



Privatization of BC's Retail Liquor Store System Implications for Consumers

A report by the
Consumers' Association of Canada - BC
May, 2003

Cover photos: various private liquor stores in Alberta.

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about the. association

History of Service to British Columbia Consumers

Since 1947 the Consumers' Association of Canada (BC) has served the interests of consumers in British Columbia. The Association provides a strong independent consumer voice when government and industry make decisions that substantially affect the public. The Association represents the consumer's point of view to the media, government and corporations on issues related to safety, price, quality of service and products.

CAC(BC) is a non-profit organization supported by a network of volunteer members who conduct research and advocate on behalf of consumers via Advisory Boards, Commissions and Standing Committees. The Association submits briefs on consumer issues to governments and has assisted thousands of individual consumers in resolving disputes with product and service providers.

Consumer Advocacy

Throughout its history, the Association has advocated consumers' interests in government and corporate decisions and been a catalyst for consumer action on a range of issues such as:

- Mandatory seat belts & vehicle safety;
- Safety standards for children's car seats;
- Hazardous products symbol program;
- Bans on hazardous pesticides;
- Restricted selling practices for funeral services;
- Restriction of cable TV's negative-option marketing practices;
- Beverage container deposits;
- Auto insurance;
- Genetically Modified food labelling.

Association Philosophy

The CAC is a strong advocate of marketplace rights and responsibilities. Governments set important rules that shape the beverage alcohol marketplace. The CAC's objective is to assess how changes to these rules affect consumer interests.

Acknowledgement

The Consumers Association of Canada (BC) gratefully acknowledges information provided by the owners and managers of 69 liquor stores in the province of Alberta in preparation of this study. All comments, analysis, findings and conclusions in this study are the sole responsibility of the Association.

executive summary

In July 2002 the British Columbia government announced that it would close all government-owned liquor stores and warehouses, replacing these with privately owned retail stores and warehouses.

Alberta made the same decision in 1993 and the British Columbia proposal follows the Alberta model in concept but with some important differences. Alberta implemented a “big bang” approach that saw all government owned liquor stores closed over a six-month period between September 4, 1993 and March 5, 1994. British Columbia is proposing a phased in approach, which would result in about 40 government stores closing each year for the next three years.

This study examines issues that will affect all consumers – how the proposed changes in the existing liquor distribution model by the British Columbia government will impact retail prices, product selection and availability, and the design, location and number of new private liquor stores. This study uses information obtained from in the field research of 69 liquor stores in Alberta for some insights into the possible impacts of a privatized liquor store model in British Columbia.

Prices were obtained from private liquor stores and published retail and wholesale price lists. All data was adjusted for issues such as bottle deposits and GST.

In total, 53 different products at 69 liquor stores in 18 communities in Alberta were compared with prices at government liquor stores in British Columbia.

Important social policy questions that arise from the decision by the British Columbia government are beyond the mandate of the Association to examine.

Key Findings and Conclusions

1. Prices for beverage alcohol sold by British Columbia government owned liquor stores are competitive, and in many cases, cost less than typical prices at private liquor stores in Alberta.
2. Different taxes rather than privatization account for an important part of the price differences between provinces. British Columbia consumers would consistently pay less than the lowest prices in Alberta if British Columbia did not apply a 10% Social Services tax.

3. British Columbia consumers will pay 10-20% more for liquor under the BC government's current proposed system of privatization.
4. Prices for beverage alcohol sold at private liquor stores in Alberta do not vary significantly between small towns and large cities.
5. Product access and availability will increase as more private liquor stores are permitted to open and operate seven days a week in British Columbia.
6. Product selection will generally decline under British Columbia's privatization plan as larger government liquor stores are replaced with smaller private stores.
7. Based on Alberta's experience, effective municipal zoning, business license and public participation processes will be needed to satisfy consumer, business and community interests in British Columbia on the private liquor store issue.

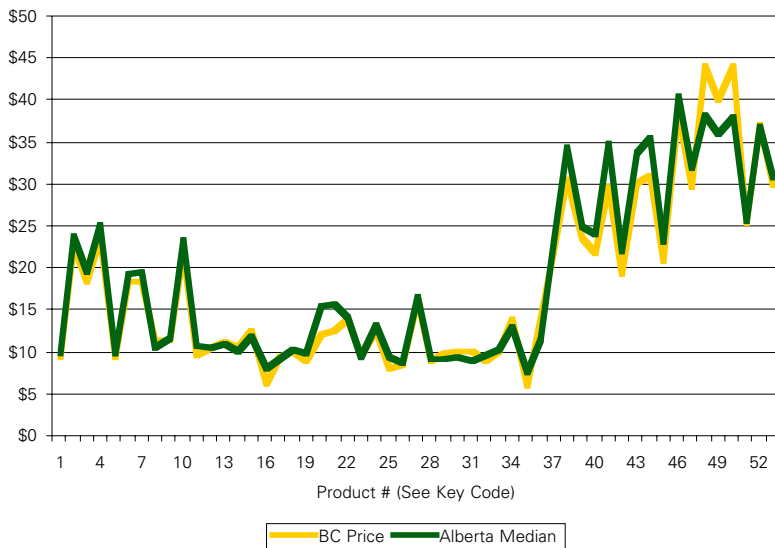
KEY CODE

ID# PRODUCT NAME

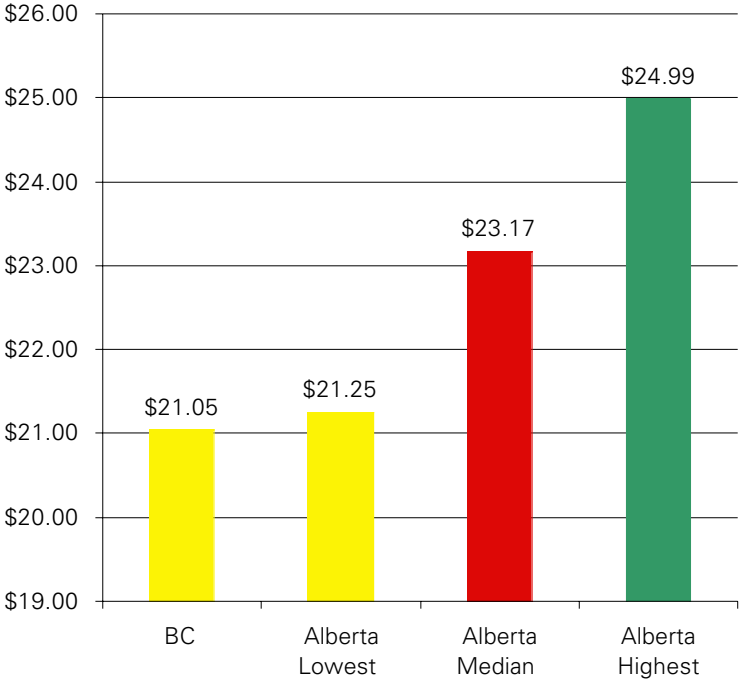
1. Labatt Blue (6 cans)
2. Labatt Blue (15 cans)
3. Budweiser (12 cans)
4. Miller Genuine Draft (15 cans)
5. Molson Canadian (6 cans)
6. Molson Canadian (12 cans)
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12. Guinness Stout (6 bottles)
13. Sleeman Cream Ale (6 bottles)
14. Big Rock Grasshopper (6 bottles)
15. Newcastle Brown Ale (6 bottles)
16. Canada Cooler Rockberry (4 bottles)
17. Mike's Hard Lemonade (4 bottles)
18. Okanagan Extra Raspberry (6 bottles)
19. Strongbow Cider (4 bottles)
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22. Gray Monk Pinot Noir (0.75 L)
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24. Peller Estates Founders Chard. (0.75 L)
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26. Sawmill Creek Chard. (0.75 L)
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50. Johnnie Walker Black (0.75 L)
51. Amoretto di Saronno (0.75 L)
52. Bailey's Irish Cream (1.14 L)
53. Godet / Chocolate (0.75 L)

LIQUOR PRICE COMPARISON 53 Popular Brands

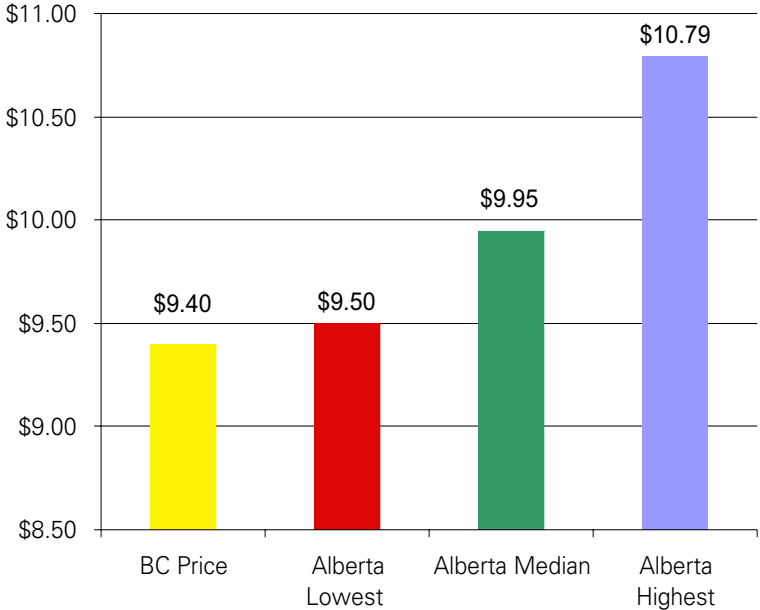
British Columbia vs. 69 Private Liquor Stores In Alberta



RETAIL PRICE COMPARISON Canadian Club Whiskey 0.75 L



RETAIL PRICE COMPARISON Molson Canadian Beer 6 pack



study overview

Introduction

Since the end of Prohibition, Canadian governments have closely controlled the pricing and sale of beverage alcohol to strike a balance between controlling consumption (via hours of service, number of outlets and pricing), ensuring consumers have access to products, and collecting significant tax revenues. The control function is reflected in the names that were often selected for the organizations that manage this function - Liquor Control boards or agencies. Government's view was that this control could only be fully exercised if an agency they owned was the sole wholesaler and owner of the retail distribution system. British Columbia's first government-owned liquor store opened in 1921.

In Canada this control function at the retail level has devolved to some degree. This ranges from Quebec permitting the sale of wine at local corner convenience stores to the establishment of beer and wine stores in British Columbia, to the full privatization of Alberta's liquor stores.

This study deals with a specific part of the liquor issue in British Columbia – how the proposed changes in the existing retail liquor distribution model by the British Columbia government will impact consumers with respect to retail prices, product selection and availability, and the design, location and number of new private liquor stores. This study looks to Alberta for some answers to important issues based on that province's experience with a private liquor store model.

It should be noted that privatization raises other issues such as the possible effect of the British Columbia government's liquor distribution decision on alcoholism rates, crime, employment, drunk driving, policing, and underage drinking. These issues, although worthy of review, are outside the mandate of the Association and not part of this study.

Study Methodology

Many consumers want to know, *"do beer, wine and spirits cost less in Alberta at private liquor stores than at government liquor stores in British Columbia?"*

In order to answer this question, and others, in March 2003 the Association conducted on-site visits to 69 liquor stores in Alberta. This first hand field research obtained pricing information on a wide range of large selling major brands of popular beverage alcohol products. The results of this price survey, price comparisons to British Columbia prices and other information collected may be found in the Findings section of this study.

liquor.store privatization

Alberta

The privatization of the wholesale and retail distribution of liquor in Alberta was based on a changed philosophy that has also recently been voiced by the British Columbia government: there is no longer a valid reason for government to be involved in the liquor distribution business as control of liquor sales and tax revenues can be maintained without managing or owning the distribution system.

In Alberta, the provincial government implemented a “big bang” approach in its switch away from the government-owned liquor distribution model. Alberta announced on September 2, 1993 that it was privatizing its system; six months later, on March 5, 1994, the last of 205 government liquor stores in the province were closed.

Alberta applied key controls to the private liquor business including policies like uniform wholesale prices, uniform pricing for transportation and a requirement that each store must be physically separated from any other business. Importantly, Alberta’s policy was to avoid restrictions on the number of private stores allowed to open in a community, retail prices, building design or minimum selling area. The applications of these policies have significantly shaped the structure and nature of the private liquor store business in Alberta and has meant that traditional open market forces of scale, volume discounts and location are not key factors as they are, for example, in the retail food industry. As a result, these policies have enabled many small private liquor store businesses to exist and compete with some of Canada’s largest retailers.

Historically, government liquor stores also had easy access to capital to invest in buildings, the best locations, and merchandizing. The Alberta model in which local entrepreneurs dominate is different than the government store model in that many private liquor stores have a “look” similar to local convenience stores.

Alberta also implemented new tax measures that underpin how much consumers’ pay for alcohol beverages at private liquor stores. The first measure was a unique decision by a government – Alberta agreed to cap all its net tax revenues from alcohol beverages sold at liquor stores. This cap, or revenue freeze, set at approximately \$450 million per year, was to be reviewed yearly, and was designed to keep the province’s net tax revenues at about the same level as when it had operated government-owned liquor stores. As retail sales increased due to strong population growth in the 1990’s, the Alberta government’s tax revenues would also have increased. In order to meet its revenue cap commitment the Alberta government reduced its tax rate on alcohol beverages three times between 1994 and 2002.

Alberta government studies indicate that this decrease in the flat tax has not necessarily translated into lower wholesale or retail prices for consumers. For example, some product manufacturers responded to a decrease in the flat tax with an equal price increase. (Review of Liquor Mark-Up Structure and Related Policies, Alberta Gaming and Liquor Commission, P- 67, February 2003).

The second tax measure was to change the way taxes on liquor are calculated. Alberta went from using the “ad valorem” (Latin for “as to value”) system to a simplified flat tax system where alcohol beverages are taxed based on alcohol content. Ad valorem is a more complicated method used in provinces like British Columbia in which a sliding percentage of value scale is applied to each product based on its landed wholesale cost to the British Columbia Liquor Distribution Branch.

British Columbia

The Liquor Distribution Act authorizes British Columbia’s Liquor Distribution Branch to import, warehouse, distribute and retail beverage alcohol in the province. As of the end of March 2003, British Columbians were served by 221 government liquor stores, 325 Licensee Retail Stores, and 230 rural agency stores.

On July 24, 2002, the British Columbia government announced that, over time, the Liquor Distribution Branch’s role would shift from the operation of warehouses and retail stores to the regulation of private-sector warehouses and retail stores. The Branch would continue to be the importer and wholesaler “of record” and be responsible for collecting liquor tax revenues. On February 18, 2003, the Branch released its three-year plan targeting a minimum of 40 to 50 government liquor stores to be closed in each of the next three years.

A significant difference between Alberta’s approach and that in British Columbia is that the British Columbia government has committed to conducting a community-by-community analysis before any government liquor stores are closed, to ensure that service continues to be provided to consumers.

Under the British Columbia government’s privatization plan a number of key criteria will be applied:

- Currently, only existing beer and wine licensees will be permitted to establish new private liquor stores and these stores must be attached to or on the same property as an existing licensed facility;
- No grocery stores or corner stores will be permitted to sell liquor, wine or beer;
- No government-owned liquor store will be closed until new private stores are in place to service a community;
- Each new licensee must seek approval under local community zoning and any other municipal bylaws that may apply.

key findings

FINDING #1

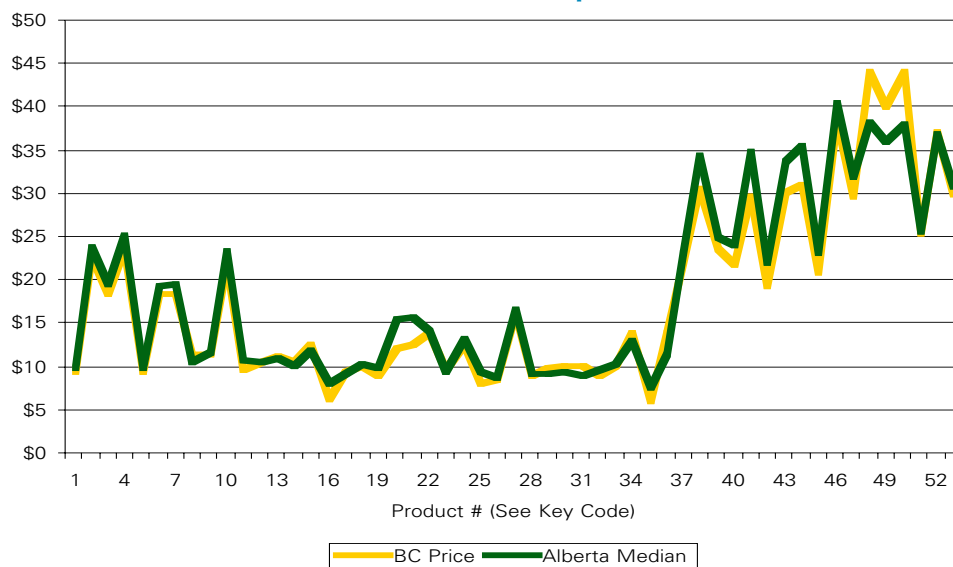
Prices for beverage alcohol sold by British Columbia government owned liquor stores are competitive, and in many cases, cost less than typical prices at private liquor stores in Alberta.

Chart 1 below illustrates the prices of 53 major beer, wine and spirits products sold at British Columbia liquor stores compared to the same products sold at 69 private liquor stores in Alberta.

Alberta prices for the same product varied widely compared to British Columbia's uniform province wide prices. An analysis of the data for the 53 products across all the 69 stores suggests that it is highly probable that on "an average day the average consumer" will likely pay a retail price closer to the median price determined through this price survey. While a consumer in Alberta might pay the lowest price for a product (Chart 2) there is an equal probability that they might pay the highest (Chart 3).

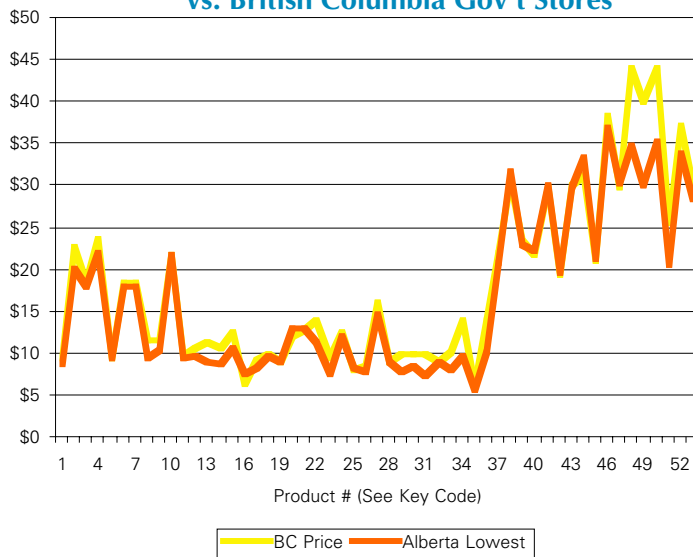
CHART 1

LIQUOR PRICE COMPARISON of 53 Popular Brands British Columbia vs. 69 Private Liquor Stores In Alberta



The finding that prices in British Columbia are very similar or less expensive than in Alberta is a surprise given that product prices in British Columbia include a 10% sales tax that Albertans' don't pay. Charts 4 and 5 on page 12 illustrate the price differences of two of the most popular products in Canada, Molson Canadian Beer and Canadian Club Whiskey.

Chart 2
Lowest Liquor Prices in Alberta
vs. British Columbia Gov't Stores



KEY CODE

ID # PRODUCT NAME

1. Labatt Blue (6 cans)
2. Labatt Blue (15 cans)
3. Budweiser (12 cans)
4. Miller Genuine Draft (15 cans)
5. Molson Canadian (6 cans)
6. Molson Canadian (12 cans)
7. Kokanee (12 cans)
8. Asahi Super Dry (6 bottles)
9. Corona Extra (6 bottles)
10. Heineken (12 bottles)
11. Moosehead Lager (6 bottles)
12. Guinness Stout (6 bottles)
13. Sleeman Cream Ale (6 bottles)
14. Big Rock Grasshopper (6 bottles)
15. Newcastle Brown Ale (6 bottles)
16. Canada Cooler Rockaberry (4 bottles)
17. Mike's Hard Lemonade (4 bottles)
18. Okanagan Extra Raspberry (6 bottles)
19. Strongbow Cider (4 bottles)
20. Domain D'Or White (1.5 L)
21. Domain D'Or Red (1.5 L)
22. Gray Monk Pinot Noir (0.75 L)
23. Jackson Triggs Cab. Sauvignon (0.75 L)
24. Peller Estates Founders Chard. (0.75 L)
25. Peller Estates Oakridge Zin. (0.75 L)
26. Sawmill Creek Chard. (0.75 L)
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29. Gato Blanco Sauvignon Blanc (0.75 L)
30. Piat D'Or White (0.75 L)
31. Black Tower White (0.75 L)
32. Donini Merlot (1.0 L)
33. E & J Gallo Cab. Sauvignon (0.75 L)
34. Mondovi Chard. (Woodbridge)(0.75 L)
35. Andres Baby Champagne (0.75 L)
36. Henkell Trocken (0.75 L)
37. Beefeater Gin (0.75 L)
38. Gordon Gin (1.14 L)
39. Tanqueray Gin (0.75 L)
40. Captain Morgan Spiced Rum (0.75 L)
41. Lamb's Navy (1.14 L)
42. Alberta Vodka (0.75 L)
43. Finlandia Vodka (1.14 L)
44. Absolut Vodka(1.14 L)
45. Canadian Club (0.75 L)
46. Crown Royal (1.14 L)
47. Seagram's 5 Star (1.14 L)
48. Chivas Regal (0.75 L)
49. Glenlivet (0.75 L)
50. Johnnie Walker Black (0.75 L)
51. Amoretto di Saronno (0.75 L)
52. Bailey's Irish Cream (1.14 L)
53. Godet / Chocolate (0.75 L)

Chart 3
Highest Liquor Prices in Alberta
vs. British Columbia Gov't Stores

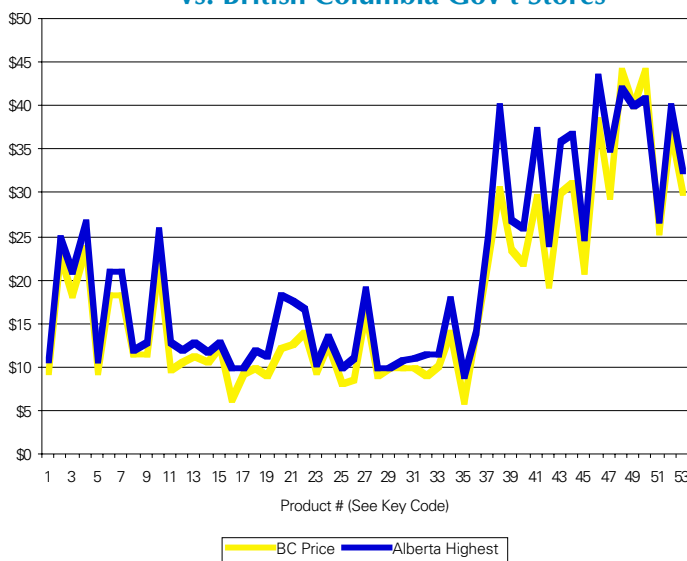


CHART 4
RETAIL PRICE COMPARISON Molson Canadian Beer 6 pack
British Columbia vs. 69 Private Liquor Stores In Alberta

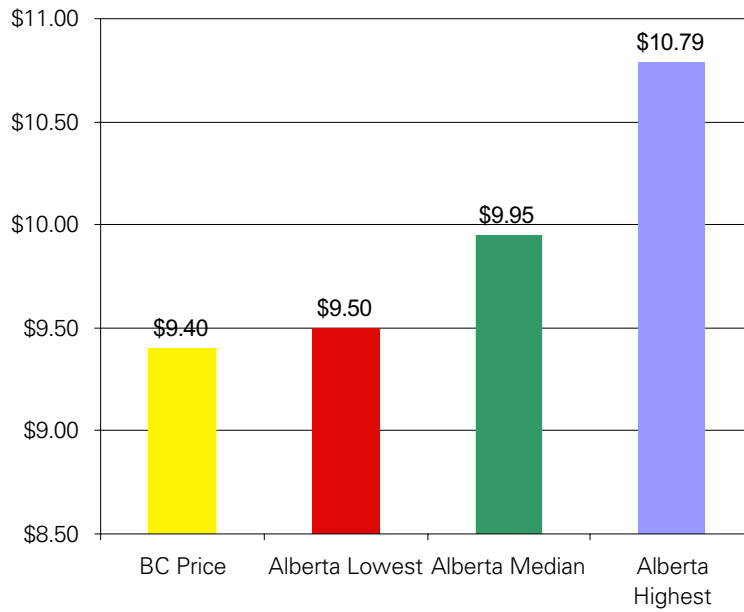
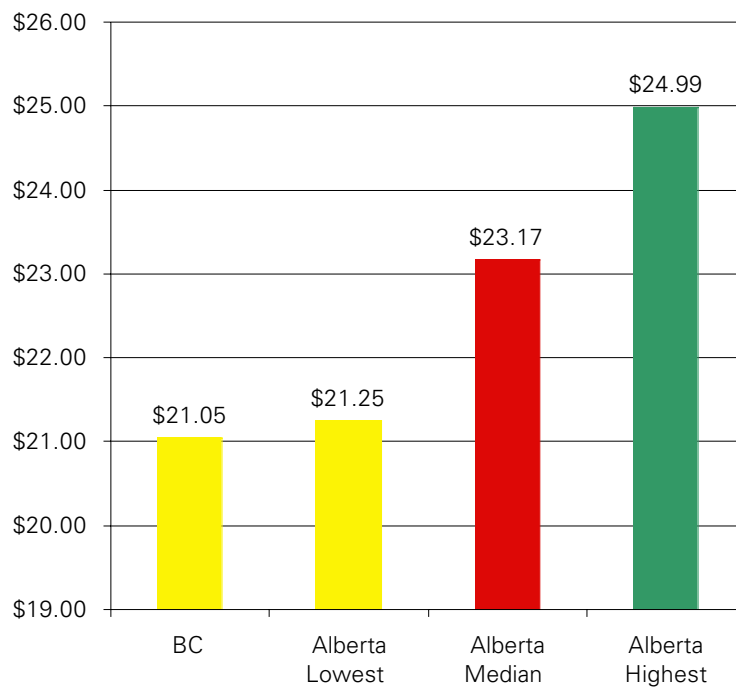


CHART 5
RETAIL PRICE COMPARISON Canadian Club Whiskey 0.75 L
British Columbia vs. 69 Private Liquor Stores In Alberta



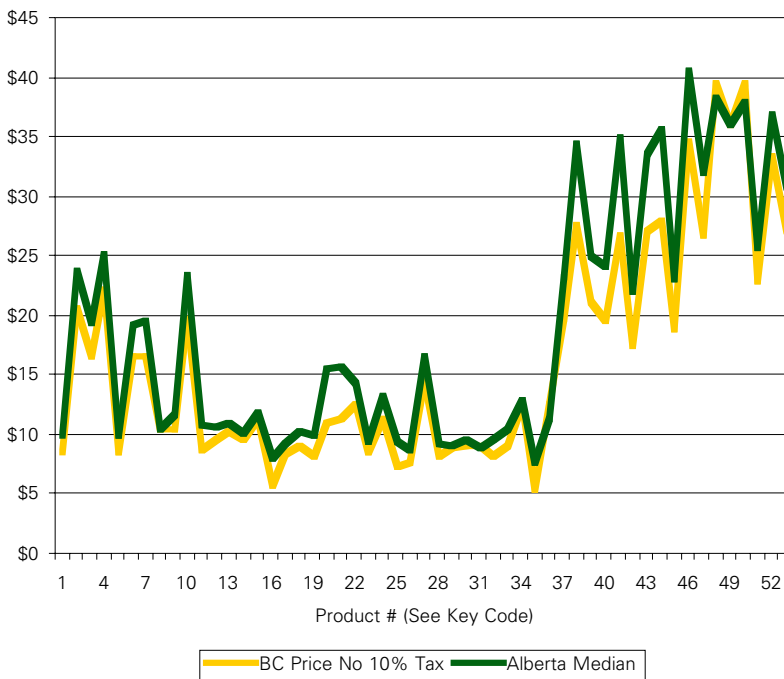
FINDING #2

Different taxes rather than privatization account for an important part of the price differences between provinces. British Columbia consumers would consistently pay less than the lowest prices in Alberta if British Columbia did not apply a 10% Social Services Tax.

Provincial taxes affect how much consumers pay for beverage alcohol products. Alberta does not apply a provincial sales tax to alcohol beverages while a 10% Social Services Tax is applied to the same products sold in British Columbia.

As Chart 6 shows, British Columbia consumers would consistently pay *less* than the median prices found in our sample of 69 stores in Alberta if British Columbia consumers did not have to pay this 10% tax.

CHART 6
A LEVEL PLAYING FIELD
BC prices without 10% Social Services Tax
vs. Alberta median prices



KEY CODE

- | ID # | PRODUCT NAME |
|------|---|
| 1. | Labatt Blue (6 cans) |
| 2. | Labatt Blue (15 cans) |
| 3. | Budweiser (12 cans) |
| 4. | Miller Genuine Draft (15 cans) |
| 5. | Molson Canadian (6 cans) |
| 6. | Molson Canadian (12 cans) |
| 7. | Kokanee (12 cans) |
| 8. | Asahi Super Dry (6 bottles) |
| 9. | Corona Extra (6 bottles) |
| 10. | Heineken (12 bottles) |
| 11. | Moosehead Lager (6 bottles) |
| 12. | Guinness Stout (6 bottles) |
| 13. | Sleeman Cream Ale (6 bottles) |
| 14. | Big Rock Grasshopper (6 bottles) |
| 15. | Newcastle Brown Ale (6 bottles) |
| 16. | Canada Cooler Rockaberry (4 bottles) |
| 17. | Mike's Hard Lemonade (4 bottles) |
| 18. | Okanagan Extra Raspberry (6 bottles) |
| 19. | Strongbow Cider (4 bottles) |
| 20. | Domain D'Or White (1.5 L) |
| 21. | Domain D'Or Red (1.5 L) |
| 22. | Gray Monk Pinot Noir (0.75 L) |
| 23. | Jackson Triggs Cab. Sauvignon (0.75 L) |
| 24. | Peller Estates Founders Chard. (0.75 L) |
| 25. | Peller Estates Oakridge Zin. (0.75 L) |
| 26. | Sawmill Creek Chard. (0.75 L) |
| 27. | Sawmill Creek Chard. (1.5 L) |
| 28. | Concha y Toro Merlot (0.75 L) |
| 29. | Gato Blanco Sauvignon Blanc (0.75 L) |
| 30. | Piat D'Or White (0.75 L) |
| 31. | Black Tower White (0.75 L) |
| 32. | Donini Merlot (1.0 L) |
| 33. | E & J Gallo Cab. Sauvignon (0.75 L) |
| 34. | Mondovi Chard. (Woodbridge)(0.75 L) |
| 35. | Andres Baby Champagne (0.75 L) |
| 36. | Henkell Trocken (0.75 L) |
| 37. | Beefeater Gin (0.75 L) |
| 38. | Gordon Gin (1.14 L) |
| 39. | Tanqueray Gin (0.75 L) |
| 40. | Captain Morgan Spiced Rum (0.75 L) |
| 41. | Lamb's Navy (1.14 L) |
| 42. | Alberta Vodka (0.75 L) |
| 43. | Finlandia Vodka (1.14 L) |
| 44. | Absolut Vodka(1.14 L) |
| 45. | Canadian Club (0.75 L) |
| 46. | Crown Royal (1.14 L) |
| 47. | Seagram's 5 Star (1.14 L) |
| 48. | Chivas Regal (0.75 L) |
| 49. | Glenlivet (0.75 L) |
| 50. | Johnnie Walker Black (0.75 L) |
| 51. | Amoretto di Saronno (0.75 L) |
| 52. | Bailey's Irish Cream (1.14 L) |
| 53. | Godet / Chocolate (0.75 L) |

CHART 7
A LEVEL PLAYING FIELD
BC prices without 10% Social Services Tax
vs. Alberta highest prices

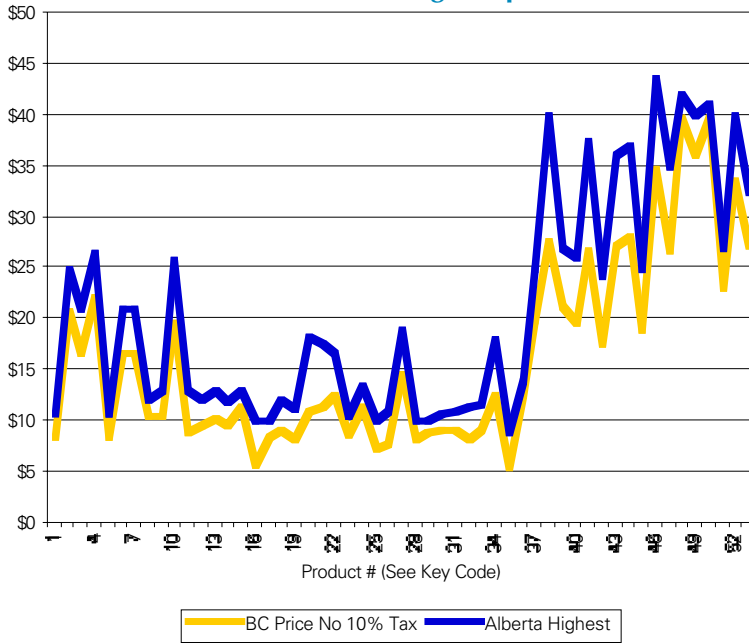
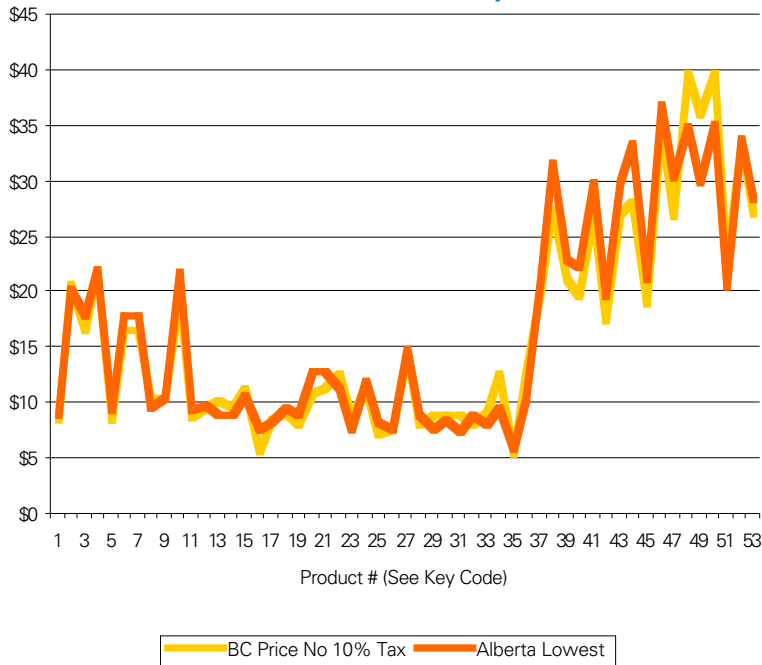


CHART 8
A LEVEL PLAYING FIELD
BC prices without 10% Social Services Tax
vs. Alberta lowest prices



KEY CODE

ID # PRODUCT NAME

1. Labatt Blue (6 cans)
2. Labatt Blue (15 cans)
3. Budweiser (12 cans)
4. Miller Genuine Draft (15 cans)
5. Molson Canadian (6 cans)
6. Molson Canadian (12 cans)
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33. E & J Gallo Cab. Sauvignon (0.75 L)
34. Mondovi Chard. (Woodbridge)(0.75 L)
35. Andres Baby Champagne (0.75 L)
36. Henkell Trocken (0.75 L)
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38. Gordon Gin (1.14 L)
39. Tanqueray Gin (0.75 L)
40. Captain Morgan Spiced Rum (0.75 L)
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46. Crown Royal (1.14 L)
47. Seagram's 5 Star (1.14 L)
48. Chivas Regal (0.75 L)
49. Glenlivet (0.75 L)
50. Johnnie Walker Black (0.75 L)
51. Amoretto di Saronno (0.75 L)
52. Bailey's Irish Cream (1.14 L)
53. Godet / Chocolate (0.75 L)

CHART 9
RETAIL PRICE COMPARISON BC VS. ALBERTA
 BC liquor stores with no 10% Social Services Tax
 Product: Alberta Vodka 0.75L (made in Alberta)

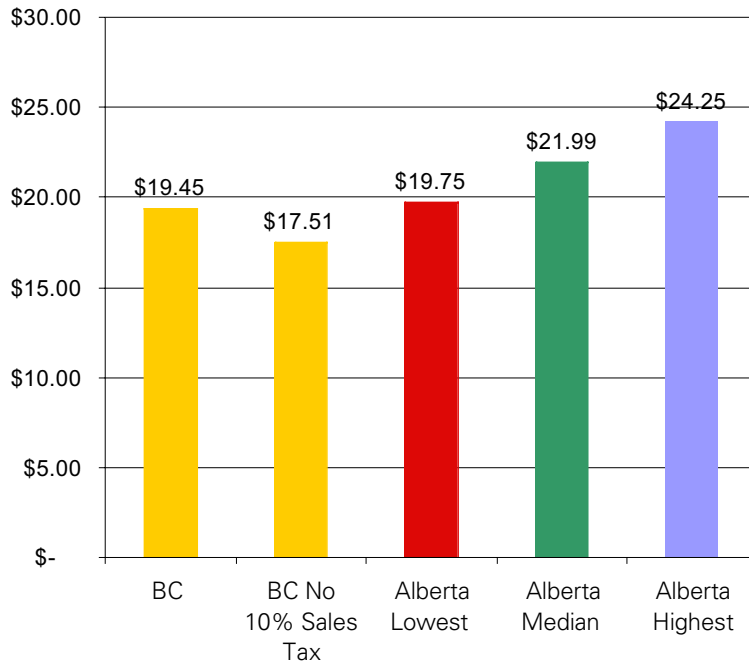
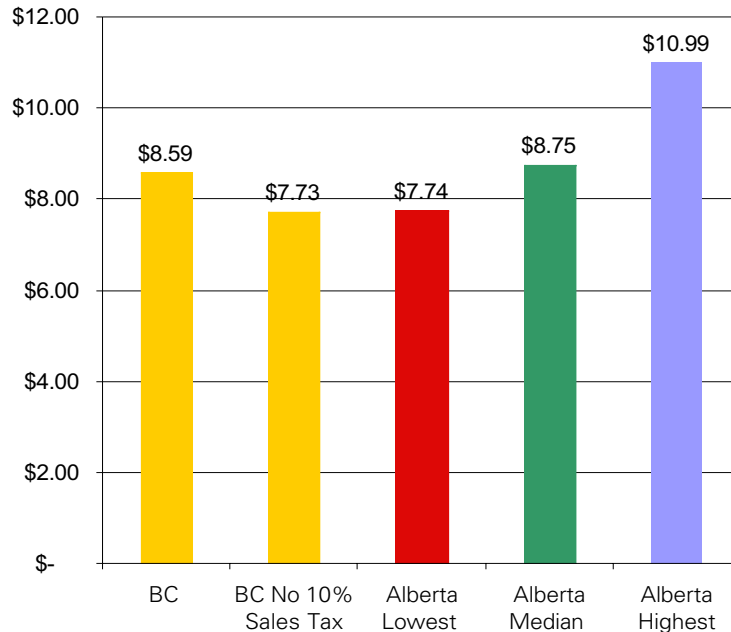


CHART 10
RETAIL PRICE COMPARISON BC VS. ALBERTA
 BC liquor stores with no 10% Social Services Tax
 Product: Sawmill Creek Chardonnay (made in BC)



FINDING #3

BC consumers will pay 10-20% more for liquor under the British Columbia government's proposed system of privatization.

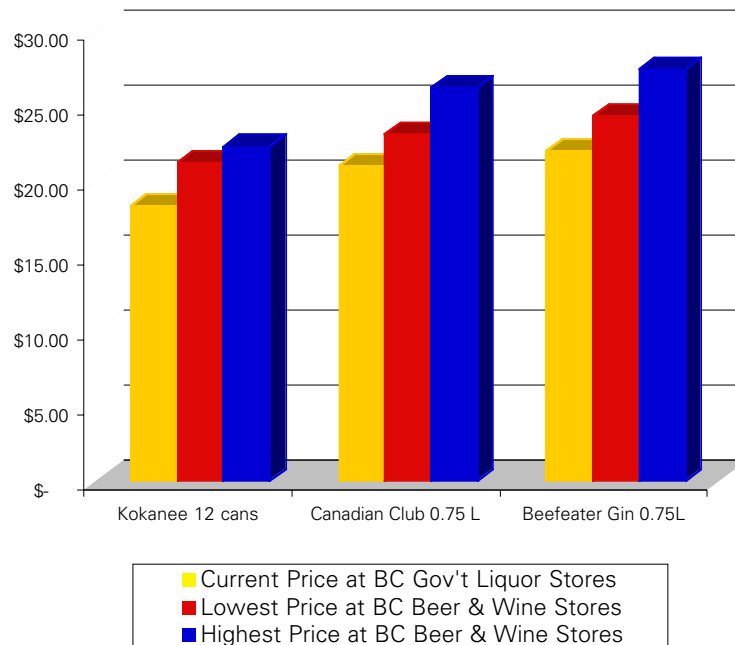
All liquor stores must make an adequate profit in order to stay in business. Based on the Consumers' Association retail price survey and the wholesale price list for Alberta, the range of gross profit margins on each product sold was calculated.

Gross profit margins varied widely for the range of products surveyed across the 69 private stores in Alberta. The calculated margins for all stores strongly indicates that gross profit margins per store, based on a survey of 53 products, are in the 20 - 25% range. This number is within the range estimated by many store managers during the survey of Alberta stores (See Chart in Appendix).

Currently, the British Columbia government provides to Licensee Retail Stores a price discount of 10% off the listed retail prices for products available through a government liquor store. If Alberta's experience is a guide this level of gross profit is inadequate to sustain this type of business. Current prices at British Columbia's Beer and Wine stores that are now also authorized to sell liquor products supports this conclusion as prices are generally higher at these stores than at government liquor stores.

The implication for consumers is that under the current program of privatization, British Columbia consumers will end up paying an added 10 – 20% more than they

CHART 11
ACTUAL PRODUCT PRICES IN BC
Three popular products



are currently paying at government liquor stores. On a province wide basis this price increase could translate into costing BC consumers tens of millions more dollars per year under a scenario in which all government liquor stores are closed.

Given the experience in Alberta, even if wholesale prices and/or taxes are reduced, there is no guarantee the savings will be passed on to consumers. (*Review of Liquor Mark-up, Structure, and Related Policies*, Alberta Gaming and Liquor Commission, February 2003.)

FINDING #4

Prices for beverage alcohol sold at private liquor stores in Alberta do not vary significantly between small towns and large cities in Alberta.

In British Columbia all government owned liquor stores, and rural agency stores, charge an identical price for the same product everywhere in the province. Licensee Retail Stores in the province may set their own prices.

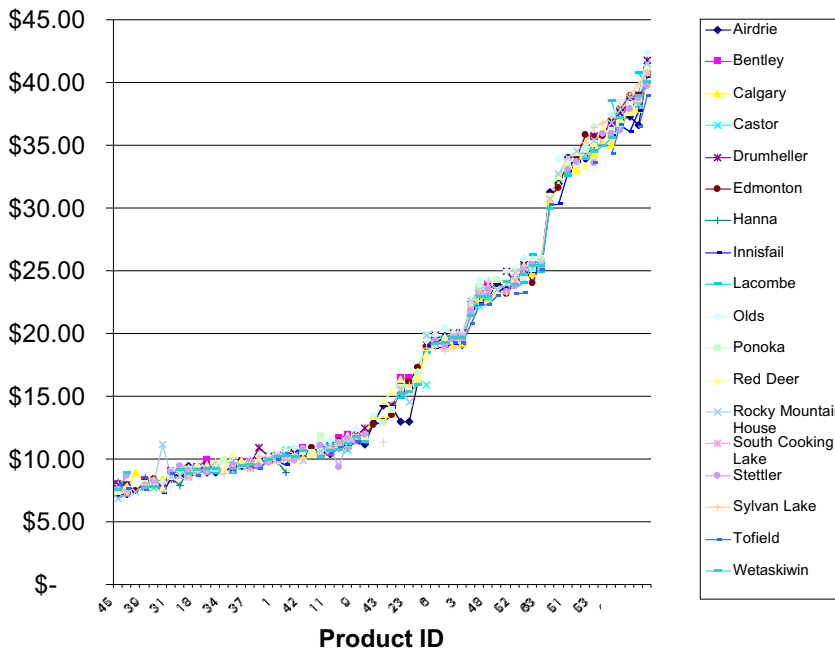
In Alberta all private liquor stores have the same wholesale delivered cost for the same products but are able to price their product at their discretion. The question is, *“Do retail prices in Alberta differ based on community size or location?”*

As the chart below illustrates, the close grouping of the pricing data reflects the fact that there is a small variance in prices for a particular product between small towns and large cities in Alberta. Price differences appear to be more related to individual product pricing decisions of store managers.

KEY CODE

| ID # | PRODUCT NAME |
|------|---|
| 1. | Labatt Blue (6 cans) |
| 2. | Labatt Blue (15 cans) |
| 3. | Budweiser (12 cans) |
| 4. | Miller Genuine Draft (15 cans) |
| 5. | Molson Canadian (6 cans) |
| 6. | Molson Canadian (12 cans) |
| 7. | Kokanee (12 cans) |
| 8. | Asahi Super Dry (6 bottles) |
| 9. | Corona Extra (6 bottles) |
| 10. | Heineken (12 bottles) |
| 11. | Moosehead Lager (6 bottles) |
| 12. | Guinness Stout (6 bottles) |
| 13. | Sleeman Cream Ale (6 bottles) |
| 14. | Big Rock Grasshopper (6 bottles) |
| 15. | Newcastle Brown Ale (6 bottles) |
| 16. | Canada Cooler Rockaberry (4 bottles) |
| 17. | Mike’s Hard Lemonade (4 bottles) |
| 18. | Okanagan Extra Raspberry (6 bottles) |
| 19. | Strongbow Cider (4 bottles) |
| 20. | Domain D’Or White (1.5 L) |
| 21. | Domain D’Or Red (1.5 L) |
| 22. | Gray Monk Pinot Noir (0.75 L) |
| 23. | Jackson Triggs Cab. Sauvignon (0.75 L) |
| 24. | Peller Estates Founders Chard. (0.75 L) |
| 25. | Peller Estates Oakridge Zin. (0.75 L) |
| 26. | Sawmill Creek Chard. (0.75 L) |
| 27. | Sawmill Creek Chard. (1.5 L) |
| 28. | Concha y Toro Merlot (0.75 L) |
| 29. | Gato Blanco Sauvignon Blanc (0.75 L) |
| 30. | Piat D’Or White (0.75 L) |
| 31. | Black Tower White (0.75 L) |
| 32. | Donini Merlot (1.0 L) |
| 33. | E & J Gallo Cab. Sauvignon (0.75 L) |
| 34. | Mondovi Chard. (Woodbridge)(0.75 L) |
| 35. | Andres Baby Champagne (0.75 L) |
| 36. | Henkell Trocken (0.75 L) |
| 37. | Beekeeper Gin (0.75 L) |
| 38. | Gordon Gin (1.14 L) |
| 39. | Tanqueray Gin (0.75 L) |
| 40. | Captain Morgan Spiced Rum (0.75 L) |
| 41. | Lamb’s Navy (1.14 L) |
| 42. | Alberta Vodka (0.75 L) |
| 43. | Finlandia Vodka (1.14 L) |
| 44. | Absolut Vodka(1.14 L) |
| 45. | Canadian Club (0.75 L) |
| 46. | Crown Royal (1.14 L) |
| 47. | Seagram’s 5 Star (1.14 L) |
| 48. | Chivas Regal (0.75 L) |
| 49. | Glenlivet (0.75 L) |
| 50. | Johnnie Walker Black (0.75 L) |
| 51. | Amoretto di Saronno (0.75 L) |
| 52. | Bailey’s Irish Cream (1.14 L) |
| 53. | Godet / Chocolate (0.75 L) |

CHART 12
RANGE OF AVERAGE PRODUCT PRICES



FINDING #5

Product access and availability will increase as more private liquor stores are permitted to open and operate seven days a week in British Columbia.

An important issue for many consumers with respect to the BC government’s liquor store privatization plan is “*will product access and availability at retail stores increase or decline?*”

Proximity to a liquor store is important for a consumer and in Alberta there was a substantial increase in the number of local private liquor stores. These stores also expanded their operating hours offering consumers access to products every day of the week.

TABLE 1
HOURS AND DAYS OF WEEK OPERATION
Private liquor stores in Alberta

| | Mon-Wed | Thursday | Friday | Saturday | Sunday |
|----------------|---------|----------|--------|----------|--------|
| OPENING | | | | | |
| Earliest | 10am | 10am | 10am | 10am | 10am |
| Latest | 11am | 11am | 10am | 10am | 2pm |
| CLOSING | | | | | |
| Earliest | 7pm | 7pm | 9pm | 7pm | 5pm |
| Latest | 2am | 2am | 2am | 2am | 2am |

As the British Columbia government already allows Licensee Retailer Stores to operate from 9 A.M. to 11 P.M. every day of the week availability will increase under privatization compared to the current operating practises of government liquor stores.

FINDING #6

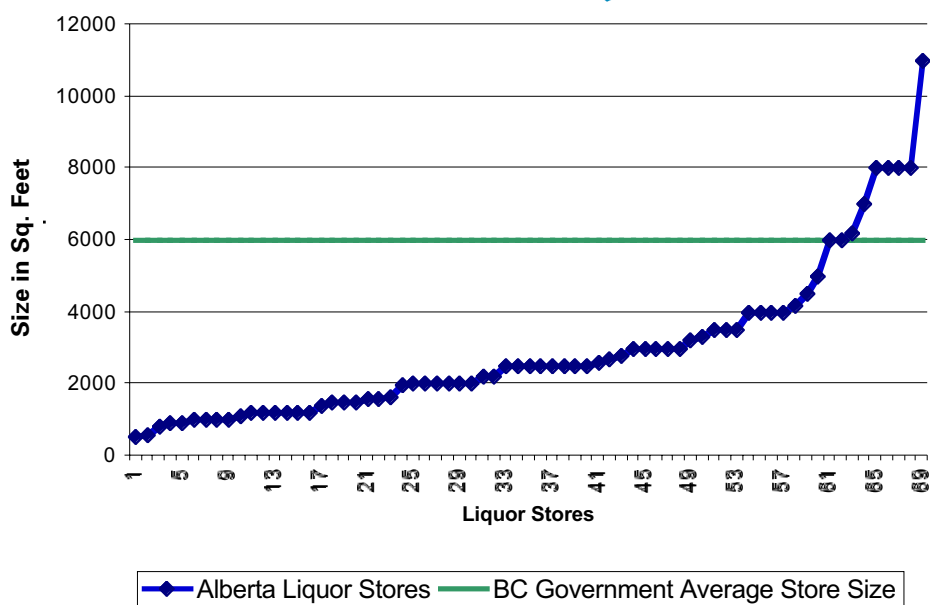
Product selection will generally decline under British Columbia's privatization plan as larger government liquor stores are replaced with smaller private stores.

Consumers perceive product selection as being very important - what they can actually buy at a store in terms of the range of types of products available, variety in a product category and product size options.

Based on the field research of 69 stores in Alberta it is clear, and no surprise, that product selection is a direct function of liquor store size. There was one exception found in the survey in which a national chain store carried large quantities of a narrow selection of common items.

The majority of Alberta stores have a strong selection of beers and as store size increased the number and variety of wines, hard liquor and specialty products also increased. This was the case from smaller stores in smaller communities to the largest liquor store in Canada, Willow Park in Calgary, which has a huge selection of products in its 33,000 sq. ft.

CHART 13
AVERAGE SIZE OF LIQUOR STORES



Note: Calgary's Willow Park liquor store, at 33,000 sq. feet, is not included in order to better illustrate sizes of other stores on the chart. Store size data provided by each store. BC store size as reported in proceedings of Spring Session of the British Columbia Legislature, P-5895.

The chart seen here illustrates the size of the 69 private liquor stores surveyed under this study and compares it to the average size of a government Liquor store in British Columbia, which is about 6000 sq. feet.

The British Columbia government has committed to restricting new licenses to sell liquor at hotels and beer and wine stores. These retailers have provided a valuable service to consumers by, in the past, complementing the product and service offering of government liquor stores. In addition, many stores have provided the function of being a local community pub, residing in local neighbourhoods. While some beer and wine stores may be able to “build out” another 1000 – 2000 sq. feet to provide more product selection it is likely that many existing local stores will be constrained by physical size, parking, land area or municipal by-laws.

The lesson for British Columbia is that a larger group of smaller private liquor stores will offer more availability over more opening hours. But, product selection for consumers will decline as these 500 -2000 sq. ft. stores do not have the space to offer equivalent selection compared to larger sized 6000 sq. ft. government liquor stores that will be closed.

Even if the provincial government makes the decision to allow large stand-alone private liquor stores in the future the competitive landscape for these stores will be much more risky than exists today. These new stores will face dozens of local already established competitors selling high volume popular brands. This will result in a retail distribution landscape characterized by many small private liquor stores with limited selection and perhaps a few large “destination” stores that consumers will have to travel some distance to access.

FINDING #7

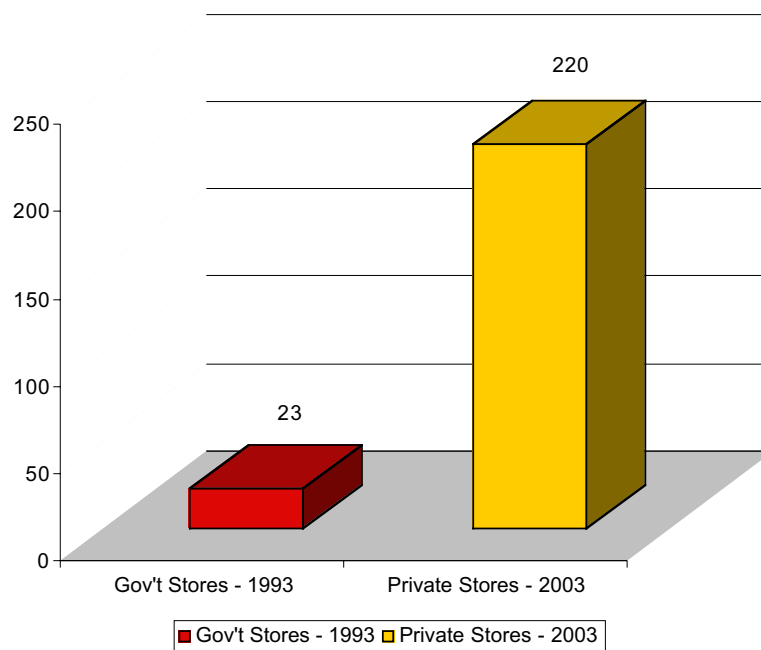
Based on Alberta's experience, effective municipal zoning, business license and public participation processes will be needed to reconcile consumer, business and community interests in British Columbia on the private liquor store issue.

Alberta's ten-year history with privately owned liquor stores provides an opportunity for British Columbia communities to benefit from Alberta's experience with the private liquor store model.

In 1994, Alberta's previous limits on the number of liquor stores, their location, proximity to each other and design that was the result of government ownership of its liquor store network ended. Private liquor stores could then be established anywhere an owner wished to make this investment, subject only to becoming qualified as a licensee and obtaining approvals under local community bylaws.

The effect of the Alberta government policies is most evident in Calgary where, as of March 31, 2003, there are now 220 liquor stores, up from the 23 government owned stores that operated in 1993, almost a 1000% increase. During this period the City's population increased about 25%. On one street in Calgary, 17th Street S.E., there are now more liquor stores than operated in all of Calgary in 1993.

CHART 14
LIQUOR STORES IN CALGARY
1993 vs. 2003



The growth in the number of private liquor stores has generated divided views in many Alberta communities about the number of stores, their proximity to each other and schools, and impacts on local residents. As a result of pressure from residents, Calgary City Council voted in January 2003 to clarify its rules that discourage new liquor stores from opening within 300 metres of existing ones. Some city councillors disagreed with this action saying provincial deregulation of the liquor business was meant to create a free market that the city should not tamper with. One councillor expressed City Council's majority view: "*Having two liquor stores within 50 feet of each other isn't competition, it's ridiculous.*" (Calgary Herald, January 28, page B3)

Growth in Alberta liquor stores is also happening in unusual ways. Calgary-based Willow Park Wines and Spirits is constructing a liquor store in a Petro-Canada gas bar in Calgary and has signed a lease to build a second store adjacent to an Edmonton service station. If successful, Willow Park is hoping to open liquor stores in gas bars throughout Alberta. (Calgary Herald, March 2, 2003, page D1)

Lessons for British Columbian Municipalities

The British Columbia government's strategy of a multi-year implementation of its privatization plan, a commitment to ensuring there is equivalent service to the public before closing any government liquor stores, combined with the right of local municipalities to decide if a new liquor store is an approved use under local bylaws, presents challenges for municipalities.

Alberta communities had no choice with respect to private liquor stores. Any community that had concerns about the private liquor store model would have ended up with no service. British Columbia municipalities have an opportunity to make some choices on this issue, if they wish to. It is clear from Alberta's on-going experience that the location and number of new private liquor stores is potentially a politically charged process at the local government level.

Residents of British Columbia communities that already have a government liquor store, and are satisfied with its product selection and service, may successfully challenge the issuance of municipal approvals for new private liquor stores. This could prove to be an obstacle to the wide implementation of the provincial government's privatization plan.

If municipalities in British Columbia want to effectively manage this issue, they will need to establish decision-making processes that incorporate community consultation in advance of making decisions about approving new private liquor stores.

study conclusions

Based on the findings of this study the Consumers' Association of Canada (BC) has reached the following conclusions:

1. Prices for beverage alcohol sold by British Columbia government owned liquor stores are competitive, and in many cases, cost less than typical prices at private liquor stores in Alberta.
2. Different taxes rather than privatization account for an important part of the price differences between provinces. British Columbia consumers would consistently pay less than the lowest prices in Alberta if British Columbia did not apply a 10% Social Services tax.
3. British Columbia consumers will pay 10-20% more for liquor under the BC government's current proposed system of privatization.
4. Prices for beverage alcohol sold at private liquor stores in Alberta do not vary significantly between small towns and large cities.
5. Product access and availability will increase as more private liquor stores are permitted to open and operate seven days a week in British Columbia.
6. Product selection will generally decline under British Columbia's privatization plan as larger government liquor stores are replaced with smaller private stores.
7. Based on Alberta's experience, effective municipal zoning, business license and public participation processes will be needed to satisfy consumer, business and community interests in British Columbia on the private liquor store issue.

study appendix

Appendix 1 - Study Methodology

Research Methods

In total, 53 different products at 69 liquor stores in 18 communities in Alberta were compared with prices at government liquor stores in British Columbia. To date, this study is the most comprehensive of its kind.

This study used a variety of research methods to obtain information about issues that are the focus of this study. These methods included:

1. Review of articles, other published studies on privatization of liquor stores and Government documents from Alberta and British Columbia pertaining to liquor store issues such as policies and pricing;
2. Discussions with different parties who are involved in the liquor industry;
3. In-the-field price survey research in Alberta;
4. Pricing and other data was collected directly from original sources.

British Columbia Data

Due to uniform pricing the British Columbia Liquor Distribution Branch's published list of retail prices for the period of February 23 to March 31, 2003 was used in this study.

Although the Branch does offer some product discounts no survey was conducted to determine if any products surveyed for this study were being discounted in March 2003.

Alberta Data

Selection of Stores and Communities

In order to assess the consumer pricing issue and the experience of operators a total of 69 private liquor stores were personally visited and surveyed in Alberta from March 14 – 21, 2003.

The stores were selected randomly across eighteen different communities and the sample size, 69 out of approximately 800 private liquor stores in Alberta, provides a high level of statistical confidence in the data.

TABLE 2

| Alberta Community | No. of stores surveyed |
|----------------------|------------------------|
| Airdrie | 3 |
| Bentley | 2 |
| Calgary | 19 |
| Castor | 1 |
| Drumheller | 2 |
| Edmonton | 10 |
| Hanna | 1 |
| Innisfail | 3 |
| Lacombe | 2 |
| Olds | 2 |
| Ponoka | 3 |
| Red Deer | 8 |
| Rocky Mountain House | 4 |
| South Cooking Lake | 1 |
| Stettler | 3 |
| Sylvan Lake | 2 |
| Tofield | 1 |

All stores were randomly selected, as were the communities, except for Calgary, Edmonton and Red Deer, which were selected to represent large population centres.

Price surveys and store photographs were completed with the permission of private liquor stores in Alberta. Only 6 stores that were approached declined to participate and a number of stores that provided price data declined to have a photo taken.

Pricing Analysis

Prices were obtained from private liquor stores and published retail and wholesale price lists. All data was adjusted for issues such as bottle deposits and GST to allow for an “apples to apples” comparison.

Selection of Products For The Price Survey

A list of 53 products were selected that would act as an indicator of prices at private liquor stores in Alberta and Government owned liquor stores in British Columbia. The products selected for this study were selected using the following criteria:

1. The products represented a cross-section of major brands;
2. The products were big sellers representative of their product category;
3. The products were likely to be in stock, and available for purchase in a significant number of stores in both provinces.

TABLE 3
LIST OF PRODUCT SURVEYED BY ID NUMBER

| ID# | PRODUCT NAME | ID# | PRODUCT NAME |
|------------|---|------------|--------------------------------------|
| 1. | Labatt Blue (6 cans) | 27. | Sawmill Creek Chard. (1.5 L) |
| 2. | Labatt Blue (15 cans) | 28. | Concha y Toro Merlot (0.75 L) |
| 3. | Budweiser (12 cans) | 29. | Gato Blanco Sauvignon Blanc (0.75 L) |
| 4. | Miller Genuine Draft (15 cans) | 30. | Piat D’Or White (0.75 L) |
| 5. | Molson Canadian (6 cans) | 31. | Black Tower White (0.75 L) |
| 6. | Molson Canadian (12 cans) | 32. | Donini Merlot (1.0 L) |
| 7. | Kokanee (12 cans) | 33. | E & J Gallo Cab. Sauvignon (0.75 L) |
| 8. | Asahi Super Dry (6 bottles) | 34. | Mondovi Chard. (Woodbridge)(0.75 L) |
| 9. | Corona Extra (6 bottles) | 35. | Andres Baby Champagne (0.75 L) |
| 10. | Heineken (12 bottles) | 36. | Henkell Trocken (0.75 L) |
| 11. | Moosehead Lager (6 bottles) | 37. | Beefeater Gin (0.75 L) |
| 12. | Guinness Stout (6 bottles) | 38. | Gordon Gin (1.14 L) |
| 13. | Sleeman Cream Ale (6 bottles) | 39. | Tanqueray Gin (0.75 L) |
| 14. | Big Rock Grasshopper (6 bottles) | 40. | Captain Morgan Spiced Rum (0.75 L) |
| 15. | Newcastle Brown Ale (6 bottles) | 41. | Lamb’s Navy (1.14 L) |
| 16. | Canada Cooler Rockaberry (4 bottles) | 42. | Alberta Vodka (0.75 L) |
| 17. | Mike’s Hard Lemonade (4 bottles) | 43. | Finlandia Vodka (1.14 L) |
| 18. | Okanagan Extra Raspberry (6 bottles) | 44. | Absolut Vodka(1.14 L) |
| 19. | Strongbow Cider (4 bottles) | 45. | Canadian Club (0.75 L) |
| 20. | Domain D’Or White (1.5 L) | 46. | Crown Royal (1.14 L) |
| 21. | Domain D’Or Red (1.5 L) | 47. | Seagram’s 5 Star (1.14 L) |
| 22. | Gray Monk Pinot Noir (0.75 L) | 48. | Chivas Regal (0.75 L) |
| 23. | Jackson Triggs Cab. Sauvignon (0.75 L) | 49. | Glenlivet (0.75 L) |
| 24. | Peller Estates Founders Chard. (0.75 L) | 50. | Johnnie Walker Black (0.75 L) |
| 25. | Peller Estates Oakridge Zin. (0.75 L) | 51. | Amoretto di Saronno (0.75 L) |
| 26. | Sawmill Creek Chard. (0.75 L) | 52. | Bailey’s Irish Cream (1.14 L) |
| | | 53. | Godet / Chocolate (0.75 L) |

Appendix 2 - Impact of different price methods on product prices

Alberta uses a flat tax system to collect provincial liquor tax revenue at the wholesale level while British Columbia uses an ad valorem method (percentage of value).

The use of the flat tax vs. ad valorem makes for small differences in retail prices for products that have about the same wholesale cost to the government liquor agencies. But the different tax method does result in a significant difference in wholesale and retail prices for products that have alcohol content above a certain threshold but for which there is a wide range of prices.

This means that consumers may pay more for some higher-priced products in British Columbia. The simplified table below illustrates the retail price impact of the flat tax vs. ad valorem tax method. Actual retail prices will vary depending on whether the landed cost is identical, whether any special wholesale pricing discounts apply, and the gross profit margin applied to a product by private liquor stores.

A real example of this difference is an expensive Scotch, *Talisker* (750ml, product #249680.) One store in Alberta was selling it for \$ 42.95. The same product in a BC government liquor store was \$61.95.

TABLE 4
IMPACT OF ALBERTA AND BC TAX METHODS

| Alberta (flat tax) | Scotch Whisky 1 litre | Cdn. Whisky 0.75 litre |
|--|--------------------------|---------------------------|
| Alberta landed cost | \$ 20.00 | \$ 7.00 |
| Alberta flat tax rate for spirits w/ alcohol content greater than 22% | \$ 13.30 | \$ 9.98 |
| Alberta wholesale price | \$ 33.30 | \$16.98 |
| Private liquor store gross profit margin (20%) | \$ 6.66 | \$ 3.40 |
| Sub total | \$ 39.96 | \$ 20.37 |
| GST 7% | \$ 2.79 | \$ 1.43 |
| Alberta retail price | \$ 42.75 | \$ 21.80 |
| British Columbia (ad valorem) | Scotch Whisky 1 litre | Cdn. Whisky 0.75 litre |
| BC landed cost | \$ 20.00 | \$ 7.00 |
| BC ad valorem tax 159% | \$ 31.80 | \$ 11.13 |
| Sub total | \$ 51.80 | \$18.13 |
| Social Services Tax 10% & GST 7% | \$ 8.86 | \$ 3.08 |
| BC retail price | \$ 60.60 | \$ 21.21 |

Appendix 3 - Gross profit margins

An analysis of the Alberta data suggests that gross profit margins across 53 products and 69 stores is close to the 20-25% range.

CHART 15
GROSS PROFIT MARGINS FOR PRIVATE LIQUOR STORES IN ALBERTA

