

EXECUTIVE SUMMARY

Saskatchewan has had a mixed system of public and private liquor retailers since 1935. Today, 75 government retail stores and approximately 640 private businesses including franchises, off-sale outlets and private stores sell alcohol in Saskatchewan.

Prior to undertaking further changes to the liquor retailing system in the province, the Government of Saskatchewan would like to receive public feedback. We would like to hear your thoughts on the current liquor retailing system, recent changes that have been made and possible options moving forward.

More specifically, the government would like:

(1) To receive feedback on the recent introduction of private liquor stores in Saskatchewan.

Would the public like to see more private retailing options in the future, including the possibility of an entirely private liquor retailing system in the province?

The Government of Saskatchewan introduced private wine stores five years ago. It also made a policy decision in 2012 that all new liquor stores in the province would be privately constructed and owned, in order to:

- Provide the public with greater product selection, price variability and increased access to all categories of liquor products retailed in the province (beer, wine and spirits); and
- Meet public demand for additional liquor stores due to population growth without diverting public funds away from public priorities such as new schools, hospitals and highways.

As a result of these changes, two new private full-line liquor stores (Sobeys and Co-op) recently opened in Saskatoon. Two more are under construction in Regina (Sobeys and Willow Park Wines and Spirits, which was converted from a specialty wine store to a private liquor store in 2013 and is now constructing a new building in Regina).

(2) To ensure future changes in the liquor retailing system meet consumer needs.

Saskatchewan's liquor laws and retailing system have evolved slowly. Prior to the introduction of private wine stores in 2009, the last significant change in the retailing system was the introduction of special vendors (franchises) in rural communities 50 years ago. Public feedback on future options for liquor retailing will help the Government of Saskatchewan in planning future changes.

Liquor retailing in Saskatchewan

Saskatchewan currently has a mixed public/private liquor retailing system.

Government Stores

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

Of the 75 stores government 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.

Government stores serve both the public and commercial customers. Once the new government warehouse becomes operational in 2015, the majority of liquor sales to commercial customers will be serviced from the warehouse directly rather than through government stores. 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 through off-sales.

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. Franchises get a part of the price of each product known as a commission. Franchisees also have the option to special order and sell products not available in government stores in their franchises. Franchisees can set any retail price for special order products, subject to a minimum price applied to all alcohol sold in Saskatchewan.

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

SASKATCHEWAN'S RETAILING HISTORY

1915 Premier Walter Scott closes all bars in the province and creates a government-run system of liquor stores with sole authority for liquor retailing in the province.

1916 Provincial referendum – 75 per cent of Saskatchewan voters support prohibition.

1917 Premier Walter Scott closes all government liquor stores. The prohibition period in Saskatchewan lasts from 1917-1924.

1924 Another provincial referendum – 57 per cent of voters vote to legalize the sale of alcohol, but only through government stores.

1935 *The Liquor Act* is amended to allow the sale of beer by the glass in hotels, clubs and canteens. Hoteliers are granted the ability to off-sale packaged beer. The Liquor Board assumes additional responsibility for licensing these establishments.

1958 Changes suggested by the Liquor Sales Outlets Inquiry Committee include creating mixed drinking businesses centred on the “civilizing effect” women would have on male drinking.

1965 Special Liquor Vendors established. The Liquor Board can appoint a druggist or “any other responsible and suitable person” to act as a special liquor vendor in a rural community.

1970 Drinking age is lowered to 19 from 21.

1972 Drinking age is lowered to 18.

1976 Drinking age is raised back to 19.

1988 Total number of franchises increases and new *Liquor Control Act* is introduced.

1993 Liquor and Gaming are merged to form the Saskatchewan Liquor and Gaming Authority (SLGA). VLTs are introduced.

2002 Off-sales are granted the ability to sell spirits.

2009 Two specialty wine store franchises open in Regina and Saskatoon.

2013 Four full-line private liquor stores are announced in Regina and Saskatoon.

2014 Co-op and Sobeys open their liquor stores in Saskatoon. Saskatchewan now has 75 government liquor stores, 3 full-line private liquor stores, about 190 franchises and about 450 off-sales. Premier Wall announces inter-provincial shipping of wine and craft spirits agreement with B.C.

There are approximately 190 franchises in Saskatchewan. Of those franchises, about 84 are allowed to sell mainstream 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. These 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.

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 retailing spirits in 2002. There are about 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 government 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. While off-sales can choose which hours to be open, they have to be open at least six hours each day for five days a week.

Private Full-Line Liquor Stores

The provincial government established a new policy in 2012 to have the private sector build and operate all new future liquor stores in Saskatchewan, instead of establishing new government stores.

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 current location while Harbour Landing location is developed).

Private stores must be operated as stand-alone businesses and cannot be physically located within another business. Private stores purchase alcohol from SLGA at a 16 per cent discount and have the ability to set their own 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 by agreement through private beer distributors. Private stores may operate between the hours of 8:00 a.m. to 10:00 p.m. daily. Private stores cannot sell to other businesses involved in the sale of alcohol.

Liquor retailing in other jurisdictions



British Columbia – mixed public/private system

Retailing options:

- Government stores;
- Agency stores providing service to communities that are not large enough for a full store;
- *Private retail stores* operated by private businesses.

Private stores receive a 16 per cent discount from government store prices and can:

- Set their own prices subject to the provincial minimums;
- Only sell to the general public;
- Must be free standing businesses;
- Sell all product categories;
- Sell non-alcohol related products, such as lottery products, cigarettes, packaged snacks and alcohol related items such as glasses and corkscrews, but cannot resemble a convenience store.

In March 2014, B.C. announced that it would allow alcohol to be sold in grocery stores. No grocery stores have alcohol for sale as yet. The B.C. Government has stated that it will continue to control the number of alcohol outlets in the province.



Alberta – all private system

Retailing options:

- Privatized retail store system

The provincial government continues to own (but not operate) the warehouse, be the importer of record, apply provincial mark-up and set provincial policy respecting alcohol.

Most businesses that sell alcohol (stores or restaurants) buy from the provincial warehouse where a flat rate mark-up is applied to all alcohol.

Alberta Gaming and Liquor Commission (AGLC) has almost 20,000 products in the warehouse.

In Alberta:

- Government does not control the number of stores or their proximity to one another. However, stores are subject to municipal zoning regulations;
- Liquor stores are stand-alone structures and cannot be part of another business;
- Suppliers can have any product listed in the Alberta warehouse as long as the supplier is willing to pay a warehousing fee. 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.

There is no minimum or maximum pricing, meaning that prices vary throughout the province.



Manitoba – mixed public/private system

Retailing options:

- Provincial government operates 57 liquor stores called Liquor Marts which offer a full line of products (beer, wine and spirits);
- 178 agency stores also offer a full line of products;
- Hotel taverns can open an off-sale, but are limited to beer only;
- There are several privately operated specialty wine stores, limited to wine only.

In 2012, Manitoba began to introduce smaller Liquor Mart Express stores that offer popular wine, spirits and beers, some of which are located within a grocery store. Liquor Mart Express stores are government-owned stores with government employees working in them.

The first Liquor Mart Express store within a grocery store opened in a Winnipeg Safeway in December 2012. Manitoba plans to open up to ten Liquor Mart Express stores, with five located within grocery stores.



Ontario – mixed public/private system

Retailing options:

- The Liquor Control Board of Ontario (LCBO) operates 645 government liquor stores;
- The Beer Store, which is owned by beer producers to sell beer;
- 217 agency stores in smaller towns;
- Ontario does not have off-sales.
- 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 owned and operated by the LCBO as government stores and would be staffed by government employees. To date, none of these stores have opened.

Government mark-up in Saskatchewan

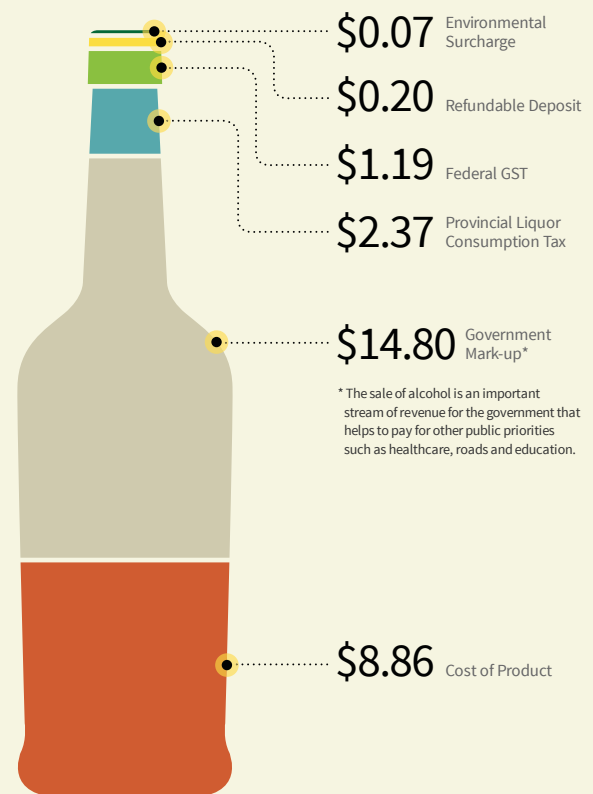
Government derives its revenue from liquor sales primarily through mark-ups, rather than through the way liquor is retailed:

- A Liquor Consumption Tax (LCT) of 10 per cent is collected from the end user and remitted to the Ministry of Finance;
- An ad valorem mark-up on wine and spirits is applied as a levy in proportion to value. The mark-up is a percentage applied to the wholesale price from the supplier (up to a maximum amount): 167 per cent on spirits; 125 per cent on wine;
- A flat rate mark-up on beer is applied at the rate of \$1.993 per litre for national/multinational brewers, and at reduced rates for regional and micro-brewers.

Regardless of which retailer (SLGA, private stores, franchises or off-sales) sells the product to the consumer, the government collects the same mark-up.

Pricing Structure of Liquor in Saskatchewan

Breakdown of a 750ml bottle of whisky sold for \$27.49



Mark-up rates

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.

There is a flat-rate mark-up on beer. There is one rate (\$1.993 per litre) for national/multi-national brewers, with reduced rates for regional and micro-brewers.

Government revenues and the cost of liquor retailing in Saskatchewan

In 2013-14, gross revenue from liquor sales totalled \$632.3M, including:

- \$349.5M in direct sales to the public from government stores; and
- \$282.8M in sales to commercial retailers.

The cost to operate government stores averages about 15 per cent as a percentage of sales when direct operating costs, overhead allocation and capital costs are considered. As a point of reference, the government provides a 16 per cent discount to private stores and a blended 13.6 per cent discount to franchises.

For a more detailed description of government revenues from liquor retailing and the cost of operating government stores, see pages 16-19 in the Options Paper.

THE OPTIONS

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 options include:

- Status Quo
- Expanded Private Retail System
- Alberta-Style Fully Private Retail System
- Managed Transition to Fully Private Retail System
- Expanded Government Retail System

The starting point of this discussion is the status quo.

Status quo

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-run and private stores would continue to meet demand for alcohol 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.

Expanded Private Retail System

Under this option, Saskatchewan would maintain a mixed public and private retailing system but would 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 of 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 on-going 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.

Alberta-Style Fully Private Retail System

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 government 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) would receive the same discount on products.

Managed Transition to Fully Private Retail System

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 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 and 2,300 SKUs.
- The private sector would determine the price of retail alcohol products. Prices would vary depending on the degree of competition between private retailers as a result of the RFP.

- Government store employees would have the opportunity to acquire an ownership interest in an existing or new liquor store.
- Successful bidders on RFPs could have a dominant market position in geographical areas.
- This option would maintain the role of franchises and off-sales.

Expanded Government Retail System

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.

KEY QUESTIONS/CONSIDERATIONS

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

