Government of Saskatchewan

Future Options for Liquor Retailing in Saskatchewan

OPTIONS PAPER

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HOW WE GOT HERE:

A HISTORY OF LIQUOR RETAILING IN SASKATCHEWAN

Government first entered the liquor retailing business in Saskatchewan in 1915. That year, Premier Walter Scott took the unprecedented step of closing all the bars in the province and creating a new government-run system of liquor stores with sole authority for legal liquor retailing in the province.

The very next year, 75 per cent of voters cast their ballots in favour of prohibition in a provincial referendum. This resulted in the closure of all government liquor stores in 1917. The prohibition period in Saskatchewan lasted until 1924. Alcohol became legal once again after 57 per cent of voters supported the end of prohibition in a provincial referendum. However, alcohol sales were only allowed through government stores.

1924-1958

The introduction of the *1924 Liquor Act* re-introduced the government run liquor store as the only publicly available retail outlet for the purchase of alcohol. Apart from government, only druggists and physicians were allowed to distribute alcohol (through prescriptions, as they had been allowed to do throughout the prohibition period). The Act also provided for the creation of a Liquor Board. The Board was given authority to establish liquor stores in each of the seven cities of the province and the town of Yorkton, as well as rural areas. The Act limited the number of liquor stores that could be established in the province to 25, but placed no limit on the number of beer stores.

Beer by the Glass

The first significant change to the Act came a decade later, in response to public demand for the sale of beer by the glass. A petition circulated by the Saskatchewan Hotels Association led to a provincial referendum on the issue during the 1934 provincial election. The majority of voters favoured the measure and the Act was amended in 1935 to allow for the sale of beer by the glass in licensed premises of hotels, clubs and canteens. Hoteliers were also granted the ability to off-sale packaged beer. With these changes, the Liquor Board assumed additional responsibility for licensing these establishments.

Despite this incremental liberalization of alcohol retailing, the government imposed strict regulations on the sale of beer in licensed beer parlours:

- Minors and women were not permitted to enter, and women were prohibited from being employed in the sale, handling or serving of beer;
- No one could be served beer unless they were seated and no person was allowed to order or pay for beer consumed by other persons;
- No food could be served and no form of entertainment or gambling was allowed.

As a result of austere regulations banning food and entertainment, beer consumption became the entire emphasis of the experience – with predictable anti-social consequences. This situation would be the focus of a 1958 Special Committee of the Legislature.

The 1958 Special Committee

The period following the end of WWII saw a number of provincial governments review and introduce changes to liberalize restrictive laws on alcohol consumption. In Saskatchewan, the Legislative Assembly established the Liquor Sales Outlets Inquiry Committee in 1958. Its mandate was to examine practices underway in other provinces as well as in North Dakota and to provide recommendations on possible changes.

After hearing from the public and stakeholders, the Committee recommended what, at the time, were significant changes in the public consumption of alcohol in licensed establishments:

- The creation of new “mixed” licensed establishments for members of either sex that included beverage rooms, hotel and restaurant dining rooms, restaurants, cocktail rooms and clubs;
- First Nations people should be admitted to licensed premises;
- Beer parlours should be allowed to continue, but no additional beer licences should be issued;
- Food should be sold with alcohol and a food-to-liquor ratio applied to licensed dining rooms and restaurants; and
- Elimination of the limit on the number of government liquor stores (a recommendation not accepted by the government).

Though the recommendations and legislative changes that accompanied the report eased restrictions on the sale of alcohol, the government’s intent in adopting the measures was to encourage more civilized drinking habits and to minimize the social harm of alcohol among Saskatchewan citizens. The argument for creating mixed drinking establishments centred on the “civilizing effect” women would have on male drinking rather than the principle of allowing women equal access to licensed establishments.

The First “Private” Liquor Outlets in Saskatchewan

In 1965, amendments to the Act provided the Liquor Board (the Board) with the authority to establish special liquor vendors – the precursors of today’s rural franchise stores.

The amendments gave the Board the authority to appoint a druggist or “any other responsible and suitable person” to act as a special liquor vendor in a rural community if:

(a) No liquor store had been established there;

(b) The Board determined that it would not be economically advisable to establish a liquor store there; and

(c) The distance from the town, village or hamlet to the nearest liquor store was such that the Board deemed it in the interest and convenience of residents.

Special vendors were the only outlets licensed to sell liquor by the bottle at facilities other than Board-operated liquor stores. The Board initially fixed the maximum number of special vendors in the province at 20. From 1965 to 1971, the maximum number of special vendors prescribed by legislation grew from 20 to 117.

1971 Review of Liquor Regulations

The Legislature of Saskatchewan established a Special Committee of the Legislature in 1971 to undertake a review of liquor regulations in the province. The final report of the committee submitted in 1973 recommended significant changes to alcohol laws and regulations. However, not all recommendations received unanimous support among committee members.

The recommendations of the committee centred on two dominant themes: (1) the need for measures to address alcohol abuse and enhance public safety, and; (2) greater liberalization in accessing alcohol through the modernization of liquor regulations regarding alcohol consumption.

In addition to increasing the number of special liquor vendors, recommended actions included allowing:

- The sale of low-alcohol beer and wine in grocery stores;
- Live entertainment in licensed premises;
- Liquor outlets on reserves;
- Student Unions in Saskatoon and Regina to operate a licensed establishment on campus;
- The sale and consumption of beer at sports events in special designated areas;
- The consumption of alcohol with food at a park, campsite or picnic site; and
- The consumption of alcohol in private offices.

Liquor Changes: 1973-1990

Beginning in 1965, when special vendors were first licensed to sell alcohol, the province experienced significant growth in the number of private retailers licensed to sell liquor. There was also an expansion of liquor products the private retailers were able to sell.

While the Blakeney government chose not to implement a number of the 1971 committee's recommendations, such as the sale of beer and wine in grocery stores, further changes over the 1970s and 80s included:

- Changes to the legal drinking age;
- The proclamation of a new *Alcohol Control Act* in 1989, which introduced:
    - o More flexibility for licensees and new concepts in the industry such as brew pubs;
    - o An increase in the maximum number of franchises allowed in the province from 160 to 210, to allow for more franchises in rural Saskatchewan and the replacement of Board stores where a franchise would be more cost efficient; and,
    - o Increases in fines and penalties under the Act, including service or sale to minors.

1990s to 2009

Throughout the 1990s and most of the first decade of the 21st century, the Government of Saskatchewan expanded liquor retailing along the mixed public/private model, while opening new government stores and upgrading current stores in several communities:

- 20 new government liquor stores were opened - 13 in leased buildings and seven in government-owned buildings;
- Government stores were converted to franchises in Radville, Eston and Hafford;
- Restaurants were permitted to sell off-sale wine to patrons, following a meal in the establishment;
- VLTs were introduced in the province in 1993-94;
- Debit and credit card usage was introduced in the liquor store system in 1995-96; and
- Off-sales gained the ability to retail spirits in 2002, in addition to wine and beer.

2009-Present

Since 2009, changes to liquor regulations have included the elimination of antiquated rules with respect to the consumption of liquor and the introduction of private liquor stores in Regina and Saskatoon:

- 2009: Two private wine stores opened in urban areas (one each in Regina and Saskatoon);
- 2012: Adoption of a new policy to have new demand for liquor stores met through the private sector rather than the public sector;
- 2013: Conversion of Willow Park Wines and Spirits in Regina to a full-line private liquor store able to retail beer, wine and spirits, including those sold in SLGA stores;
- 2013: Reduction in red tape / elimination of unnecessary or redundant liquor laws; and
- 2014: Two private liquor stores open in Saskatoon.

Conclusion

In contrast to more rapid changes that have been made over the past century to regulations governing alcohol consumption in licensed establishments, changes to the system of liquor retailing have happened at a slower pace.

Prior to the introduction of private wines stores in 2009, most of the defining features of the current liquor retailing system in Saskatchewan were almost 50 years old:

- The first government liquor stores were established in the province in 1915, and reintroduced following the end of prohibition in 1924. Until 1935, bottled or packaged alcohol could only be purchased at government stores;
- Off-sales were first introduced in 1935, when hotels were licensed to sell packaged beer to customers in addition to beer by the glass;
- Special vendors – which evolved into the current private franchise stores operating in rural communities – were introduced in 1965.

Incremental changes within the system - such as the expansion of the number of franchises in the province and expanded offerings within off-sales - have been important developments. However, they have not fundamentally changed the nature of the retail system.

The introduction of private wine stores and, more recently, private full-line liquor stores represents a change by Saskatchewan's historical standards, but it is consistent with developments in some other provinces.

Liquor Retailing in Other Jurisdictions

Provincial governments have control over how liquor is warehoused, sold, taxed and regulated. As a result, each province has developed its own retailing environment over time. The federal government has jurisdiction over the inter-provincial shipping of alcohol.

Some features of provincial liquor retailing systems are unique to each province. For example, Ontario has beer stores owned and operated by the major beer companies. Quebec has historically allowed wine and beer that is produced or bottled in Quebec to be sold in grocery stores. Most provinces have some form of a mixed system of public and private liquor retailing, when off-sales or franchises/agencies are included among the mix of private retail outlets. Alberta is the only provincial jurisdiction where the private sector is solely responsible for liquor retailing.

British Columbia

British Columbia's liquor retailing system is similar to Saskatchewan's, with a mix of 194 government stores and 670 private stores licensed to sell alcohol. Similar to Saskatchewan's franchises, B.C. has 221 rural agency stores providing service to communities that are not large enough for a full store. B.C. introduced a significant number of private liquor stores in 2002. Currently there is a moratorium on new private stores. In March 2014, B.C. announced that it would allow the private sector to retail all types of alcohol in grocery stores.

B.C.'s private stores receive a 16 per cent discount from government store retail prices and can:

- Set their own prices subject to the provincial minimums;
- Only sell to the general public (they cannot sell to other businesses involved in the sale of alcohol);
- Must be free standing businesses;
- Sell all product categories; and
- Sell non-alcohol related products, such as lottery products, cigarettes, packaged snacks and alcohol related items such as glasses and corkscrews. However, a private retail store cannot resemble a convenience store.

Further information on B.C.'s liquor system and the recent policy undertaken in the province can be found at:

http://www.bcliquorstores.com/
http://engage.gov.bc.ca/liquorpolicyreview/

Alberta

The Government of Alberta announced its decision to privatize its retail store operations in 1993. Within six months, all provincially operated liquor stores were closed. Operation of the government warehouse was contracted to a private company, Connect Logistics. However, the provincial government, through the Alberta Gaming and Liquor Commission (AGLC), continues to own the warehouse, be the importer of record, apply provincial mark-up, and set provincial policy respecting alcohol.

As a result of privatization, Alberta went from having 208 AGLC stores in 1993 to 1,338 private stores as of July 2014.

In the Alberta system:

- A flat rate mark-up is applied to all alcohol;
- AGLC does not determine which products are held in the warehouse. Instead, suppliers order products and pay a warehousing fee to house products. AGLC has almost 20,000 products in the warehouse;
- All private stores and licensees (bars and restaurants) can purchase liquor directly from the warehouse at wholesale prices, although there are minimum order requirements to order from the warehouse. Businesses that cannot meet minimum order requirements may purchase liquor from another private store at prices negotiated between the parties;
- Government does not control the number of stores or their proximity to one another. However municipalities continue to control where liquor stores can operate;
- Liquor stores are stand-alone structures and cannot be part of another business; and
- There is no minimum or maximum pricing of alcohol. Stores can sell products at prices the market will bear, meaning that prices vary throughout the province.

Further information on Alberta's liquor system can be found at: http://www.aglc.gov.ab.ca/

Manitoba

The Government of Manitoba operates 57 liquor stores called Liquor Marts, which offer a full line of products (beer, wine and spirits). Manitoba has 178 agency stores operating in the province, which are similar to Saskatchewan's franchises in offering a full line of products (beer, wine and spirits). Eligible hotel taverns in Manitoba can off-sale, but are limited to beer only. In addition, there are several privately operated specialty wine stores, which are only able to retail wine.

In 2012, Manitoba began to introduce Liquor Mart Express stores that are owned and operated by the government and offer popular wine, spirits and beers. The first Liquor Mart Express store within a grocery store opened in a Winnipeg Safeway in December 2012. Manitoba plans to open up to 10 Liquor Mart Express stores, with five located within grocery stores.

Further information on Manitoba's liquor system can be found at: http://www.liquormarts.ca/

Ontario

Ontario has two primary retailers of alcohol: the Liquor Control Board of Ontario (LCBO) which operates 645 government liquor stores and The Beer Store, which is owned by the large beer producers to sell beer. Ontario has 217 agency stores (similar to franchises in Saskatchewan) in smaller towns but does not have off-sales. In addition, Ontario wineries can have retail stores located away from the winery.

In 2012, Ontario announced that it would be putting LCBO Express stores in grocery stores. Similar to the Manitoba approach, the Express stores would be operated by the LCBO as government stores and would be staffed by government employees. To date, none of these stores have opened.

Further information on Ontario's liquor system can be found at: http://www.lcbo.com/

Other Jurisdictions: US/International

The sale of liquor in other countries varies widely from tight government control in some European countries to no government involvement in other parts of the world.

In the United States, 18 states have government monopolies related to alcohol. In some cases, the government monopoly is limited to distribution, with private businesses selling the alcohol in stand-alone stores, grocery stores or convenience stores. In other states, the government operates the stores directly. In other cases, governments operate stores but only sell spirits, while beer and wine are sold in convenience and grocery stores.

Taxation of liquor sales is the biggest difference between Canadian provinces and American states. In Canada, provincial and territorial governments have made the decision to use the sale of alcohol as a revenue generation tool. Governments apply mark-ups and in many cases, sales taxes to liquor. High mark-ups/taxation also serve as a social responsibility measure to help prevent over-consumption. American states, on the other hand, have taken a different approach and apply fewer taxes to liquor. While states make money on the sale of alcohol, it is significantly less than in Canadian provinces. This explains why prices in the United States are often a lot less than in Canada.

The Public Debate Over Private Sector Retailing

Increased private sector involvement in liquor retailing, including full privatization of liquor sales, has been debated across Canada since Alberta privatized its stores in 1993.

An Insightrix poll of Saskatchewan residents in June 2014 indicated:

One quarter (26%) of residents believe liquor stores should not be privatized at all, 34% feel the current approach is best (new stores privatized and existing stores remain public), and 23% support privatizing all liquor stores. One in ten (11%) have no opinion on the matter and 6% are unsure.

Turning to the customer experience side of things, roughly one half of Saskatchewan residents feel that privatizing liquor stores would mean better selection (52%) and better prices (51%) for consumers. [R]oughly one half of Saskatchewan residents believe that privatizing liquor stores means there will be fewer public dollars available for health, education, highways, etc. (47%); however, 51% believe that the privatization of liquor stores will allow the government to focus on building other facilities.

Several recurring themes arise in public debates regarding privatizing alcohol sales. These themes include:

- Revenue to government;
- Price, product selection and access/convenience; and
- Social impact of privatization.

The Alberta experience remains the reference point for much of this debate and proponents on both sides of the discussion refer to the same themes to support their positions.

Ad valorem: is a mark-up that is levied in proportion to the value of a product. In Saskatchewan, an ad valorem mark-up is a percentage applied to the wholesale price of wine and spirits from the supplier (up to a maximum amount): 167 per cent on spirits; 125 per cent on wine.

Impact on Government Revenue

Supporters of retail privatization argue that the Government of Alberta has made more money from the sale of alcohol since privatization. Supporters of government-run stores argue the opposite. Often ignored in these debates is the role that government plays in establishing the wholesale price of alcohol.

Alberta made the decision in 1993 to replace its ad valorem (percentage based) mark-up rate with a flat rate mark-up. Conversely, Saskatchewan along with other provinces maintains an ad valorem mark-up structure on most products, excluding beer to which a flat rate mark-up applies.

As a result, the mark-up on alcohol products follows manufacturer price increases in Saskatchewan and other provinces. In Alberta, the mark-up is set according to category of product and alcohol levels. In other words, when the price of alcohol purchased by the Government of Saskatchewan rises, so does the mark-up. In Alberta, the mark-up only rises when government makes a decision to increase the mark-up levels on a category of alcohol products.

Alberta also adopted a policy aimed at ensuring government would not see a reduction in revenue as a result of privatization. This continues to be true on an absolute dollar amount. Alberta is generating more mark-up revenue than it did in 1993. Moreover, Alberta achieved this while lowering its mark-up on alcohol on subsequent occasions over the years.

Critics who argue that Alberta saw reduced liquor revenues following privatization interpret a loss in revenue to mean foregone mark-up revenue Alberta would have experienced had they not changed their mark-up structure as a part of privatization.

As the table below illustrates, Alberta experienced an 18 per cent increase in net income per capita from direct alcohol taxation/mark-up between 1993 and 2013. In contrast, Saskatchewan experienced an 82 per cent increase.

Province	1993	2013	% Change
Saskatchewan	$114.62	$208.71	82%
Alberta	$152.01	$179.39	18%

- Source: Statistics Canada

The Impact of Privatization on Alcohol Prices, Access to Alcohol and Product Selection

As with the issue of government revenue, supporters and opponents of privatized alcohol retailing use product price and selection in Alberta as well as customer convenience to support their positions.

Price

While not the sole factor affecting price, the mark-up rate government wishes to apply to an alcohol product will have a significant effect on its final retail price. Like any other product, the level of revenue raised by government contributes to the final retail price of a product.

Reports on alcohol prices in Alberta vary depending on the source of the study. In reality, product prices vary from store to store in Alberta, with some products selling for less than in Saskatchewan (typically house/discount brands) and some products selling for more (typically mainstream brands, excluding temporary "loss-leader" discounts). Large chain retailers such as the Real Canadian Liquor Store, Liquor Mart and Liquor Barn also drive price variability through economies of scale.

To use some specific examples, scotch is generally less expensive in Alberta than in Saskatchewan. This is largely because the Government of Alberta made a decision to move to a flat mark-up rate. As a result, the Government of Alberta receives the same mark-up on a $150 bottle of scotch as it does on a $20 bottle of rum, leaving room for private retailers to price the scotch at a lower rate than in Saskatchewan while still earning a profit.

Competition is another contributing factor affecting the final retail price. Greater competition between retail outlets leads to price variability, such as sales on specific products. However, the degree to which retailers can compete against one another on the basis of price alone in Alberta is limited because all retailers purchase alcohol products from the Alberta government warehouse at the same cost.

Finally, Alberta does not apply a minimum or social reference price, which results in lower prices on economy products. A description of social reference pricing can be found on Page 15 of this document.

Consumer Access to Liquor Retail Outlets

Alberta's decision to allow for an open market approach to the establishment of private liquor stores through privatization led to a significant increase in the number of stores. In January 1993 there were 803 liquor retail outlets in Alberta. This included 208 government stores. Following privatization, the number of liquor outlets grew to 1,187 in 14 months. Critics of privatization point to this increase in the availability of alcohol as contributing to the negative social impact of privatization. Proponents of privatization argue that the expansion provided benefit to consumers in terms of access and product choice.

Product Selection

The AGLC reports that as of June 2014, there are almost 20,000 products available through the Connect Logistics warehouse. No store carries all products and most stores focus on popular/high volume products, leaving niche stores to fill customer demand for specialty products.

SKU: Stock Keeping Unit – a unique identifier that represents one package size of a particular product.

By comparison, there are approximately 2,544 product stock keeping units (SKUs) available through the Saskatchewan Liquor and Gaming Authority's (SLGA) warehouse and the beer distributors. In Saskatchewan, franchises carry a range of 100 SKUs to approximately 2,000 SKUs. Government stores range from approximately 500 SKUs to 2,300 SKUs.

The top 100 selling products comprise almost half of all alcohol sales in Saskatchewan. In addition to the products available through SLGA's warehouse and through beer distributors, private stores, rural franchises and commercial permittees order products that are not stocked in SLGA's warehouse. The early impact of private stores in Saskatchewan on increased product selection is evident in the new Co-op private store in Saskatoon, which carries 2,000 SKUs not currently carried by SLGA.

Social Impact of Privatization

Opponents of private alcohol retailing cite social responsibility as a reason to maintain publicly owned liquor stores. While it is widely accepted that alcohol consumption has potential to cause individual and social harm, there is no conclusive evidence that government owned and operated liquor stores reduce social harm. Opponents of privatized alcohol sales argue that consumption goes up and social harms are increased when the sale of alcohol is privatized. Arguably, it is not the nature of the retailer but broader government policies respecting price, as well as outlet density, that impact consumption.

The following table illustrates changes in per capita consumption of absolute alcohol (in litres) in Alberta, Saskatchewan and Canada as a whole between 1993 and 2013:

Year	Saskatchewan	Alberta	Canada
1993	6.7	8.3	7.5
2013	8.1	9.3	8

- Source: Statistics Canada (based on population 15 years and older)

Economic Impact of Privatization

Although several studies have looked at the impact of the privatization of alcohol retailing in Alberta, there has not been a study on the impact of privatization on Alberta's economy in its entirety. However, there are currently 1,332 private businesses in Alberta creating employment opportunities and paying property and business taxes, etc.

A study of Alberta's privatization of liquor retailing undertaken on behalf of the Fraser Institute concluded that employment in private liquor stores following privatization was about triple the employment in Alberta Government Liquor Stores prior to privatization. The study also noted that wages of non-management private liquor store employees were almost one-half of what a full-time worker at the top of the pay scale could earn in an Alberta Government Liquor Store prior to privatization.

THE SYSTEM TODAY:
THE LIQUOR RETAILING SYSTEM IN SASKATCHEWAN

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Liquor is retailed in Saskatchewan through a mixed system of government owned and operated outlets and privately owned and operated outlets (private full-line liquor stores, off-sales and franchises). Government applies a mark-up to all alcohol products sold in Saskatchewan regardless of how liquor is retailed. The rate at which government chooses to tax alcohol has substantially more impact on government revenue than how alcohol is retailed.

Government Stores

Saskatchewan currently has 75 government owned stores in 60 communities, employing approximately 750 people, including full-time, part-time and casual workers.

Of the 75 stores SLGA currently operates, 50 of the buildings are owned by SLGA and the remaining 25 stores are leased. Of the 50 stores SLGA owns, 44 are located outside the four largest cities.

SLGA stores currently serve two kinds of customers: retail and commercial. Retail customers buy alcohol from stores for personal consumption. SLGA stores and the existing government warehouse also supply products to commercial customers. Commercial customers are businesses that are involved in the resale of alcohol, either through on-table sales in the business (for example, restaurants, bars) or for personal consumption (franchises, off-sales).

Government stores sell at consistent prices across the province. The number of SKUs carried in government stores range from approximately 500 SKUs in smaller, rural stores to 2,300 SKUs in larger stores.

Franchises

Franchises are businesses that are licensed by the provincial government to sell alcohol in communities not served by a government store. For the most part, franchises sell a selection of alcohol products sold in government liquor stores at the same retail price as government stores. The franchises receive a portion of the price of each product, known as a commission. This effectively provides the equivalent of a discount, similar to how private stores receive a discount. Franchisees also have the option to special order and sell products not available in government stores. Franchisees can set any price for those products, subject to a minimum price applied to all alcohol sold in Saskatchewan.

The number of SKUs carried by franchises range from 100 in some stores all the way to approximately 2,000 SKUs.

To be eligible for a franchise, a community must have a minimum population of 250 people and be located more than 20 KM from the nearest SLGA store or franchise.

There are about 190 franchises in Saskatchewan. Of those franchises, about 84 are allowed to sell popular beer (for example, Molson Canadian, Budweiser, Coors Light). The rest of the franchisees can only sell "specialty" beer (for example, Heineken, Corona, Moosehead).

Franchise operators decide their own hours of operation but cannot sell alcohol earlier than 8:00 a.m. or later than 10:00 p.m., seven days a week. Policies regarding chilled beer and hours of operation reflect decisions made years ago to protect rural off-sales' beer and convenience markets. Franchises may also sell to commercial permittees or licensed establishments that serve and sell alcohol, as long as the licensed establishment is within a defined trading area. In other words, franchises cannot sell alcohol to a commercial permittee located on the other side of the province.

Off-sales

Permission to operate an off-sale allows an authorized bar or restaurant to sell wine, beer and spirits for personal consumption. Traditionally, off-sales sold cold beer. In 1987, off-sales were allowed to sell wine and coolers, with the addition of spirits in 2002. There are approximately 450 off-sales throughout Saskatchewan.

Off-sales receive a volume-based discount on beer purchased in cans and bottles through private beer distributors. There is no discount on any product (beer, wine or spirits) purchased from SLGA.

Off-sales can set their own prices. Some off-sales price their product the same as SLGA during store or franchise hours. Once nearby liquor stores or franchises close for the day, off-sale prices tend to increase. Off-sales that are not close to SLGA stores or franchises can sell at any price, usually higher than SLGA since there is little or no competition.

Off-sales can be open from 9:30 a.m. to 3:00 a.m., but must be open at least six hours each day for five days a week.

Private Full-Line Liquor Stores

In late 2012, the provincial government implemented a new policy to have the private sector meet the need for future liquor stores rather than using public funds to build them.

As a result of population growth in Regina and Saskatoon, there was a need for new stores. Proposals were sought from the private sector to build and operate two liquor stores in each of Regina and Saskatoon. The successful private sector bidders were:

- Sobeys – Regina Rochdale (under development) and Saskatoon Stonebridge (opened September, 2014);
- Saskatoon Co-op – Saskatoon Blairmore (opened March, 2014); and
- Willow Park Wines and Spirits – Regina Harbour Landing (open in its current Albert Street location while the Harbour Landing location is developed).

Private stores must be operated as stand-alone businesses and cannot be physically located within another business. Private stores receive a 16 per cent discount from SLGA prices or the SLGA determined base price of alcohol. They have the ability to set their own retail prices, subject to the provincial minimum price.

Private stores can sell all products, including SLGA listings, cold beer and special-order products, but must source all products through SLGA's warehouse or private beer distributors. Private stores may operate between 8:00 a.m. and 10:00 p.m., seven days a week. Private stores cannot sell to other businesses involved in the sale of alcohol, such as bars or restaurants.

Government's Additional Roles in the Liquor System

In addition to being a retailer of alcohol, government plays a primary role in warehousing and wholesaling alcohol, regulating private sector retailers and promoting social responsibility and public safety.

Warehousing and Wholesaling

All alcohol sold in Saskatchewan must be received at SLGA's warehouse, with some limited exceptions for local producers and beer sold in the province which are distributed through agreement with the Government of Saskatchewan. This is a result of federal legislation. However, the federal government has instituted changes allowing the direct shipment of alcohol to consumers. In August 2014, Saskatchewan and B.C. announced their intention to allow the direct shipment of wine and craft spirits to consumers between the two provinces.

Currently, government stores, private stores and some franchises are serviced directly from the SLGA warehouse. Smaller franchises and licensed establishments (e.g., restaurants and bars) are serviced largely from SLGA stores, although some franchises sell to some licensed establishments. Once the new SLGA warehouse is operational next year, the vast majority of liquor sales to commercial permittees will be serviced directly from the SLGA warehouse rather than through government stores.

Beer Distribution

By agreement, government has authorized Brewers Distributors Ltd (owned by Molson and Labatt), Sleemans and Minhas to distribute beer directly to SLGA stores, franchises, private stores and commercial permittees. Beer distributors then remit the mark-up to SLGA.

Regulation

Government is responsible for regulating the sale and service of alcohol in the province. This includes oversight of establishments that serve alcohol (such as restaurants and bars) and retail outlets (such as franchises, private stores and off-sales).

Franchises, private stores and off-sales are granted the authority to sell alcohol from SLGA, either through a permit (off-sales) or through contract (franchises and private stores). Terms of operation for off-sales are determined through regulation and SLGA policy, and are enforced through charges being laid under the *Alcohol and Gaming Regulation Act, 1997* or by SLGA issuing penalties (generally in the form of fines or suspensions of permits). Franchises and private stores are subject to contractual terms. In the event of a dispute, general contract law applies, up to and including termination of the arrangement with the offending franchise or private store.

Social Responsibility / Public Safety

While most people think of impaired driving when considering the harm done by alcohol, there are several health risks that may arise as a result of alcohol misuse. These include several types of cancers and heart disease. Societal costs include costs to the criminal justice system, cost to the health system and lost productivity.

In addition to prohibiting the sale of alcohol to minors, the Government of Saskatchewan introduced minimum pricing/social reference pricing in 2010 as a means of minimizing the harm associated with high alcohol/low cost products. Minimum/social reference pricing considers the type of alcohol, container size and alcohol by volume of a particular product to determine the minimum price for which it may be sold in Saskatchewan. The minimum/social reference price applies to all alcohol sold in Saskatchewan, whether sold in an SLGA store, franchise, private store or off-sale.

The standards set for private retailers respecting public safety are the same as those set for government stores. For example, anyone caught selling alcohol to a minor or a person who appears to be intoxicated could be charged and penalized under *The Alcohol and Gaming Regulation Act, 1997*, regardless of whether the person works in a government store, franchise, off-sale or private store.

Government Revenue from Liquor Sales in Saskatchewan

The Government of Saskatchewan derives its revenue from liquor sales through the mark-up the SLGA applies to alcohol products received from suppliers and the Liquor Consumption Tax (LCT) applied on alcohol sold in Saskatchewan.

The chart below presents gross revenue from liquor sales prior to the discount provided to retailers. Net income is derived from calculating the net revenue received from liquor sales (gross sales less the discount to retailers), less expenses such as the cost of goods and store operating costs, etc.

The chart below outlines gross sales and net income derived from liquor sales over the past ten years.

Fiscal Year	Gross Sales (Millions)	Consumption / Volumes (in Millions of Litres)	Net Income (Millions)
2004/05	$396.6	71.2	$143.3
2005/06	$414.2	72.7	$147.2
2006/07	$443.3	75.9	$161.5
2007/08	$484.1	80.1	$173.6
2008/09	$521.1	83.0	$197.2
2009/10	$556.2	86.6	$205.3
2010/11	$564.9	83.6	$215.0
2011/12	$591.9	86.7	$218.7
2012/13	$612.6	89.1	$232.2
2013/14	$632.3	89.9	$252.3

Out of total sales of $632.3 million in 2013-14:

- $349.5 million in sales were to the public through government stores; and
- $282.8 million in sales were to commercial retailers (including off-sales, restaurants and bars, franchises and private stores).

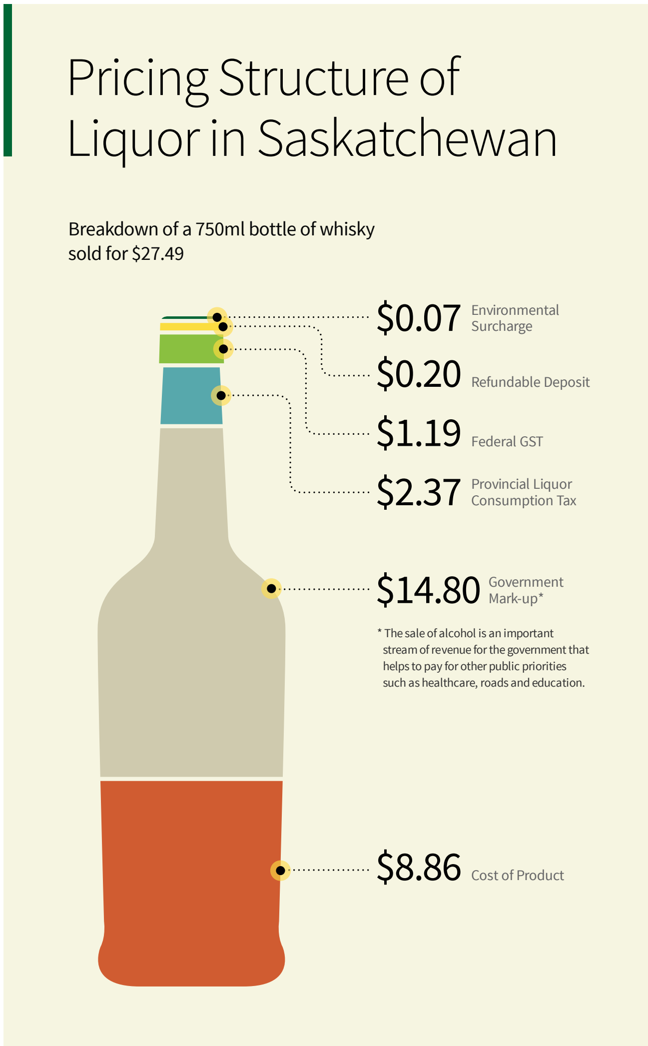
Mark-Up, Taxation and Discounts

A mark-up on alcohol is applied consistently to all products in a category, regardless of whether products are retailed through a government store, private store, off-sale or franchise. In the case of wine and spirits, the mark-up is a percentage applied to the wholesale price from the supplier. In the case of beer, the mark-up is a fixed rate applied per litre.

In addition to SLGA's mark-up, a Liquor Consumption Tax (LCT) is collected on all alcohol sold in Saskatchewan. In the 2013-14 Budget, LCT revenue was estimated to be $88.8M.

The LCT is applied to the end consumer only. For example, when a person buys alcohol from an SLGA store or franchise for personal consumption, the LCT is collected and remitted to government. When a permittee buys alcohol for sale in their bar, restaurant or off-sale, the LCT is not collected. Instead, the permittee collects the LCT when he or she sells to customers and remits it to the provincial government. In this way, LCT is collected only once and not each time the alcohol is sold.

Even though the mark-up is applied to all alcohol sold in the province, some retailers receive a discount on the base price of liquor. These discounts vary by type of retailer.



Private retail stores receive a 16 per cent discount on the base price of liquor products as established by SLGA. Franchises receive a 15.3 per cent discount on non-beer products and an 8.2 per cent discount on beer purchased from beer distributors. Off-sales receive a discount volume-based discount on beer purchased from beer distributors, but do not receive a discount on beer, wine or spirits purchased from SLGA.

The following discounts apply to off-sale beer purchases:

Purchases	Discount
Less than $100,000	13.52%
$100,000 to $400,000	12.63%
Greater than $400,000	10.25%

The Cost of Running Saskatchewan's Liquor System

The total cost of running Saskatchewan's liquor system was $367.7M in 2013-14, including:

- Cost of goods $295.2M (80%)
- Government store costs/cost to retail $44.4M (12%)
- Head office and regulatory costs $18.4M (5%)
- Cost of warehouse $9.7M (3%)

Public and Commercial Sales Through Government Stores

Liquor sales from government stores to the public totaled $349.5 million in 2013-14. In addition to sales from the government warehouse, government stores are also used to distribute liquor products to commercial permittees and franchises. However, when the new SLGA warehouse opens the vast majority of SLGA liquor sales to commercial permittees will be sold directly from the new warehouse. In 2013-14, government stores recorded $15.3M in sales to franchises and $82.4M in sales to commercial permittees.

Government Store Sales by Customer Type (2013-14)			
Sales to the Public (Millions)	Sales to Franchises (Millions)	Sales to Commercial Permittees (Millions)	Total Sales Through Government Stores (Millions)
$349.5	**$15.3**	**$82.3**	**$447.1**

The Expense of Running Government Stores: Expenses as a Percentage of Sales

Because the vast majority of liquor products purchased by commercial permittees and franchises will be sourced through the new government warehouse beginning in 2015 rather than through government stores, the operating cost of stores presented in the chart below excludes store sales to franchises or commercial permittees.

As the chart below indicates, there are wide discrepancies between government stores when comparing operating expenses as a percentage of sales of government's 75 stores. The top 10 stores have an average sales-to-expense ratio of 12 per cent, compared to an average 19 per cent sales-to-expense ratio of the least efficient group of stores.

SLGA Sales to the Public and Store Expenses (2013-14)					
Stores Grouped by Expenses as a Percentage of Sales	Sales to the Public (Millions)	Direct Store Expenses (Millions)	Head Office Indirect Expenses * (Millions)	Total Store Expenses (Millions)	Expenses as a Percentage of Sales
Top 10 stores	$153.6	$14.3	$3.4	$17.7	12%
Stores 11-20	$86.6	$9.7	$1.9	$11.6	13%
Stores 21-30	$31.1	$3.8	$0.7	$4.5	14%
Remaining stores (31 - 75)	$75.5	$12.6	$1.6	$14.2	19%
Stores converted in 2014-15	$2.5	$0.6	$0.1	$0.7	28%
Non-specific Store Items **	$0.2	$1.3	$0.0	$1.3	
Sub-total	$349.5	$42.3	$7.7	$50.0	14%
Stores converted in 2014-15	$-2.5	$-0.6	$-0.1	$-0.7	
Total	$347.0	$41.7	$7.6	$49.3	14%

Total store operating expenses include individual store operating expenses plus head office expenses associated with the operation of retail stores. Also, store expenses exclude current operating expenses that will be transferred to the new warehouse in 2015, estimated at $2.1M annually. This chart does not include annual capital expenditures associated with the existing retail store system.

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* Head office expenses related to retail operations were allocated to retail stores on the basis of store sales to the public. These include costs such as financial services, human resources, the operation of IT systems, communications, audit, and staff education and development.

** Non-specific store items include mark-up from trade shows and promotional items, while expenses are largely related to employee pension and employee disability expenses.

Store Operating Expenses Plus Capital Costs

In addition to future operating costs such as salary increases, SLGA forecasts that future capital requirements and renewed IT for government stores will total approximately $41.5M over the next decade, for an average of $4.15M per year.

The following table illustrates the cost to operate and maintain stores by combining the 2013-14 operational cost of government stores with the average capital investment (less existing store amortization). This provides an estimate of the cash requirement in operating the government's retail liquor system.

Store Expenses Including Capital Costs (2013-14)			
Stores Grouped by Expenses as a Percentage of Sales	Sales to the Public (Millions)	Cost to operate as SLGA Stores:	
		Millions	%
Top 10 stores	$153.6	$17.7	12%
Stores 11-20	$86.6	$11.6	13%
Stores 21-30	$31.1	$4.5	14%
Remaining stores (31 - 75)	$75.5	$14.2	19%
Non-specific Store Items	$0.2	$1.3	
Average Capital Spend		$4.1	
Existing non-cash amortization included in store expenses		$-1.6	
Total	**$347.0**	**$51.8**	**15%**

Comparing the Efficiency of Government Stores

Franchises currently receive a blended discount rate of approximately 13.6 per cent (blended between discount rates on beer and non-beer products), while private stores receive a discount rate of 16 per cent on all alcohol products. There is also about $300,000 spent by the SLGA on head office expenses related to franchises.

These benchmarks provide a means to compare the efficiency of government retail stores to private stores, by measuring operating expenses as a percentage of total store sales revenue to the public.

Comparing Overall Cost of Government Stores vs Alternatives

The financial implications of comparing the operating costs of 75 government stores to alternative options – such as a fully private system or a mixture of government stores, franchises and private stores – depends on a series of assumptions and ultimately the decisions government may wish to make in the future.

For example:

- If government chose to close a number of government stores, it might do so by converting them to a mixture of franchises and opening new private stores that would operate under the current discount structure. This would have different financial implications, depending on the mix of retailing options adopted.
- Replacing government stores in their entirety with private stores in urban areas and franchises in smaller communities would have different financial implications (notably on the level of discount provided to franchises) if government chose to adopt a liquor retailing system that provided an equal discount structure to franchises and private stores.
- Replacing government stores as part of an overall change to create an openly competitive marketplace similar to Alberta would result in new revenue sources for government. The emergence of new private stores including, but not limited to, replacing existing government stores would result in an expansion of private retailers that would generate new economic activity and pay corporate and education property taxes.
- Moving to a fully open and competitive retailing environment similar to Alberta would involve providing commercial permittees such as off-sales with the same discount provided to private stores and franchises. In Saskatchewan, sales to commercial permittees totaled $222.4M in 2013-14. Commercial permittees received $12.1M in discounts on beer purchases and do not receive a discount on non-beer purchases. Therefore, moving to a common discount price on alcohol would have a negative impact on current government revenues without changes to the mark-up structure.

GOING FORWARD: FUTURE LIQUOR RETAILING OPTIONS IN SASKATCHEWAN

3

This section presents a series of options for retailing alcohol in Saskatchewan, ranging from a fully private retail model similar to Alberta's retail system to a model in which government would expand the number of stores it owns and operates.

While there are numerous variations possible both within and between these models, five different options are presented for consideration.

In all options the following principles apply:

- Government would continue to regulate and enforce laws related to alcohol retailing;
- Government would continue to collect revenue from the provincial mark-up included in the wholesale price of alcohol products, and through the application of the Liquor Consumption Tax to the end consumer;
- Government would maintain exclusive authority for warehousing alcohol coming into the province from suppliers for distribution to private liquor retailers and commercial establishments.

The starting point of this discussion is the status quo.

Status quo

Overview

Maintaining the status quo would continue Saskatchewan's mixed system of public and private liquor retailing.

Under the status quo option, the private sector would continue to retail alcohol through a small number of private stores, off-sale outlets and franchises in smaller communities.

In urban areas, the majority of liquor stores would continue to be government-owned and private stores would continue to meet public demand for liquor in a competitive marketplace. Government would continue to undertake operating and capital improvements in government stores, but any new stores required to meet increased consumer demand would be privately owned and operated.

Likely implications

- Liquor prices in government stores and franchises would continue to be set by government.
- Private liquor stores would continue to be able to retail products carried in government stores, as well as ordering and retailing products not carried in government stores. Private stores would maintain the ability to set the retail price on all products they carry.
- Government stores would continue to be the dominant liquor retailer in urban centres. The overall number of alcohol products carried in the province would grow, albeit at a slower pace than if more private stores were in operation and ordering products not carried by government stores.
- Franchises and off-sales would continue to operate as they do currently and government would maintain the existing system of discounts and commissions for franchises and commercial permittees.

Considerations

For Consumers:

- Consumers would continue to have access to government stores, with standardized prices across the province in both government and franchise stores on products carried by SLGA.
- To the extent new private stores are opened to meet increased consumer demand, consumers would experience some benefit from increased product selection, price variability and convenience.
- Consumers in larger centres would be the primary beneficiaries of increased choice in products, as new private stores would be opened only in urban areas.

For Government:

- Future expansion of liquor stores would be through privately owned and operated stores. This would allow government to invest in other priorities.
- Government would continue to make investments to maintain existing liquor stores.

For Stakeholders:

- Private sector retailers would be able to establish new private stores when there is sufficient new consumer demand, as determined by government.
- Commercial permittees and rural franchises would continue to be concerned that they do not receive the same discount on products that SLGA provides to private liquor stores.

Other (economic impact, impact on employment):

- To the extent that new private liquor stores are opened, there would be some additional economic activity and growth in private sector employment.

Expanded Private Retail System

Overview

Under this option, Saskatchewan would maintain a mixed public and private retailing system but expand the number of private liquor stores by closing government stores that are less efficient or require new government investment.

New private stores would be allowed to open in larger communities to replace less efficient government stores. Conversion from government stores to franchises would be considered in smaller communities to replace less efficient government stores. Increased consumer demand would be met by opening new private stores, consistent with current government policy.

This option would also involve deferring all future government operating and capital investments in existing stores, other than to maintain health and safety standards.

Likely implications

- Decisions on whether an existing government liquor store is continued or converted to a private store would depend on which direction better serves the consumer and is most efficient in terms of cost and future capital requirements.
- More efficient government stores would continue to operate. Government retail stores would be subject to an ongoing review in terms of their effectiveness and ability to meet customer needs.
- Franchises and off-sales would continue to operate as they do currently and government would maintain the existing system of discounts and commissions for franchises and commercial permittees.

Considerations

For Consumers:

- Consumers would experience greater product selection, price variability and convenience with the introduction of more private stores. As an example of product selection in private stores, the new private Co-op liquor store in Saskatoon added approximately 2,000 additional SKUs currently not carried in government stores. By comparison, the government system as a whole carries approximately 2,500 SKUs, with government stores carrying between 500 SKUs and 2,300 SKUs.
- Consumers in larger communities and cities would be the primary beneficiaries of new private stores, as smaller communities would be served by franchises.
- Consumers would experience some familiarity and predictability from standardized product prices across government stores and franchises in communities served by these outlets.

For Government:

- Converting or closing less efficient government stores would reduce provincial operating and capital costs.
- There may be an increase in the costs associated with regulating an increased number of private retailers.
- Some associated head office costs continue to be incurred even if less efficient stores are closed.

For Stakeholders:

- Existing commercial permittees (off-sales) in larger centres may experience increased competition from an increased number of private liquor stores.
- Franchisees and commercial permittees would continue to be concerned that they do not receive the same discount on products that SLGA provides to private liquor stores.
- There would be positive economic impact for businesses in smaller communities where government stores were converted to franchises.

Other (economic impact, impact on employment):

- The construction and operation of new private stores would result in new investment and increased private sector employment. Closure or conversion of government stores would result in job loss for SLGA employees.

Alberta-Style Fully Private Retail System

Overview

Under this option, Saskatchewan would adopt a fully private system of liquor retailing, similar to the model Alberta implemented in 1993. This option would significantly differ from the status quo, in that it would:

- Allow for an open and competitive fully private liquor retailing system, with limited barriers to entry for private retailers. Franchises and off-sale outlets would essentially operate as private liquor stores.
- Shift responsibility for alcohol retailing to the private sector through the closure of government liquor stores and the sale of assets.
- Allow existing/new full-line private liquor stores to expand locations within the province on a commercially viable basis, with the private sector determining both product selection and price based on customer demand.
- Eliminate any future operating or capital costs to government associated with being a retailer of alcohol.

Likely implications

Based on Alberta's experience, Saskatchewan consumers would experience the following changes:

- An increase in the number of retail liquor outlets in the province, although it is difficult to predict how many more outlets would be opened. Alberta experienced a 40 per cent increase in the number of retail outlets in the 14 months after privatization. However, Saskatchewan continues to have more liquor outlets per capita than Alberta.
- An increase in product selection. Alberta currently has approximately four times the number of liquor products available for sale than Saskatchewan, although the number of available products is also affected by growth in the number of retail outlets.
- Larger retailers would likely occupy a significant share of the liquor retailing market in urban areas and would compete primarily on price, location and volume of sales. It is also likely that a number of smaller niche stores would emerge that carry more specialized products not carried by larger retailers.
- Price variability, as private retailers would have unlimited flexibility to establish prices in a competitive marketplace.
- All liquor retailers (private stores, franchises, off-sales) receive the same discount on products.

Considerations

For Consumers:

- The number of new private stores that opened would be greater than the number of government stores that closed, creating additional retail outlets for consumers.
- Consumers would benefit from increased retail locations offering an expanded product inventory, resulting in consumers gaining greater selection and access to products available in Saskatchewan. For example, the new private Co-op liquor store in Saskatoon added approximately 2,000 additional SKUs currently not carried in government stores. By comparison, the government system as a whole carries approximately 2,500 SKUs, with government stores carrying between 500 SKUs and 2,300 SKUs.
- Consumers may see lower or higher prices on liquor products compared to the status quo, depending on how private retailers price their products as a result of competition. This would be different than the consistent product pricing across government stores and franchises.
- While an increase in the number of liquor stores would provide more convenience to consumers, some people may be concerned about the negative social impact of an increased number of liquor stores.

For Government:

- Government would save operating and capital costs associated with running government stores.
- There would be some financial gain occurring from the sale of land/buildings associated with the existing government stores.
- Government would incur costs related to the closing of public stores, including employee severance costs.
- Government might experience additional expenses to expand regulation and enforcement of an expanded private sector.

- Government would benefit from an on-going source of new tax revenue resulting from increased private sector participation in liquor retailing.
- Providing a consistent discount or wholesale cost of alcohol to all private retailers similar to Alberta (including commercial permittees such as off-sale outlets which currently do not receive a discount) could reduce provincial revenue without changes to the mark-up.

For Stakeholders:

- Existing private stores, franchises and off-sale outlets would benefit if government adopted Alberta's policy of a consistent wholesale price or discount structure for liquor for all private liquor retailers, including commercial permittees such as bars and restaurants in order to create a level playing field among liquor retailers.
- Establishing a true open-market system would result in competition between all private retailers in the province (private stores, franchises and off-sales) with no barriers to entry and no competition from government stores.
- In smaller communities, increased competition would result if new private stores were opened to compete with franchises and off-sales.

Other (economic impact, impact on employees):

- Potential increase in employment in the liquor retail sector. The extent of changes in employment and wages would depend on the private sector's interest in expanding the provincial liquor retail system.
- Closure of government stores would result in job loss for provincial employees. Based on the Alberta experience, some current employees would find employment in new private stores, while others could consider taking an ownership interest in a private store.

Managed Transition to Fully Private Retail System

Overview

Under this option, government would sell existing government liquor stores and/or the exclusive right to retail alcohol in a specific geographic radius to private retailers. This could be accomplished through an open tender/Request for Proposal (RFP) process to potential private sector retailers.

There are a number of ways an RFP process could be undertaken:

- Individual stores could be sold through tender to individual private vendors;
- City or region specific bundling of stores could be sold through tender to a single private vendor; or
- All government stores in the province could be sold through tender to a single private vendor.

This option would result in the sale of government stores to the private sector and consequently the private sector being responsible for all liquor retailing in the province. A key characteristic of this option is that an overall restriction would be applied on the number of full-line liquor stores operating in the province. Government could choose to limit the number of stores in operation to 75 (same as current government stores) or expand the number of private stores in operation up to a maximum number.

The purpose of adopting this model would be to:

- Allow a managed transition to a fully private liquor retailing system with consumers benefiting from increased product selection and variable pricing;
- Shift responsibility for alcohol retailing to the private sector, thereby eliminating any future operating or capital costs to government associated with being a retailer of alcohol;
- Provide government with up-front revenue received from the private sector for the sale of assets and the right to retail liquor within a specified area of the province; and
- Limit the total number of private liquor stores that could operate in any community, region or across the province as a whole.

Likely implications

- Saskatchewan would see approximately the same number of liquor stores throughout the province, or a managed expansion of stores, compared to the status quo. However, new private sector stores would replace existing government liquor stores.
- The private sector would determine the availability of liquor products based on customer demand, with consumers experiencing an increase in product selection. For example, the new private Co-op liquor store in Saskatoon added approximately 2,000 additional product SKUs (SKUs - stock keeping units) not carried currently in government stores. By comparison, the government system as a whole carries approximately 2,500 SKUs, with government stores carrying between 500 SKUs and 2,300 SKUs.
- Successful bidders on RFPs could have a dominant market position in geographical areas.
- This option would maintain the existing role of franchises and off-sales.
- Government store employees would have the opportunity to acquire an ownership interest in a new liquor store through the RFP process.

Considerations

For Consumers:

- Consumers would see approximately an equal number of full-line retail outlets to purchase alcohol, with private stores replacing government stores. Consumers would have additional choices if government chose to expand the overall number of stores allowed to operate in the province.
- Consumers would experience increased product selection through the private sector in response to consumer demand, although likely less than in an open and fully competitive marketplace.

- Consumers would experience variability in alcohol prices depending on the level of competition in the marketplace. The price variability would be less than what consumers would experience under a fully open and competitive system depending on how stores were sold.
- Consumers in rural communities not served by a government store would see minimal benefits from increased private sector retailing in the province.

For Government:

- Government would see a one-time revenue gain from the sale of government stores and /or the exclusive right to retail in prescribed areas. However, this would be dependent on private sector interest in liquor retailing and the value of related assets, attractiveness of the associated competition zone and related conditions established under the RFP process and the size of the retailer discount.
- Government would save operating and capital costs associated with running government stores.
- Government would benefit from an on-going source of new tax revenue resulting from increased private sector participation in liquor retailing.
- Government would incur costs related to the closing of public stores, including employee severance costs.
- Government might experience additional expenses to expand regulation and enforcement of an expanded private sector.

For Stakeholders:

- There would be a minimal new competition for existing franchises and off-sales, should a similar number of private stores replace government stores.
- Existing private stores that were unsuccessful or chose not to participate in the RFP process would likely be concerned about the impact of their market share.
- Franchisees and commercial permittees would continue to be concerned that they do not receive the same discount on products that is provided to private liquor stores.

Other (economic impact, impact on employees):

- Limited new economic impact or job creation if the private sector is limited to the operation of existing government stores.

Expanded Government Retail System

Overview

Under this option, Saskatchewan would maintain a blended public-private liquor retail system, but the role of government stores would be maximized in the system going forward.

Government stores rather than private liquor stores would be constructed to meet future consumer demand and government would actively look for opportunities to re-establish government liquor stores in communities currently served by a franchise. In addition, government could follow Manitoba's lead by introducing government liquor kiosks in grocery stores.

Likely implications

- At a minimum, no new private liquor stores would be opened. Future consumer demand would be met through new government stores.
- Government investment in new liquor stores would require increased capital and operating spending, including hiring more government employees.
- Government would have to decide whether to allow existing private stores to continue operating.
- Consumer selection, access and price would continue to be largely determined by government liquor stores.

Considerations

For Consumers:

- Continued predictability in products and prices across more government stores in the province.
- A bigger role for government retailing would eliminate the benefits of competition for consumers, such as greater product selection and price variability.

For Government:

- Government would have a higher degree of control over the retailing system.
- Government would be required to invest in new government stores to meet future demand, in addition the on-going cost of reinvestment in existing government stores. This would reduce government's capacity to invest in other public priorities.

For Stakeholders:

- No new or additional benefits for existing stakeholders from increased government involvement in liquor retailing.
- A decision to rely on the government for future expansion in response to consumer demand would raise significant concerns from existing private sector liquor retailers in terms of their future role in Saskatchewan's liquor retail system.
- The elimination of some franchises would have a negative impact on businesses in smaller communities.
- Franchisees and commercial permittees would continue to be concerned that they do not receive the same discount on products that are provided to private liquor stores.

Key Considerations / Questions Going Forward

Each of the options presented in this paper can be evaluated in a number of ways. Some of the key questions and considerations for evaluating the options are as follows:

1. What role should government play in liquor retailing? In particular:

    a. Should government continue to spend money to maintain or expand government liquor stores, or should that money be redirected to other public priorities?

    b. Does government have to be directly involved in liquor retailing, or should government's role be limited to regulating and controlling the liquor system, leaving retailing to the private sector?

2. On a scale of 1 to 5, how important is it that changes to the liquor retailing system be revenue-neutral (not reduce government revenue)?

3. Should liquor be available for sale in a wider array of retail outlets, such as in grocery stores? If so, what types of products (i.e. wine or beer) should be available?

4. Should government establish a consistent discount structure or wholesale price for all alcohol retailers, including commercial permittees such as bars and restaurants? For example, commercial permittees receive no discount on non-beer products. While a consistent discount would treat all retailers fairly, it would also reduce revenues to government without changes to the mark-up structure.

5. Should government maintain Social Reference Pricing to reduce the social harm of cheap alcohol, even if it increases the minimum price of alcohol?

6. If Saskatchewan moved to an Alberta-style private retailing system, should it consider establishing an overall cap on the number of private stores in operation province-wide, in a region or by community/ municipality?

Have your say!

- Visit www.saskatchewan.ca/liquorretail
- Written submissions have been requested from key stakeholders and will be posted on the website once received
- Deadline for feedback is January 30, 2015

Government
of
Saskatchewan