessary. This would at least give the consumer choice, true retail price competition, and service competition. **Anything less will merely preserve the quasi-monopoly of the government-owned stores in conjunction with the limited number of private retailers who must buy their products from the government-owned distributor, who are themselves unable to expand in any significant way.**

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<sup>a</sup> For those unfamiliar with the story, two mothers approached King Solomon, and both claimed the child in question as their own. The King proposed that the child be cut in half and thus given to each claimed mother. The child’s true mother – horrified at the prospect of the child’s death – instead asked the King to save the child’s life by giving it wholly to the other claimant, while the false mother was willing to have the child killed as long as the other woman lost in this “gamble” as well. The King then recognized the true mother – who would rather see her child live and be given to another rather than have it die - and thus awarded the child to her. Obviously, despite the King’s ruse to find the true mother’s identity, the worst option would have been for the death of the child.

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