

Contribution of the LCBO to public finances, and risks associated with privatization

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INTRODUCTION

At a time of reassessment of public spending, it is natural for the government to review its involvement in State-owned corporations. However, based strictly on criteria of contribution to public funds, concrete financial facts and the examination of the effects of privatizations elsewhere show that the Ontario government would be ill advised to withdraw from the alcohol trade. The question to ask is whether, for taxpayers, public ownership of the alcohol trade is preferable to private ownership. What would be the effects of privatization on public finances, on prices, on choice and on availability? Of course, considering financial criteria alone is not enough, since the State is also entrusted with the control of abusive consumption, which is a very important consideration and which will be examined more closely by other speakers.

First, we are going to show that public ownership of this business does not deplete public funds but, on the contrary, contributes to them. We will outline the impressive contribution of the LCBO to the public finances of Ontario and to the federal government. We are then going to consider if the private sector could do better in all respects involved. Methodology and the respect of experimental scientific criteria would require us to make a comparison, in the province of Ontario, between the effects of public and private ownership of the alcohol trade. This is, of course, impossible and we will have to content ourselves with studying the effects of privatization which took place elsewhere. It is not enough to say that the private sector is generally more efficient than the public sector; we must look for empirical evidence. The same causes theoretically produce the same effect, and the results of privatization in other places are sufficiently convincing to allow us to draw useful conclusions for Ontario.

CONTRIBUTION OF LCBO TO PUBLIC FINANCES: \$11.7 BILLION IN TEN YEARS

The LCBO has a fiscal mission, given that, since alcohol is not an essential product for the maintenance of life, it is subject to taxation allowing the government to constitute public funds for the purpose of responding to essential social needs. From the point of view of fiscal equity, the taxpayer has the freedom to contribute according to his means, since the goods taxed are purchased based on subjective needs. It must be remembered that, in the past, prohibition laws gave poor results. The State must, at the very least, be able to recover from consumers the funds necessary to promote the moderate use of alcohol and to alleviate the social

problems engendered by alcohol abuse. The State must incorporate social costs into the price of the product which generates them.

The LCBO is the direct source of \$11.7 billion in fiscal revenue paid to the two governments over the past ten years (1985-1994). (See Table 1). The Ontario government, which has a great need for funds, has received the colossal sum of 8 billion 33 million dollars in this ten-year period, of which 6 billion 265 million were paid in dividends and 1 billion 768 million in taxes. The federal government, which needs these public revenues just as much, has received 3 billion 661 million dollars in taxes from the LCBO. There is no need to mention that both levels of government still have the same degree of need for public funds today. It is very clear that exchanging reliable and relatively foreseeable revenues for the uncertainty associated with privatization would be harmful to the financial health of the province. We are dealing with revenues that are certain, which maintain themselves from year to year and which have a positive effect on the credit rating of the Ontario government. As a vehicle for collecting public funds, the LCBO brings in \$1 billion per year, which guarantees a loan capacity of \$15 billion (current value of an annuity of \$1 billion received over 40 years at 6%). Moreover, the LCBO is not an applicant for public grants, finances its own development and has a multiplier effect on the economy as employer and purchaser of goods and services.

TABLE 1- TAXES, DUTIES AND DIVIDENDS PAID BY THE LCBO TO GOVERNMENTS

For the ten-year period between 1984 and 1993 (Figures in million dollars)

| YEAR | ONTARIO | | FEDERAL | | |
|-------|--------------|-------|----------|-------|-------|
| | Dividends(a) | Taxes | Subtotal | Taxes | Total |
| 1993 | 615 | 179 | 794 | 299 | 1093 |
| 1992 | 675 | 182 | 857 | 316 | 1173 |
| 1991 | 650 | 191 | 841 | 385 | 1226 |
| 1990 | 640 | 198 | 838 | 412 | 1250 |
| 1989 | 645 | 189 | 834 | 406 | 1240 |
| 1988 | 635 | 183 | 818 | 396 | 1214 |
| 1987 | 645 | 175 | 820 | 390 | 1210 |
| 1986 | 638 | 164 | 802 | 339 | 1141 |
| 1985 | 602 | 159 | 761 | 384 | 1145 |
| 1984 | 520 | 148 | 668 | 334 | 1002 |
| Total | 6265 | 1768 | 8033 | 3661 | 11694 |

(a) Dividends paid to Government of Ontario are about equal to profits of LCBO.

Liquor Commissions have been the source of considerable public revenues in several provinces, as seen below:

(Figures in million dollars)

Annual Average

1991 1992 1988-1992

| | | | |
|----------------|-----|-----|-----|
| ONTARIO | 841 | 857 | 838 |
| ALBERTA | 435 | 439 | 404 |
| QUEBEC | 478 | 486 | 476 |

In addition, the Commission makes enormous payments to the federal government in excise taxes, customs duties and GST. In order to appreciate the magnitude of the contribution to public finances, we should realize that in Quebec in 1994, the "Soci,t, des alcools" made it possible to absorb 10% of the government deficit, and that in Alberta in 1992 the ALCB provided the equivalent of 20% of the education budget. It should be made clear that privatization of the alcohol business would result, in large part, in ownership by large chains over a more or less long term. This is what happened in Iowa. In Alberta, all major grocery chains except the Calgary cooperative are controlled by foreign interests located outside Alberta, which, like Canada Safeway, have always turned over their profits, in the form of considerable dividends to the American mother company.(1) Can there be a more direct way to impoverish oneself?

WHAT ARE THE EFFECTS OF PRIVATIZATION?

1. On public funds, on visibility and on tax disputes.

The value of a business asset corresponds to the current value of net receipts which it can be expected to generate. When privatization occurs, private buyers will pay the current value of a series of profits. If they would be unable to increase prices or demand, and if the government requested the same amounts of money as it demands from the public sector, these buyers would not make purchase offers. As far as the government is concerned, transfer costs should be based on the differential between the revenues presently earned by the LCBO and those which will be earned after privatization. In other words, costs will be based on the earning power transferred to the private sector. Another factor to consider is loss of control. The Alberta government was promising a neutral effect and price reductions - nothing less than squaring the circle. In fact, if the government wishes to maintain the same revenues, including taxes and profits, it forces the private sector to look for profits by increasing demand, prices and efficiency (2), or by reducing taxes. Of course, in Alberta what was expected was superior management in the private sector. In fact, operating expenses represent only 15% of sale prices at the Soci,t, des alcools du Qu,bec (184.2 million dollars out of 1 billion 199 million in sales in 1994) and 8.5% of revenues in Alberta (\$89.5 million out of \$1 billion in sales in 1992.) (Percentages can vary depending on what is seen as taxes or on level of price increases). We have only to look at how the price of a bottle is arrived at to realize that the private sector will have to achieve profits through tax reduction. (See Appendix 2.) It is hard to see how private retailers could achieve profits through supply cost reduction. In the public sector supply costs are already very low thanks to economies of scale. Suppliers have expressed their preference for dealing with a single client rather than a multitude of retail stores, because they can offer such a client better prices than they would have to charge to fill smaller, multiple orders. The government cannot expect to make no concessions when

dealing with the private sector. It must give up a portion of its future revenues in exchange for obtaining a lump sum immediately.

The LCBO has made 6 billion 265 million dollars in profits over the past ten years, and it has paid its only stockholder, the Government of Ontario, dividends of an equivalent amount. This means that not a cent falls into private pockets. All profits made by the LCBO stay in Ontario, contrary to those of private brewers and distillers, and of future private retailers who would be totally free to send their profits outside the province and even outside Canada.

What would become of this sum of \$650 million a year which the Ontario government receives in dividends (on a stockholder's equity which is minimal in comparison)(3) if the LCBO was privatized? These profits seem to result from a markup of manufacturer's prices. The dividends are, in fact, an implicit tax hidden in price markups. It is obvious that the Ontario government's stockholder equity cannot justify annual dividends of \$650 million since at 10% this is equal to dividends on a capital of \$6.5 billion. This means that these amounts, which are paid discreetly to the Ontario government in the form of a dividend cheque made out to a stockholder, are in fact taxes. Markups are generally 131 to 145% on spirits, 60 to 115% on imported wines and 34 to 100% on local wines. Markups for beer are 50%, but they also bring in costs of service of \$7.39 and \$4.96 a case, which represents equivalent percentages (Appendix 1). The magnitude of markups reflects the fact that sale prices must be much higher than manufacturer's prices in order for these dividends to be able to be paid (\$615 million in dividends on sales of 1 billion 780 million dollars in 1993 in Ontario). The Ontario government would have to follow the example of the Government of Alberta after the privatization of the ALCB. The Ontario government too would have to transform its dividends into taxes in order to obtain a neutral effect on public revenues, since the activities of the LCBO would be in the hands of private stockholders. The implicit taxes which are now paid as dividends would have to become explicit. In Alberta, the markups on supplier prices were replaced by a flat tax (rather than tax on value) of \$1.06 on a litre of beer, \$2.10 on coolers, \$4.35 on a litre of wine, \$6.20 on a litre of fortified wine and \$14.95 on a litre of spirits, or \$11.21 per 750 ml. The government had to decrease these taxes due to pressure from retailers. We will see that this is the first action taken by the private sector after privatization. In all cases, the private sector will have to realize profits through price increases and increases in demand, or by lobbying for the reduction of the taxes which are a component of prices. It must be noted that all price increases always give rise to substitution phenomena, to the expansion of contraband or simply to more widespread home production, leading to an impasse which can only be remedied by tax reduction.

i) Lessons to be learned from the tobacco industry.

Let us look at what happens when a private sector industry is subjected to a high level of taxation, as is the case in the public sector alcohol trade. The tobacco industry is a good reference.

All the private businesses in this sector acted together to exercise pressure on governments. The tobacco industry attacked the weakest link in the chain in Quebec, where contraband was thriving, in order to achieve a domino effect which had repercussions on all other provinces. The lobbying done by the tobacco industry took place in 1993 and 1994. Tobacco manufacturing in Canada is concentrated in the hands of three multinationals which possess enormous financial resources. The tobacco industry is a gold mine which does not require fixed assets of great magnitude, which manufacturers a simple product, and which can invest in advertising and in lobbying, knowing that these are the areas of greatest importance. These multinationals carried out propaganda campaigns, openly or covertly, to lead citizens to believe that the only effective strategy to combat contraband is a drastic reduction in taxes. Of course, their margin of profit was never brought into question. In addition, tobacco companies manoeuvred to associate the cause of retailers to theirs. We all recall MATRAC and organized civil disobedience. In a few months the battle was won. Governments capitulated and, in 1994, a substantial decrease of taxes was instituted, over the objections of the Ontario government, in fact.

There followed a considerable increase in tobacco consumption among the target clientele constituted by young people. As a result, the government finds itself again incurring social costs while collecting less and less funds from the users directly responsible for these social costs. It is very likely that the same scenario will take place if the alcohol sector is privatized. Giving in to the pressures of contraband and of industry lobbying was a shock for the population of Quebec and the neighbouring provinces and States affected by this decision. The latter had no alternative but to follow suit by reducing taxes, given the permeability of borders. In the same way, it is certain that a reduction of taxes on alcohol in Ontario will lead to a chain reaction.

ii) Lessons to be learned from the reaction of private distillers to taxation.

In Ontario, contraband and illegal alcohol production have been estimated by the LCBO to account for \$806 million in sales in 1993-94, a figure equivalent to half the sales realized by the LCBO, or 15% of sales on the entire market.

(4) Privatization will not reduce this phenomenon. However, this same contraband will eventually be used by the private sector as leverage to obtain a reduction of taxes after privatization. There is no doubt about this. The tobacco industry set a precedent.

We must be clear about the fact that it is the control of wholesale and retail operations by the LCBO which makes it possible for the government to resist pressure from manufacturers and bottlers whose ultimate objective is to obtain tax reductions which will leave a wider margin for greater profits and greater consumption. In Alberta, after privatization the market was flooded with private retailers. This resulted in lower profit margins for which merchants attempted to compensate by forming an association dedicated to the lowering of taxes. They were supported by manufacturers and the government found itself alone.

In Quebec, the Canadian Association of Distillers collected 200 000 signatures in 1994 in favour of lower taxes, mixing issues of employment and taxes with that of contraband, and organizing a March on the Quebec Parliament in October 1994. There were also marches in the streets of Montreal. The businesses in question also bought full-page advertisements in the newspapers to demand tax reductions. We can easily imagine a similar scenario which includes support from a chain of private distributors who would replace the LCBO after privatization. In the strategy of tax reduction, the only link the Canadian Association of Distillers is missing is the one made up of retailers. The tobacco industry won its battle with governments because of the involvement of retailers who carried out protest action locally.

The CEO of Corby Distilleries, encouraged by the retreat of the government in the tobacco industry, stated, in June 1994, "I am optimistic, we must keep up the pressure." Private distillers claimed that "the rise in consumption which would result from decreasing taxes would compensate for lower fiscal revenues. They added that privatizing State-owned corporations was an opportunity for growth. Their insensitivity to increased alcohol use is obvious.

Thus, while taxation is an equitable means to recover social costs, private firms react by identifying with resistance from taxpayers and with their resentment of "big government", in order to avoid taxes. Why should the State spend the taxpayers' money to counteract the social effects of alcohol abuse while private firms benefit from this? This is another reason why the alcoholic beverages trade should remain a State monopoly and why control at the source should be exercised in distribution.

2. Impact on prices, quality and choice of products

In Alberta, prices were expected to fall as a result of competition. In April 1994, the first month without competition from ALCB stores, prices were 5% higher than in September 1993 when ALCB stores were still in operation (Statistics Canada, 1994). A great jump took place in February 1994 when the alcoholic beverage index in Alberta rose 9.2 points after January. In the three previous years the rise from January to February was 1.4, 1.4, and 2.0 respectively.⁽⁵⁾ Other studies have confirmed price increases. The price of beer rose from 5 to 6%, the price of whisky from 6 to 8%, and the price of certain liqueurs rose up to 23% compared to ALCB prices. Journalists investigated the situation and brought it to light; consumers were made aware, surveys confirmed the facts.

Iowa, a midwestern American State, privatized the wine trade in 1985, and the sale of spirits in 1987. After a short period of stability, sale prices gradually rose by 7% within a year, mainly to ensure a margin of profit for new private firms.

We have said above that the Alberta government had to replace the considerable dividends it was receiving from the ALCB through a flat tax per litre. As we have said, in Alberta the markup system was replaced by a flat tax of \$1.06 on beer, \$2.10 on coolers, \$4.35 on a litre of wine, \$6.20 on a litre of fortified wine and \$14.95 on a litre of spirits, or \$11.21 per 750 ml. In this situation was reproduced in Ontario, the flat tax would have to replace

the following amounts (Appendix 1 shows the system of setting prices in Ontario).

Imported from the United States Local

On 750 ml. of spirits:

| | | |
|---------------------------------|------------|------------|
| To the supplier | \$3.51 17% | \$3.26 17% |
| Govt. of Ontario: Markup | 9.92* 49% | 9.07* 48% |
| Taxes | 2.39 12% | 2.23 12% |
| Govt. of Canada | 4.53 22% | 4.44 23% |
| | | |
| Price to consumer | 20.35 100% | 19.00 100% |

*The markup is 145% and 138% compared to supplier prices. These amounts would have to be replaced by taxes to obtain a neutral fiscal effect. Private retailers would then have to bring other variables into play: prices, increased costs. Finally, they would have to take collective action to demand reductions in taxes.

How did Alberta's uniform tax change prices? Prices of economical products increased, while prices of luxury products decreased, since every litre is taxed uniformly. Result: the wealthy economize and the others pay more.(6) The Calgary Herald wrote ironically: The Prime Minister went to buy wine in a private store in Calgary in January 1994 and noticed that prices were generally higher. Mr. Klein said that he was worried that this trend might become counterproductive. (Calgary Herald, January 19, 1994). Ralph Klein's government publicly admitted these price increases.

In the public sector, prices are uniform in all locations. In Alberta, after privatization, it was noted that prices varied between 10 to 25% from store to store.

Advocates of privatization had counted on greater variety in products. The ALCB sold 2500 brands. Within a few short months, the choice of wines and spirits decreased by 75%. The number of beer brands fell by 48%. Before privatization, certain ALCB stores displayed over 2000 products. After privatization, the choice offered to consumers was reduced to less than 500 products. Inventories were reduced and discontinued items became a frequent occurrence.(7) A concentrated purchasing system such as the one used by the ALCB or the SAQ consolidates orders and makes it possible to obtain a greater number of brands. A small retailer cannot afford to order items which are not best sellers. Let us remember that in 1994 in Quebec the SAQ displayed 3751 products or standard trademarks, of which about 1800 were sold in the network of its 340 local stores and 2000 in "Maisons des vins" and in major branches. Understandably, this performance is difficult to duplicate in the private sector with its fragmented network.

In Iowa the number of stores had increased but the number of products sold had decreased drastically. Products generating little profit or selling in limited quantities disappeared from the shelves. Out of 700 kinds of wines sold before privatization, only 300 were left. Naturally, rural areas were the first to

be deprived. Two thirds of rural outlets disappeared and the ones that remained only offered about ten different products.

Advocates of privatization were talking about better access, when in fact in Alberta there were already 204 ALCB stores, 23 private wine boutiques, 30 beer stores, 400 outlets in hotels, 90 external outlets and 49 rural carriers.(8) In Quebec access is even greater. In Alberta the number of stores changed from 204 State outlets to 417 private stores in 1994, but the number of products sold diminished drastically after privatization, as we have seen. However, business hours were extended; but late hours are mostly conducive to impulse buying by consumers who are already "under the influence".

Advocates of privatization insisted that greater access would not increase consumption. In Iowa, as soon as private retailers of wine were able to compete with State stores in 1985, total consumption increased and wine consumption replaced the consumption of spirits. Then, in 1987, when Iowa privatized the trade of spirits, sales of these products increased by 9.5%. No changes were noted in the States surrounding Iowa, so that it is clear that this increase was due to privatization.(9) In general, all studies indicate a positive correlation between access and consumption. Studies carried out in Sweden and Norway following trial closure of liquor stores on Saturdays for a period of several months proved that social problems were reduced. In Alberta, a rash of thefts in private liquor stores has already been noted, as well as a greater number of calls to police for reasons of drunkenness.(10)

3. The private sector and wine quality

The trend among private Canadian manufacturers to produce quality wines was greatly hindered by the report of the Auditor General of Quebec for fiscal year 1993-94. The Auditor states, first of all, that all wines bottled by the SAQ are without reproach. Among private bottlers and private manufacturers of wine, the Auditor found that wines made from concentrates were being marketed, that certain ros, wines were "ros," only by virtue of a colour obtained by mixing red and white wine, when in fact ros, wines should be produced by using red grapes. In some cases consumers were unknowingly drinking wines diluted with 35% of water. Alcohol was sometimes added to grape must, which no longer ferments. Mr. Jacques Benoit, a journalist writing in La Presse on December 15, 1994, reported that Mr. Jean-Denis C^t, had confided to him that certain light wines are made by mixing low alcohol content wines with stronger wines; if the mixture turns out to be too high in alcohol content, it is diluted with water. An industry expert revealed that so-called light wines retail at higher prices than ordinary wines even though they cost less to produce. Consumers don't know this; the fact that these wines are "lighter" and contain less calories is seen by them as an advantage for which they are willing to pay. This does not lead to lower alcohol consumption. It is, however, a way for manufacturers to make easy profits. About fifteen brands which brought in proceeds of \$24 million in 1993-94 had an alcohol content of between 6 and 8.5%, although international standards for the category "wine" require a content per volume of at least 8.5% alcohol.

About 50% of privately produced Quebec wines could no longer be sold as "wine" if the Liquor, Race and Gambling Board adopts international standards

similar to those of the International Organization of Wines. Over the past four years the Board submitted five bills intended to improve the situation. It seems that the government in power at that time took the same position in the face of lobbying by private wine manufacturers as it had taken when faced with lobbying by the tobacco industry. If the Board succeeds in its attempt to raise standards, the SAQ can impose the respect of these standards by private manufacturers, but it cannot reject these privately bottled "wines" under present regulations. These facts reveal a great deal about the natural tendencies of private manufacturers and about the self-discipline of the market. However, the SAQ is governed by the same norms and yet, according to the Auditor General, its wines are beyond reproach.

4. Who is likely to take over control of alcohol trade after privatization?

The LCBO will probably have difficulty reselling its small stores, since privatization in Iowa and Alberta has shown that big chains constitute a formidable force. Let us look for empirical proof in the Iowa and Alberta experience. In a context of optimism surrounding privatization, the ALCB received 629 purchase offers for its stores and over 600 requests for the opening of new stores. But when the press started to reveal more and more of what took place in Iowa, hope gave way to disenchantment and many candidates quickly withdrew their offers. Privatization of the alcohol trade in Iowa took place between 1985 and 1987. Companies were at first attracted by the expectation of profit. An incredible dispersion took place: the number of stores rose from 165 to 800, and then fell to 400. In 1993, 70% out of the 400 licences held in Iowa were held by grocers. Out of the 195 outlets originally licensed in 1987, when the system grew to include grocery chains, only 65 survived. Privatization resulted in a transfer of State monopoly to a monopoly of grocery chains and pharmacies. (11)

Despite the warning provided by the privatization experience in Iowa, in Alberta a number of people remained interested either in buying State stores or in obtaining licences for new stores.

The Alberta government only issued licences to independent businesses which would sell alcohol as their primary product. However, small businesses which decided to embark on this adventure were disappointed to see that the Alberta government was willing to issue licences to big chains (Canada Safeway, Loblaws, Co-op). It is obvious that the large clientele attracted by these supermarkets constitutes clients lost by small, independent businesses. The fact is that a government which advocates non-intervention by the State cannot introduce regulations which would prevent large corporations from entering a business sector. In February 1994 a temporary licence was granted to Canada Safeway, a large chain (with foreign ownership). In March 1994, after the closure of the last State-owned store, after the last cheque issued by small business had been cashed, the Alberta Minister of Industry and Commerce informed private owners of small alcohol outlets that it had become impossible for him to keep out big grocery chains longer than the fall of 1995. From then on, anyone could apply for a licence to sell alcoholic beverages in Alberta. Large chains would be free to carry the full range of alcohol products. At that point, obtaining tax reductions became a question of

survival for small businesses. In Iowa, only 65 out of 195 businesses survived the entry of large grocery chains and pharmacies.

In addition to having political power, large grocery chains benefit from financial power and scale economies. The most lucrative operations, the most profitable locations, the most advantageous market segments, always tend to be swept up by the big players. The report of the Canadian Center for Policy Alternatives clearly states: "The more closely we examined the situation, the more we became convinced that the present status of independent retailers is an intermediary stage whose final outcome will be private control exercised by grocers and other large chains." (12)

Saturation of the alcohol products market had reduced the profit margins of small private stores, who also saw looming on the horizon the possibility of being overwhelmed by the biggest players. Their only chance for survival was to unite by forming an association of liquor store owners and by putting pressure on the government in order to obtain drastic tax reductions on these products. This is an issue about which big and small businesses all agree, leaving the government with no allies, especially because we are talking about a government which advocates non-involvement of the State and thus appears to contradict itself. In August 1994 the structure started to collapse and the Alberta government announced its first tax reductions.

5. Public costs associated with dismissal of employees

In June 1994 in Ontario the level of unemployment was 9.5%, with 507 000 persons being unemployed. The job market cannot absorb an additional 5000 unemployed persons. The LCBO provides employment for 5000 people. Small private retailers would only be able to provide jobs for a tiny fraction of these people. In Alberta the average salary of employees working in the alcohol products trade fell from \$30 000 to \$20 000. The inevitable entry of large grocery chains caused considerable loss of jobs as well as a deterioration in the qualification of personnel dealing with the public and providing information about these products. In West Virginia, after privatization in 1991, only 10 to 25% of State employees found jobs in private stores. In Alberta, 1500 employees were dismissed. (13) The experience acquired by these employees is therefore lost. This will result in considerable public costs in the form of unemployment and welfare payments.

6) Difficulties associated with liquidating public goods when privatization occurs

We have stated above that the value of the LCBO should not be evaluated based on its profits, because of hidden taxes existing in the guise of major price increases compared to manufacturer's prices. Governments which privatized elsewhere not only lost the goose that laid the golden eggs, they were also left with very little following liquidation of the assets of public corporations. In fact, what governments want is to keep the same public revenues, the same prices, prevent the growth of demand and allow large chains to enter the market.

Let us remember that in Quebec the attempt at privatization failed. In 1985, the Parti Qu, b, cois Minister, Roger Biron, who was in charge of the SAQ privatization project, was surprised to learn that almost half of the 129 branches in the Montreal region had not received any offers at all. The limited response to the call for tenders was qualified by the press and by observers as a "monumental flop". Privatization was indefinitely postponed. In Quebec, Biron's failed attempt at privatization had as one of its implicit objectives to eliminate the SAQ's employee union. Fractioning and division of stores into separate units, even if they were cooperatives, would have made the reconstitution of the union legally impossible.

In Alberta, the retail stores and the two large storehouses were listed as having a book value of \$136.6 million for the land and the buildings. It is estimated that the two storehouses had a purchase cost of \$35 million, which leaves a book value of \$91.6 million for the retail stores. On April 27, 1994 the government had sold 112 out of 140 State-owned stores and had made \$37.4 million before paying sales commissions. The unsold stores were located in rural centers. These stores are practically impossible to sell and it would therefore be very surprising if they brought in over \$40 million. (14) Be that as it may, a sample of prices received for various stores shows a sale price greatly inferior to the book value. This is a loss calculated based on book value only. What was the actual market value of these stores in another context? Perhaps double that of the book value, in some cases. Privatization is a methodological impasse from the standpoint of financial assessment: the seller must accept any offer. Buyers bide their time and wait for prices to tumble. For example, new stores built in 1993 at a cost of \$3.03 million were sold for \$1.99 million a short time later. Another example: the Alberta government was first asking \$960 000 for a store in Red Deer in November 1993. On April 27, 1994 the asking price had been reduced to \$550 000. The "fire sales" or "item-by-item" type sales associated with privatization attempts at any cost cause buyers to make very low bids. Even the "star" store located on 106th street in Edmonton was sold for \$1.9 million, although its book value was \$4 million. The dream of making money by selling State-owned stores quickly went up in smoke.

CONCLUSION

After the privatization of the Alberta Liquor Control Board, the Canadian Center for Policy Alternatives concluded, "Our study seriously refutes most arguments and justifications advanced by government Ministers who advocated privatization. In fact, our results are so disturbing that we are forced to conclude that they must have had considerations other than normal efficiency, financial probity and concern for the public good in order to make this decision." (15) What underlay this decision was, first of all, blind faith that the private sector is always more efficient in all areas.

The general conclusion could be stated as a question: "Why dismantle a winner in the face of the considerable risks associated with privatization? The LCBO is a winner which:

- contributes \$1 billion to the annual public revenues of governments, in a stable and unproblematic manner;
- these revenues secure credit rating and a borrowing power of \$15 million;
- these funds remain in Ontario in their totality, contrary to private revenues;
- is completely self-financed (stocks, fixed assets, accounts receivable, etc.);
- benefits from considerable economies of scale on local and foreign purchases.

Based on what we have observed when privatization occurred elsewhere, the privatization of LCBO risks:

- causing the opposition of new retailers to taxes, particularly in a context where there is extensive contraband and where the government wants to keep its revenues. The government would find itself alone in the face of manufacturers' and retailers' associations whose firm objective is to achieve tax reductions;
- inciting new retailers to look for profits in the increase of demand ensuing from greater accessibility, longer business hours, etc. This results in social costs;
- leading to increased prices, to different prices in different regions, to a serious decrease in range of products, and possibly to a decrease in product quality;
- causing serious losses at the time of liquidation of public assets;
- causing the control of the alcohol product trade to find itself, for a more or less long term, in the hands of large chains which will offer a minimal range of products and services;
- bringing about public costs and a loss of competence through the dismissal of employees of the LCBO.

Privatizations in Alberta and Iowa have shown that public corporations offer a service which small, disparate businesses, deprived of economies of scale, of vertical integration of operations, and of centralized expertise, cannot possibly offer. These privatizations have also shown that the public system is an ideal means for the government to collect taxes and dividends unproblematically. A multiplication of intermediaries is inevitably a source of pressure for bringing alcohol taxation in line with taxes for other consumer goods. Iowa is also a good illustration of what happens in terms of loss of service quality.

APPENDIX 1 - LEVEL OF PRICE INCREASES AND OF TAXES AS COMPONENTS OF SALE PRICES IN ONTARIO

Imported from the United States Local

On 750 ml. of spirits:

| | | |
|---------------------------------|--------------|--------------|
| To supplier | \$3.51 17% | \$3.26 17% |
| Govt. of Ontario: Markup | 9.92* 49% | 9.07* 48% |
| Taxes | 2.39 12% | 2.23 12% |
| Govt. of Canada | 4.53 22% | 4.44 23% |
| | | |
| Price to consumer | \$20.35 100% | \$19.00 100% |

Increase is 145% (\$9.92/\$6.84) or 138% compared to supplier's price.

For 750 ml. of wine:

| | | |
|---------------------------------|------------|------------|
| To supplier | \$2.35 34% | \$2.19 38% |
| Govt. of Ontario: Markup | 1.63* 23% | 0.88* 15% |
| Taxes | 2.16 31% | 2.06 35% |
| Govt. of Canada | 0.81 12% | 0.72 12% |

Price to consumer \$6.95 100% \$5.85 100%

Markup is 59% and 34% compared to supplier's price.

For a case of 24 bottles of beer

| | | |
|---------------------------------|------------|------------|
| To supplier | \$7.48 28% | \$7.38 31% |
| Govt. of Ontario: Markup | 4.09* 15% | 4.09* 17% |
| Taxes | 4.21* 16% | 3.87 16% |
| COS | 7.39 27% | 4.96 21% |
| Govt. of Canada | 3.88 14% | 3.70 15% |

27.05 100% 24.00 100%

Deposit on container 2.40 2.40

Price to consumer \$29.45 \$26.40

Markup is 42% compared to supplier's price.

*To be replaced by taxes. In Alberta, a flat tax per litre was chosen.

(Source: Jazairi, Nuri T., "Privatization: the Real Story";
The Impact of Privatizing the Liquor Control Board of Ontario, ps. 73-74, Toronto, 1994.)

APPENDIX 2 - COMPONENTS OF BOTTLE PRICES IN QUEBEC

For the six years between 1989 and 1994.

paid to

| | | | | | | |
|---|------|------|------|------|------|-----------------------------|
| Year | 1994 | 1993 | 1992 | 1991 | 1990 | ¹⁹⁸ ₉ |
| Taxes, duties and dividends | | | | | | |
| government, in % | 53.7 | 53.8 | 56.0 | 55.6 | 56.8 | 56.4 |
| Supply and manufacturing costs, in % | 28.8 | 28.4 | 25.1 | 26.3 | 25.3 | 26.1 |
| Total operating costs, in % | 15.4 | 15.3 | 15.9 | 15.5 | 15.0 | 14.8 |

