# SGEU Brief

## Stakeholder Submission on the Future of Liquor Retailing in Saskatchewan

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BRIEF

SGEU

Saskatchewan Government and General Employees' Union

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## Introduction

The Saskatchewan Government and General Employees' Union (SGEU) welcomes the opportunity to present a stakeholder submission to the government consultation on the future of liquor retailing in Saskatchewan. SGEU represents approximately 20,000 members who live and work in cities and towns all across the province. Members are employed in a wide range of sectors and workplaces, including health, education, community services, government ministries and agencies, and Crown corporations. We proudly represent approximately 900 members who work at the Saskatchewan Liquor and Gaming Authority (SLGA).

In general, our response to the discussion paper on liquor retailing is that issues are intentionally framed to induce pro-privatization responses from the public. Too often, critical information that would present a broader perspective is omitted. The key concerns can most clearly be seen in three trends:

- Treating retail stores as liabilities instead of assets;
- Ignoring the financial superiority of Saskatchewan's liquor distribution system to the more privatized systems of Alberta and British Columbia;
- Repeatedly suggesting that consumer experience can only be improved via private liquor stores.

Taken together, these trends suggest that the government is not playing an impartial role and is not presenting all of the relevant facts in order that the citizens of Saskatchewan can make an informed decision about the future of liquor retailing in the province. The following response attempts to correct for the government's bias by supplying relevant information and reframing the debate in the public interest.

## Privatization will be Costly

The government's discussion paper implies that relinquishing the Saskatchewan Liquor and Gaming Authority (SLGA) near-monopoly on liquor retailing will not adversely affect provincial revenues. Aiming to not lose revenue from a change in liquor policy is itself a deficient objective. The SLGA has increased provincial revenues from liquor sales by 23% over the last five fiscal years, while also balancing customer service and social responsibility as the SLGA is mandated to do.[i]

Rather than simply trying not to lose revenue, the government could advance the public interest by aiming to maximize revenue growth while also prioritizing considerations of social responsibility and consumer experience. It is often overlooked in these discussions that the consumption of alcohol results in far higher costs for the province, for instance in terms of health care and policing, than it does revenue. Collecting higher revenues from liquor sales assures that the government is better able to cover these costs.

Regardless, the government's suggestions that privatizing liquor retailing will be "revenue neutral" are dubious at best, and misleading at worst. There are three main reasons why this is the case:

1) Alberta's privatization continues to be remarkably costly

   Alberta's experimentation with liquor store privatization has not been "revenue-neutral" in any meaningful way. The government's discussion paper states that "Alberta is generating more mark-up revenue than it did in 1993." While technically true, the statement ignores that over those two decades the number of drinking-age adults increased 62% and the consumption of alcohol increased 73%.[ii] These variables are obviously relevant and must be considered when assessing the impact retail privatization had on Alberta's liquor revenues. Including these variables indicates that liquor retail privatization has meant Alberta taxpayers annually forfeit hundreds of millions in potential revenue. Since privatization, for instance, real per capital liquor revenues have decreased 31% in Alberta. Saskatchewan, on the other hand, with its publicly-run retail system, has seen its real per capita liquor revenues increase 7% over the same time period.[iii] Alberta's loss of liquor revenues is a direct consequence of its decisions to privatize its liquor stores.[iv] Why should we assume similar policy would have different results in Saskatchewan?

2) Private liquor stores are less efficient

   The government's paper extensively discusses the SLGA's operating and capital costs as a percentage of sales revenue. The government's discussion paper notes that in 2013-14, the SLGA spent 14% of its liquor sales revenue on operating costs and another 1% of sales revenue on capital investments to maintain its retail operations. The government's discussion paper fails to explain the real meaning of these figures by omitting two critical pieces of information:

   i) The SLGA stores operate more efficiently than the two largest private liquor retailers in Canada. Liquor Stores North America, which owns and operates 245 liquor stores in Alberta, British Columbia, and two U.S. states, and Rocky Mountain Liquor Inc., which owns and operates 46 liquor stores in Alberta, both spent 19% of their liquor sales revenue on operating costs in the 2013 fiscal year.[v] As noted above, the SLGA's operating costs were only 14% of sales revenue.

ii) The SLGA's costs of directly running retail stores are less than the discount the SLGA pays to have private liquor stores operate. While it cost the SLGA 15% of its revenue to operate and maintain its retail stores last fiscal year, the SLGA currently pays private liquor stores a 16% markup discount to operate. Moreover, the SLGA stores located in Saskatoon and Regina, where the private liquor stores exist, have operating and capital costs closer to 12%.

3) SLGA's retail monopoly means largest business cost is successfully controlled

The government's paper omits the most important reason for having the province own the liquor retail sector: the taxpayer benefits accrued from constraining the wholesale cost of liquor. Over the last decade those provinces which directly operate their liquor retail stores have significantly lower wholesale purchasing costs than those provinces which allow significant private ownership of the retail sector. For example, since 1993 the liquor agencies of Alberta and British Columbia report having wholesale purchasing costs increase 42% and 46%, respectively. On the other hand, the SLGA and the liquor agency in Manitoba, where the retail market is also predominately owned by the province, both report wholesale costs increasing just 17% over the same time period.[vi]
As the government's discussion paper states, wholesale purchases comprise 80% of the costs of the SLGA's liquor operation; only 12% is the cost of retailing. Therefore, limiting the rise of wholesale costs is much more important to the finances of the SLGA than lowering retail costs.

These three pieces of evidence – Alberta's loss of revenue from privatization, the SLGA's operating more efficiently than private retailers, and the SLGA's savings on wholesale costs compared to more privatized liquor retail markets – strongly indicate that retail privatization in Saskatchewan would not be revenue-neutral. Indeed, retail privatization would almost certainly mean higher system-wide costs. An integrated, publicly-owned distribution system creates economies of scale, the benefits of which are passed on to taxpayers through higher government revenue and consumers through reasonable retail prices. Absent these benefits, retail prices will increase and/or government markups will decrease, as happened in Alberta following privatization.

## Exceptional Returns from Public Ownership

The government's discussion paper fails to recognize that the SGLA's retail stores are assets, not liabilities. Relinquishing these properties to private businesses is described as a way to reduce spending by the provincial government. But privatization in this case is not about reducing government spending; it is about selling revenue-generating assets owned by the province.

The mistaken assumption in the government's discussion paper is that provincial liquor revenues come solely from the wholesale operation, where the markups are applied. But as was discussed above, public ownership of the retail system is crucial to securing the low wholesale costs that allow for the current markup rates and retail prices. Without the purchasing power of the SLGA, which exists because of its near-monopoly over liquor sales in the province, the cost of distributing liquor in Saskatchewan will rise. In a privatized retail system, these higher costs will ultimately result in higher consumer prices and/or reduced government markups.

Indeed, public ownership of the distribution system (both wholesale and retail) is an investment that reaps exceptional returns for Saskatchewan. SLGA figures indicate that last fiscal year it spent $72.5 million in operating costs and $295.2 million purchasing liquor. In return for spending that $367.8 million, the SLGA made $612 million in sales revenue. [vii] So for every dollar the SLGA spent selling liquor it made back $1.66 in revenue. Conversely, the SLGA earned a 66% return on its investment (ROI) - a feat rarely achieved but eagerly desired by any private business.

Both the retail and wholesale operations are crucial to the SLGA's liquor revenues. Indeed, provinces which have relinquished their retail monopoly realize a significantly lower ROI. British Columbia's liquor distribution system, which is comprised mostly of privately-owned liquor stores, and that of Alberta, which is entirely composed of private liquor stores, both achieved ROIs of just 46% for their provinces last fiscal year. If the SLGA had earned the return on its liquor investments that Alberta's liquor agency has over the last five fiscal year it would have forgone more than $229 million in profit.[viii]

The question remains: if private businesses are keen to profit from operating liquor stores, why isn't the current government?

## **No Taxpayer Dollars Required**

As opposed to the misleading suggestions in the government's discussion paper, no taxpayer funds are required to sustain the SLGA's liquor operations. Every business, including those owned collectively by citizens, must reinvest in its operations in order to sustain them. While the government's discussion paper indicates the future capital requirements of SLGA retail stores will average $4.15 million per year over the next decade, this sum is easily afforded by the SLGA's own income. Even with the major investments the SLGA made last fiscal year upgrading its warehouse, the Crown Corporation made $252.3 million in liquor-related profits. The $4.15 million a year in capital investments represents just 1.6% of the SLGA's annual profits, which is incredibly low by industry standards. In fact, the SLGA could easily afford to reinvest a higher percentage of its net income in order to modernize and expand its network of retail stores.

If the government cannot afford to pursue priorities it deems necessary, it is not because the SLGA is managing its assets as it is mandated to as a Crown Corporation; it is because the government has insufficient revenue. Because the SLGA's liquor stores are revenue-generating assets, if the government desires more revenue from the SLGA it should consider allowing the SLGA to expand its number of retail stores, not bar it from investing in them.

## Why Privatize?

The government's discussion paper fails to provide the necessary information required for citizens of Saskatchewan to make informed decisions about the future of liquor retailing in the province. There is no analysis of the problem(s) of public ownership, which privately-owned stores would presumably rectify. There is no systematic comparison of the likely or actual financial impacts on the provincial government or consumers of the various retailing options; there is only a list of vague possibilities. There is in fact little of substance for readers to consider.

Not surprisingly then, the government's discussion paper fails to establish any economic or social reason why Saskatchewan should give up its exceptionally profitable investments in liquor retail ownership. The two main reasons supplied for allowing private liquor stores are: 1) issues around consumer selection and convenience, and 2) lower costs and new forms of revenue for the province. While these objectives may be desirable, neither of them support the need for privatization for the following reasons:

- The cheapest and most straight-forward way of improving customer experiences is through public ownership. The SLGA's legal mandate and finances readily allow it to expand its network of retail stores and offer a larger selection of products, if management so chooses. Unlike a privatized retail system where most stores carry a limited and varied selection, the SLGA could ensure an extensive and reliable selection of products are available to more of the province if it is directed to do so. This could include, for example, dedicated shelf space for local craft breweries and distillers. If the citizens of Saskatchewan desire more conveniently located liquor stores and an expanded selection of liquor products, the Minister responsible for the SLGA can instruct the Crown Corporation to fulfill those desires.

- As noted above, the SLGA's retail stores are revenue-generating assets. By owning the retail stores as well as the wholesale operation, the SLGA is able to earn much more revenue than it spends. Therefore, it is highly misleading to refer to the SLGA's operating and capital expenditures on retail stores as costs to the provincial government.

- An expansion of private liquor stores in Saskatchewan will not result in significant new revenue streams for the province because a) most liquor stores would only pay the small business tax rate of 2%,[ix] and b) SLGA retail stores already pay municipal property taxes in the form of grants.

If it is easier and more profitable to meet consumer needs through the SLGA, why bother privatizing? If privatization will cost the province substantially in foregone revenue, why go through with privatization? The government's discussion paper fails to resolve these questions.

## Conclusion

Analyzing the issue of liquor retailing with all of the relevant facts and from the perspective of the public interest supports continued public ownership. Saskatchewan receives exceptional revenues from the purchasing power generated by directly wholesaling and retailing liquor in the province. Privatizing the retail stores would erode the economies of scale currently achieved by the SGLA's integrated distribution operation, leading to higher costs for either consumers or citizens, or both. Furthermore, the purported promises of privatization can more easily be accomplished through the current system. Privatization is, in the end, both costly and unnecessary.

Consumer demands would best be met by reinvesting a percentage of the SLGA's annual profits in enhancing and expanding their liquor store network. The provincial government should furthermore consider directing the SLGA to improve its product selection and overall customer experience.

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[i] SLGA Annual Reports.
[ii] Author's calculations using CANSIM Tables 183-0019 and 051-0001.
[iii] Author's calculations using CANSIM Tables 183-0017, 051-0001, and 326-0021.
[iv] For further discussion, see: Laxer, Gordon, Duncan Green, Trevor Harrison, and Dean Neu. *Out of Control: Paying the Price for Privatizing Alberta's Liquor Control Board*. Toronto: CCPA, 1994; Campanella, David. *A Profitable Brew: A Financial Analysis of the SLGA and its Potential Privatization.* Regina: CCPA and Parkland Institute, 2014.
[v] Liquor Stores N.A. Ltd 2013 Annual Report; Consolidated Financial Statements of Rocky Mountain Liquor Inc, 31 December 2013.
[vi] Author's calculations using CANSIM Table 183-0017.
[vii] SLGA 2013-14 Annual Report.
[viii] Campanella, David. *A Profitable Brew: A Financial Analysis of the SLGA and its Potential Privatization.* Regina: CCPA and Parkland Institute, 2014, p.22.
[ix] Campanella, David. *A Profitable Brew: A Financial Analysis of the SLGA and its Potential Privatization.* Regina: CCPA and Parkland Institute, 2014, p.27.