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Policy Paper

A Valuation and Analysis of Atlantic Canadian Liquor Monopolies

By Alex Whalen and Ian Madsen

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Table of Contents

Executive Summary 5
Introduction 6
    New developments in cannabis sales 7
Background 8
    Analyzing Atlantic Canadian alcohol prices 9
Valuation: What could they be worth? 11
    Contextualizing the valuations 12
    Overview of assumptions made 12
The problems with monopoly 13
    Inefficiency 13
    The changing role of government 13
    Government and monopolies 14
    Conflicting incentives 14
    The pace of innovation and change 15
    Extensions: Gaming and marijuana 15
    Death by a thousand cuts 16
    Free flow of goods: Consumer interest and interprovincial trade 16
    The revenue question 17
    The Alberta experience 18
    Job losses 19
Recommendations and policy options 20
    Valuations in context 20
    Divestment options 20
Conclusion 23
References 25
Endnotes 26

AIMS Available Online:
    - Appendix A: Details and Assumptions about Valuation 24
    - Appendix B: Valuation 24

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Executive Summary

In 2012, Gérard Comeau was arrested for bringing cheaper beer from Quebec back into his home province of New Brunswick. The Comeau case has resonated with Canadians, and a recent AIMS survey shows that a majority of Canadians think that it should be legal to bring alcohol across interprovincial borders. The Supreme Court of Canada has now heard the case, and the verdict should be out in 2018. In the meantime, Canadians want to know why interprovincial transportation bans are in place, why prices for alcohol products vary so much in different provinces, and why liquor is so expensive.

This study answers all of these questions by explaining just how lucrative provincial liquor monopolies are. It begins by presenting a financial valuation of each of the four Atlantic Canadian provincial monopolies. It examines the existing systems in some detail, and presents policy options for change. We hope our analysis and recommendations will provoke and inform meaningful discussion in Atlantic Canada, where consumers pay above-market prices every day for alcohol from Crown corporation providers who control most aspects of distribution and sale.

Although the status quo could be maintained, the authors are confident that our free-market analysis provides a range of alternatives that are less costly to consumers and which provide more opportunities for small businesses. There are alternative models of liquor wholesaling, distribution, and retailing that would serve consumers better. Alberta is an excellent model in this regard, as it allowed free-market involvement in the retail (but not wholesale) portion of its monopoly. We conclude by recommending a similar approach in Atlantic Canada, beginning with divestment of retail operations.

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Introduction

Recent developments should give Atlantic Canadians cause to examine the role of government in the distribution, sale, and regulation of alcohol products. On Oct. 6, 2012, retired worker Gérard Comeau left his home in Tracadie, New Brunswick, travelled to nearby Pointe-à-la-Croix, Quebec, and purchased 14 cases of beer. Having taken advantage of the lower alcohol prices in Quebec, he returned to New Brunswick where he was promptly stopped upon crossing the J.C. Van Horne Bridge, and charged with an offence.[1]

The Comeau case set off a wave of public commentary and highlights the fact that free trading within Canada is far from free. Canadians have a lot in common with Comeau: they have seen big discounts in other jurisdictions, and seem to be aware that they overpay for alcohol in their own provinces. However, this recognition of disproportionate pricing has not yet translated into a public outcry against provincial liquor monopolies.

Interprovincial restrictions apply to many commodities, but few are as burdensome as those pertaining to alcohol. In Canada, the trade and sale of alcohol is primarily managed by provincial and territorial liquor monopolies, which collect over $6B per year in profits and $5.3B per year in taxes.[2] This is contrary to market principles, the interests of the consumer, the intentions of the Fathers of Confederation, and further contrary to the idea of a national, modern economy.

This study conducts a financial valuation of each of the four Atlantic Canadian provincial monopolies; it examines the existing system in detail and presents policy options. We hope our analysis and recommendations will provoke discussion in the region, where thousands of Atlantic Canadians pay above-market prices every day for alcohol from Crown corporations that control most aspects of distribution and sale.

Increased competition in the trade and sale of alcohol would be beneficial, and we hope that wider discussion of the problems plaguing the current system will help to question the current liquor monopoly and move the Atlantic Provinces toward a more efficient, competitive marketplace for alcohol products. The challenging questions on this topic concern the degree and nature of a potential divestment, what a new scheme would look like, how much the current scheme is costing us, and by extension, the tremendous lucrative value of the current scheme to provincial governments.

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New developments in cannabis sales

The government of Nova Scotia announced on Dec. 7 that legalized cannabis sales in the province would be conducted through the Nova Scotia Liquor Corporation.[3] The New Brunswick government has opted to have government partake in sales as well, though it will be constructing separate stores to do so.[4] PEI is following the New Brunswick model,[5] while Newfoundland and Labrador is opting to have its liquor corporation control distribution, with private operators handling sales.[6]

Those who favour the wisdom of market principles argue[7] that private distribution and sales for cannabis would best serve the consumer. In addition to market pricing, the private sector can best allocate resources such as store location and would do a better job of tackling the black market.

While this study focuses on liquor monopolies, it is noteworthy that all four Atlantic Provinces have engaged their liquor corporations in the cannabis business. The one province that has opted for private retail sales, Newfoundland and Labrador, is still using the liquor corporation for control and distribution, ensuring the province gets a substantial cut.

These recent developments serve to expand and entrench provincial liquor monopolies at a time when we should be discussing other options. While not the central focus of this study, we stress that the analysis of cannabis regulation is very similar to alcohol. Private sector options will often serve consumers better.

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Background

There are currently four provincial liquor monopolies in Atlantic Canada. Fundamentally, the four provinces operate in a similar way. Each has a provincial Crown corporation (or a like entity) that maintains some form of monopoly (or near monopoly) on the distribution and sale of alcohol. The tables below outline the profitability of these corporations, and data following show how the current system influences the retail prices Atlantic Canadians pay for liquor products.

The financial reports for each corporation show that the net income paid to the respective provincial governments continues to grow steadily. These organizations are large bureaucracies, employ large numbers of public servants, and possess vast holdings in stores and other assets. We'll proceed to valuation later in the study.

Figure 1

Organizations Overview

Nova Scotia Liquor Corporation (NSLC)
- 2016-2017 Annual Report[8]

- Total Sales: $611,845,000
- Total Remittance: $343,856,198
- Government of NS (Profit): $239,221,200
- Federal Government (HST, Excise): $87,079,530
- NSLC Salaries and Benefits: $58,550,000
- $611.8 million in sales is 2.22 times the cost of product

Alcohol NB Liquor (ANBL)
- 2015-2016 Annual Report[9]

- Total Sales: $410,390,000
- Total Remittance: $210,658,077
- Government of NB (Profit): $163,629,392
- Federal Government (HST, Excise): $47,028,685
- ANBL Salaries and Benefits: $34,097,280
- ANBL Operating Costs: $23,229,720
- ANBL Reported Cost of Product: $177,088,127
- $401.3 million in sales is 2.31 times the cost of product.

Prince Edward Island Liquor Control Commission (PEILCC)
- 2015-2016 Annual Report[10]

- Gross Receipts: $105,342,000
- Government of PEI (Profit): $39,368,000
- Federal Government (HST, Excise): $10,989,000
- Gross Profit: $32,701,000
- PEILCC Salaries and Benefits: $9,240,000
- PEILCC Operating Costs: $5,228,000
- PEILCC Reported Cost of Product: $40,517,000
- $105.3 million in sales is 2.6 times the cost of product.

Newfoundland Labrador Liquor Corporation (NLC)
- 2016 Annual Report[11]

- Sales: $332,084,000 ($267,123,000/ plus $64,961,000 commission on beer)
- Gross profit: $219,365,000
- Comprehensive Income: $176,188,000
- Distributions to the Province: $198,000,000
- Federal Government (HST, Excise): $31,415,000
- NLC Salaries and Benefits: $31,002,000
- NLC Operating Expenses: $17,732,000
- NLC Reported Cost of Product: $112,719,000
- $332 million in sales is 2.94 times the cost of product.

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Across the four provinces, there are few substantive differences. Each Crown corporation remits profits back to provincial coffers. While there is a small difference in regulatory structure between PEI and Newfoundland versus Nova Scotia and New Brunswick, they are essentially the same. Each organization is a large financial asset, with hundreds of millions of dollars in sales providing lucrative returns to their respective governments.

Our research reveals that the four corporations employ approximately 3,000 people. While employment is certainly a good thing, we shouldn't fear job losses in the event of a divestment. First, the jobs would not be lost, so much as transferred from the public sector to private. Second, total employment may actually grow, as we have seen in other jurisdictions. Third, many organizations have done significant research which shows that the Atlantic Provinces have above-average levels of public sector employment, and those positions pay above-average wages, at great cost to the citizenry (while employment numbers are difficult to find, direct inquiry and perusal of annual reports reveal the following numbers of employees: NB: 435; NS: 1400+; NL: 637; PEI:305). This may be a prime opportunity to start fixing such a problem.

Analyzing Atlantic Canadian alcohol prices

After sampling prices for 11 popular items commonly available in liquor stores across Canada's 13 provinces and territories,[12] we found that Quebec was the best place in Canada to buy alcohol. Although Ontario is best for wine, Quebec is the best place to buy beer and liquor. British Columbia ranked third in our sampling, but fell a fair distance behind Quebec and Ontario. Nova Scotia followed British Columbia fairly closely in fourth place, but only narrowly beat out Manitoba in fifth place, and Saskatchewan in sixth.[13] On the whole, Atlantic Canadian provinces fared poorly. New Brunswick ranked seventh, coming in a fair distance behind Saskatchewan. PEI ranked eighth, and Newfoundland and Labrador came in 11th, only narrowly beating out the Northwest Territories and Nunavut, in 12th and 13th places, respectively.

Position within these rankings is not insignificant, given the degree to which the prices of items in our basket vary across the 13 provinces and territories. For example, a single 355ml can of domestic beer ranges from a low of \$1.41 in Quebec to a high of \$2.61 in Alberta. On average, the cost of a can of domestic beer in Canada ($n = 13$) is about \$2.24. The wide variance in prices across the country shows a standard deviation of more than 25 cents per can ($s = \$0.32$).

Domestically produced wine also varied widely, with one commonly available 750ml bottle ranging from a low of \$10.45 in Ontario to a high of \$14.48 in Newfoundland

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and Labrador. The average cost for a bottle of domestic red wine (n = 12) is about $12.46, with a standard deviation exceeding $1 (s = $1.32). An even greater deal of variation is observable in liquor, where a 750ml bottle from one widely available (n = 13) brand of hard alcohol varied from a low of $22.40 in Quebec to a high of $33.19 in Nunavut, with a Canada-wide average of $27 (s = $3.42).

Two key take-away points result from this price analysis. The first and most important is that, on average, Atlantic Canadians pay more than other Canadians for alcohol. The second is that the only region where alcohol is more costly, on average, are the territories. The Northwest Territories and Nunavut, for example, rank dead last, just behind Newfoundland and Labrador. Regarding the territories, there are factors specific to their situation that effect prices, namely geography, purchasing power, population[14], and prohibition-type restrictions.

The second point to consider is more subtle. In observing the variance in product pricing across Canada it becomes immediately evident that even though we are indeed one country, we are not yet one market. The same size can and brand of beer is 50 per cent cheaper in Quebec than in Newfoundland. A portion of this 50 per cent difference may come from transportation costs and quantity discounts at the wholesale level, but much of it is provincially dictated mark-up. There are large differences in mark-up from province to province, and these mark-up margins are protected by the very interprovincial trade laws that in principle are being contested in the Comeau case. Despite the open trade intentions of the Fathers of Confederation, this wide variation in pricing on the same items makes it clear that “one market” does not exist for alcohol in Canada.

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Valuation: What could they be worth?

We know intuitively that liquor monopolies are very lucrative for provincial governments. But just how much are they worth? Before entering into a discussion about the qualitative issues with a monopoly, we provide here a high-level overview of the value of the existing provincial monopolies. In order for the public and law-makers to make an informed decision about the future of the monopoly, we must have some idea of what they could be worth.

The numbers that follow cannot be exact. We cannot know how exactly a divestment would play out. The valuation method assumes the monopoly being sold as is, with current cash flows being maintained. Many of the potential divestment options would affect this in various directions. The valuation is diversified using multiple methods, which provide a more robust analysis.

These numbers are best guesses, using commonly accepted methods, to provide a general picture. These figures should be used as a basis for discussion. The following is a summary of the two primary valuation methods employed (market-based and discounted cash flow). A more full discussion of these and other methods, and our assumptions, are in Appendix A.

Figure 2

Valuation Overview

	Atlantic Total	NS	NB	NL	PEI
Market-value method	**4,665M**	**1,939**	**1,436**	**1,089**	**201**
Discounted cash flow method	**5,309M**	**2,305**	**1,379**	**1,411**	**214**

These figures tell us what an investor might be willing to pay for all future cash flows arriving from each provincial corporation. The key point is to illustrate just how lucrative the monopoly is to government, adding to an overall Atlantic total of about $5B.

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Each of the valuations has a high, medium, and low projection. We have also conducted valuations based on an assumption of the entity being fully taxed (as it would be in the private sector), or untaxed (as it is now). The numbers above assume full taxation. The numbers above assume full taxation. Regardless of the method, there is consensus in the numbers that Nova Scotia, New Brunswick and Newfoundland are operating billion-dollar monopolies in NSLC, ANB and NLC.

The specific details in these calculations, various methods, and other financial information about the liquor corporations will be available on our website at AIMS.ca/liquourvaluation. Some other additional information is contained in Appendix A.

Contextualizing the valuations

Given that the valuations are based on selling the structures as they exist, the numbers are a clear indication of how valuable liquor monopolies are to the provincial governments. Valuations are a representation of what someone might pay for the right to that future cash flow. Median valuations over $1B represent a lot of money in a relatively small provincial economy. Any divestment situation is bound to benefit consumers, because this future value would either be realized in a sale (which could then go toward provincial debt or some other use), or realized through lower prices. The high valuation numbers result from strong cash flow, which, in turn, comes from high prices and restricted competition.

The four Atlantic economies are well integrated and some efforts have been made to standardize regulation. In terms of liquor monopolies, a region-wide approach may make some sense. For example, if all provinces chose to act in the same direction in terms of divestment, it is possible a higher price could be extracted. This is the reason for including a combined valuation of the four provincial monopolies.

Overview of assumptions made

A full discussion of the valuation methods employed here can be found in Appendix A. To summarize: the overall figures assume that the monopoly is kept intact for the purposes of illustrating value. The valuation also makes assumptions about taxability in the event of a private sector takeover and about other items like future growth of sales.

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The problems with monopoly

Inefficiency

The basic case against monopoly is straightforward. When one entity controls a disproportionate amount of market power, it can raise prices to a level that is unfair to consumers. Those who possess a free-market inclination understand that market-driven environments ensure an efficient allocation of resources, greatly benefit consumers, and provide producers with a competitive marketplace. Thus, monopolies should only exist when strictly necessary; otherwise, they are unduly burdensome to consumers.

Liquor monopolies once served an important role as a form of social regulation in Canada. Prohibition attempted to address widespread public concern about the social ills of alcohol, and liquor monopolies represented a way for governments to move forward from years of prohibition with a very controlled form of distribution. But in recent years, liquor monopolies are no longer needed for this reason, and no longer serve an ongoing public policy purpose, aside from being instruments of economic regulation and profit. Provincial and territorial governments can effectively regulate and promote public safety in the consumption of alcohol without controlling all aspects of its sale and distribution.

The changing role of government

Over time, the Canadian federal government and other provincial governments have extricated themselves from direct ownership of various commercial enterprises. Few such enterprises remain in the hands of these governments.[15] Liquor monopolies stand out as an exception, no longer the rule. They appear as remnants of times gone by.

In fact, Kevin Lynch, former clerk of the Privy Council, and Tiff Macklem and David Dodge, former deputy and governor of the Bank of Canada respectively, recently co-authored a piece[16] for iPolitics examining the role of private infrastructure for government. In it, they explain "the sale or lease of existing assets has the potential to substantially increase the overall stock of infrastructure," going on to say "existing infrastructure is attractive to private capital [which can] operate it successfully and raise efficiency." We interpret the authors to be saying that future demands will require us to examine our current portfolio of government assets and determine which are suited for a sale. This study does not endorse a knee-jerk sale of our liquor monopolies, but rather seeks to put a value on the asset we have, so as to better inform those wishing to have the conversation.

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Government and monopolies

While there is a variety of ideological positions about the proper size and role of the state, space and scope don't allow us to enter into a thorough discussion. However, in order to properly examine the need for provincial liquor commissions, we must spend some time thinking about the role of the state in the economy.

Simply put, the question about "the role of the state" addresses where government action, indeed government intervention, may be justifiable in the marketplace. To be sure, there are legitimate reasons why government may choose to monopolize, intervene, or otherwise interfere in a market. However, we posit that in each instance where government does so, it should be done carefully. The default position should be one of no interference when the private sector is freely capable of providing a given service or product. Only after defeating the default presumption with a clear rationale should government be allowed to intervene in the marketplace to provide services or products.

Applying this test, we cannot find a good rationale for government intervention in alcohol sales. The private sector can easily handle most of the functions government carries out in this realm: sales, marketing, distribution, etc. Further, we contend that government could even do a better job in its legitimate areas of control – running the business of governments, in other words – by removing itself from conflicting activities and incentives.

Conflicting incentives

What do we mean by conflicting incentives? When any entity is asked to perform too many functions across a variety of fields of competency, those functions will inevitably conflict, which leads to greater problems. Conflicting incentives create moral hazard and generate greater risks. Government's role as it relates to alcohol (and gambling) is a prime example of this. At once, government plays the role of monopolist, profiteer, legislator, regulator, enforcer, arbiter, health and safety provider, marketer, and distributor, etc. Even with segregated duties, the conflicts abound.

There is a role for government as it relates to alcohol. Government should do what it does best in this instance: regulate in the interest of public health and safety. However, when you extend that role too far into so many other areas, problems arise. Government could be better at regulating health and safety if the conflicting activities were removed.

On this topic, we note anecdotally liquor corporations have been havens for provincial

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patronage appointments. The PEILCC, for example,[17] has endured some embarrassing episodes as a result of patronage. A private sector arrangement, of course, removes this temptation for government.

The pace of innovation and change

Provincial liquor monopolies look increasingly rigid and conventional in a world where consumers have come to expect innovation and change. Consumer-focused upstarts like Uber are prompting taxi service to change through a process economists call "creative destruction."[18] Automated driving technology promises to push this change even further. AirBnB has transformed the way in which traditional hotels approach business. These companies empower consumers by offering a stunning variety of low-priced goods and services at a remarkable level of convenience. How can provincial liquor monopolies compete?

Although it's impossible to determine exactly where the next innovations will take us, we can conclusively say that the private sector is best suited to introduce these changes. Everything about retail as we know it is changing rapidly. The way we pay for goods has evolved from cash to debit and credit cards, and is now moving toward mobile phone-based systems. The traditional bricks-and-mortar retail operation is under siege and direct-to-consumer shipping is now an expectation in some markets. Innovation in the private sector has led these changes, typically incentivized by profit, with government sluggishly following these changes as a late majority adopter. The pace of innovation and change suggests that the private sector is a better fit for retail liquor sales than the provincial monopoly.

Extensions: Gaming and marijuana

The close relation to gambling departments raises an important point. Historically, the regulation of gambling and alcohol has been done in a similar way. Unfortunately, this also means that both have been subjected to some level of government monopoly.

In all four Atlantic Provinces, the majority of gaming enterprise has been uploaded to the Atlantic Lottery Corporation. This results in the same shortcomings for consumers as we see with alcohol: a lack of variety in products, inefficiency, and waste. We also see a highly expanded bureaucracy that has recently come under fire for profligate spending on bonuses, Christmas parties[19] and the like, as well as excessively high executive compensation.

The experience with liquor monopolies as well as gaming should be instructive as Atlantic Canadian provinces tackle another public policy choice in marijuana.

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We believe the fundamental market characteristics of all three items to be similar and so the same lessons apply. As policy-makers contemplate the legalization of marijuana, they should learn from our costly experience with liquor and gambling, and resist the temptation to monopolize in favour of a more entrepreneur-friendly approach.

Death by a thousand cuts

Monopolies usually result in above-market prices to the consumer. They are a market-distorting mechanism that transfers wealth from one group (consumers) to another group (producers). As our price analysis showed above, this is true in Atlantic Canada with liquor monopolies. Every day, thousands of Atlantic Canadians pay above-market prices for alcohol. At the cash register, it may be a small amount per transaction, not enough to trigger a reaction. However, across thousands of transactions per year, the result is a direct transfer of consumer surplus to the provincial government. It is death by a thousand cuts to those who wish to purchase alcohol.

Free flow of goods: Consumer interest and interprovincial trade

Any evaluation of provincial liquor monopolies is incomplete without mention of current news on the topic of interprovincial trade. As referenced earlier, retiree Gérard Comeau is battling New Brunswick's restrictions on transporting alcohol across provincial borders. In early December 2017, the Supreme Court of Canada heard his case. The topic of interprovincial trade is closely linked to any evaluation of the liquor monopolies, as one tends to support the other.

We won't know the outcome of the case until later this year. However, should the Supreme Court rule in Comeau's favour, there will be far-reaching implications for the liquor corporations. We can expect that a decision favourable to Comeau would affect the monopolies, open up freer trading of alcohol, and increase competition. As it stands, the interprovincial barriers to trade are a key tool used to maintain the monopolies. The current barriers largely do not allow for competing jurisdictions (another province or even country) to sell alcohol at more competitive prices in their own markets. Any favourable ruling from the court would diminish their ability to maintain these barriers. To what extent, we do not yet know.

The overall alcohol scheme is an anti-market, anti-competitive structure, with trade barriers being one element and monopoly enforcement another. The Comeau case offers an opportunity for the provinces to be proactive, regardless of the case's outcome. Provinces should work to eliminate the needless barriers that still exist.

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While premiers regularly meet to make noise about progress on interprovincial trade,[20] the Comeau case is one example of how we still are not "one country, one market". This is an opportunity for Premiers to be proactive in fixing a problem. Our system of alcohol regulation restricts growth, inhibits free exchange, and is costly to consumers.

Legality aside, polling by AIMS in partnership with the Montreal Economic Institute and the Canadian Consitution Foundation suggests that Canadians back Comeau. Seventy-eight per cent of respondents to a recent poll believe they should be able to bring alcohol across provincial borders. Eighty-four per cent believe they should be able to buy wine directly from a winery out of province, and only 16 per cent think governments should be allowed to impose protective restrictions.[21] These attitudes have implications for liquor monopolies. While the polling was done in the context of the Comeau case, it reveals a preference for freer trading, less government monopoly, and more consumer freedom.

The revenue question

What do the liquor monopolies mean to provincial treasuries? Some may be concerned that divesting will result in a significant loss of government revenue. It is indeed true that the Atlantic Provinces each derive significant income from their individual liquor monopolies.

The following chart lists the net income of each of the four provincial liquor monopolies from the past five years. The net income of each entity is effectively the revenue stream for each provincial government. The amount remitted to each province on a yearly basis (effectively a dividend) varies based on the structure of each organization, accounting policies, investment needs, etc. As a general rule, the yearly remittance to each province is between 70 and 100 per cent of net income, with some fluctuations. However, the net income of each organization is the most illustrative number, given they are all owned in whole by their respective provinces.

We can see here that PEI averages around $18M in provincial income, New Brunswick and Newfoundland around $170M, and Nova Scotia is the significant leader with over $235M. These figures do not account for the provincial revenue deriving from sales taxes on alcohol products, and income taxes on the generous salaries they pay, so the real return to the provincial governments is significant.

However, fears that these revenues would dry up under a different model are overblown, if not an outright misunderstanding. There are two reasons for this. First, experience in other jurisdictions shows that revenues remain steady, as a new structure is likely to generate sales and income taxes of its own, in addition to whatever excise

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Figure 3

Net Income of the Four Provincial Liquor Monopolies (All figures in $Millions)

Province	2012	2013	2014	2015	2016
New Brunswick	**164.1**	**164.1**	**161.2**	**171.5**	**168.4**
Newfoundland & Labrador	**141.7**	**141.9**	**155.3**	**166.7**	**176.1**
Nova Scotia	**219.8**	**224.2**	**230.3**	**244.5**	**238.9**
Prince Edward Island	**15.2**	**17.2**	**18.0**	**19.7**	**20.6**

tax remains. While government would stop receiving dividends, it would receive tax revenue through these channels.

The Alberta experience

Alberta became the first province in Canada to divest the retail sale of liquor in 1993. Despite privatizing retail sales, the Alberta Gaming and Liquor Corporation (AGLC) retains a monopoly on the distribution of liquor to retailers, and controls the wholesale pricing and regulation of liquor in Alberta.

Retail privatization has not resulted in a loss of revenue for Alberta. In fact, liquor revenues grew following privatization in 1993, and the Alberta government had to adjust its alcohol mark-up rates downward in order to meet its objective of revenue neutrality.[22] Our data show that the Alberta consumer faces higher than average prices for liquor products. In our sampling, Alberta came in at 10th place out of a possible 13; only Newfoundland and Labrador, the Northwest Territories, and Nunavut had higher average prices.

The higher than average prices observed in Alberta should not be attributed to the privatization of retail sales. Rather, these prices are the result of a number of factors including recent large CPI increases, additional taxes, and the fact that the AGLC still holds a monopoly on distribution.[23] Evidence of the profitability of this distribution monopoly is observable in the AGLC's net liquor profits, which totalled $897.9M for 2016-2017.[24]

The case of retail privatization in Alberta is instructive, and has helped to answer a number of questions about privatization and competition. The system has remained immensely profitable for the AGLC, and a wealth of opportunities has emerged for small and medium private retailers. And, contrary to some fears, the break-up of the

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government monopoly on retail sales of liquor in Alberta did not result in higher levels of alcohol consumption, higher levels of alcohol-related crime, or any increase in alcohol-related social harms.[25] There is no reasonable expectation that it would be otherwise elsewhere in the country. Further, consumers have benefited from increased convenience and variety. For example, Alberta has nearly double the number of liquor stores per capita than Atlantic Canada.

The case of Alberta is also instructive because it opted for full, and not partial, privatization of retail sales, with all existing Alberta government liquor stores being leased to, and operated by, third parties. In 2001, the British Columbia Liquor Distribution Board (BCLDB) granted licences to a limited number of private retailers. In British Columbia, almost all of the previously existing government-owned liquor stores stayed in operation. Competing against the near monopoly enjoyed by these government outlets is difficult,[26] even with the 16 per cent discount that the B.C. Liquor Distribution Board grants to private retailers.

Job Losses

Divestment does not pose a threat to overall revenue, but would necessitate a realignment of government union wages to market levels. To take just one example, approximately 1,400 NSLC employees are mostly members of the Nova Scotia Government Employees Union (NSGEU). Their collective agreement provides for average salaries topping $40,000[27] per year for jobs such as clerks and warehouse attendants, and considerable additional compensation in the form of benefits, even for entry-level clerical workers.

The example of Alberta is once again instructive here. Overall revenues increased, and retail employment opportunities more than doubled when government liquor stores were closed in 1993-1994. Retail employment in Alberta liquor stores increased from 950 FTEs under government operations at the end of 1993 to an estimated 2,905 FTEs in 1996.[28] Although the average wages of retail employees dropped, the interests of the 950 government union FTEs should not be seen as outweighing the interests of the 2.6-million Albertans the government was mandated to serve. Alberta faced initial threats of legal action from terminated employees, but more than 20 years later, Alberta has not turned back to the prior model.

Higher than market wages are another reason why the provincial monopoly structure is inefficient. Employees should be paid market rate for services. Under the status quo, taxpayers are subsidizing higher than market wages at the liquor monopolies. Under divestment, private industry would be able to judge rates of pay according to value created and market conditions, and ordinary taxpayers would be properly left out of it.

Recommendations and policy options

Valuations in context

For a province like Nova Scotia, $1B-plus is a lot of money. New Brunswick, and Newfoundland and Labrador, with their tight fiscal troubles, could use all the cash they can get. The sale of a liquor monopoly could be a significant relief to provincial finances, if the monopoly were to be kept intact. If the monopoly were to be broken up and divested, this would at least contribute to a smaller footprint and overall liabilities for government. In any event, divestment could potentially take many forms.

At a time when Newfoundland and Labrador face a deficit of $1.1B[29] in the last budget (to take one example), or Nova Scotians face a $1B bill to replace an aging Victoria General Hospital, all non-core assets ought to be examined.

Divestment options

In this study we presented a valuation of provincial liquor monopolies in Atlantic Canada. We conclude that this form of public service is a prime target for divestment, given its lucrative valuation and expansion of the footprint of government. Our valuation numbers assume a sale of the entire purchasing, distribution, and retail network as is, but several options exist if and when public awareness of the facts reaches a level sufficient to motivate divestment. Broadly speaking, the three main areas of government involvement in liquor include:

1. **Wholesale and distribution-** provincial monopolies currently control all wholesale purchasing and most warehousing and distribution of alcohol in Canada.

2. **Retail and stores-** provincial monopolies currently own and operate most retail liquor stores across Canada. There are exceptions, such as Alberta, where retail sales were turned over to the private sector in 1993. Private store locations are very rare in Atlantic Canada.

3. **Regulation-** provincial government administrators across Canada are currently responsible for both economic regulation (licensing producers, limiting production levels, and setting prices) and social regulation (minimum-age laws) concerning alcohol. Social regulation is also observable at the municipal level in various dry communities (prohibition) across Canada.

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Of these three, the first two are of interest in contemplating divestment and privatization. Regulation does not lend itself to privatization, and with the exception of the price-setting function, is best left in government hands. Regulation is not entirely unrelated to divestment, however, because the privatization of wholesale, distribution, and retail operations would almost certainly enable provincial governments to focus on functioning as efficient and effective regulators.

In considering the remaining two areas of government involvement, it is important to note that divestment can be achieved in steps and need not occur all at once. In particular, the case of Alberta is instructive. Alberta's government divested the retail sale of alcohol in 1993 and some aspects of the warehousing and distribution of alcohol in Alberta are contracted to third parties. Alberta is now nearly a quarter-century into this significantly profitable arrangement, which sees the Alberta Gaming and Liquor Corporation (AGLC) retain control of the wholesale purchase and regulation of alcohol in Alberta.

Divestment of retail liquor sales has opened the way for many new businesses to compete in the Alberta market and has allowed the AGLC to focus on other aspects of business. In 1993, there were 205 government-owned liquor stores and 102 privately owned beer and wine stores.[30] At of the time of writing, there are 2,136 licensed liquor stores in Alberta.[31] Increased competition at the retail level has seen business owners become interested in customer demand. The AGLC regards Alberta liquor retailers as stakeholders, and by being receptive to information about market demands they have expanded their current selection to include 22,815 different liquor products. This is a vast increase from the 1,957 different liquor products once sold exclusively under the ALCB.[32]

The redoubling of the AGLC's focus on wholesale operations has benefited retailers and local alcohol producers in Alberta. The AGLC works with producers as stakeholders, and since removing regulations regarding minimum production levels in 2013, is now doing business with 85 separate producers within Alberta. These producers are federated into groups such as the Alberta Small Brewers Association (ASBA), the Alberta Craft Distillers Association (ACDA), and the Alberta Estate Winery and Meadery Association (AEWMA), and they work with the AGLC to meet consumer demand.

Change will naturally be resisted, but Alberta's example shows that change is possible and even profitable. Given Alberta's success, the privatization of retail sales is probably the most likely choice for a first step in a progressive divestment of Atlantic Canadian provincial liquor monopolies. Options on such a route of divestment include the sale of existing stores, repurposing stores for other uses, and perhaps an interim mix between public and private sales locations. Alternatively, the four Atlantic Canadian provinces could divest of their retail sales together while merging their wholesale functions to gain more purchasing power.

Alberta may seem like a comparatively free-market example when compared to other Canadian provinces. However, the Alberta government's function as the sole wholesaler is still patently monopolistic when compared to other North American jurisdictions. For example, most American states follow a three-tier system, where a regulatory branch of each state government provides licences to liquor producers, wholesalers, and retailers. In such a system, licensed producers are legally obligated to sell product only to licensed wholesalers, licensed wholesalers must only sell to licensed retailers, and only licensed retailers may sell product to consumers. In these three-tier states, every bottle of liquor sold gets taxed three times, providing immense revenue to governments, while permitting a market system to thrive from producer to consumer.

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Conclusion

In this study we presented a financial valuation of each of the four Atlantic Canadian provincial monopolies. We examined the existing systems in detail and presented policy options for change. We hope that our analysis and recommendations will provoke and inform meaningful discussion in the region, where thousands of Atlantic Canadians pay above-market prices every day for alcohol from single providers that control all aspects of distribution and sale. Although the status quo could be maintained, we are confident that our free-market analysis has provided a range of possible alternatives that are less costly to consumers, and that will provide more opportunities for small businesses.

Recommendations

The primary purpose of this paper is to introduce facts, and lay the groundwork for a conversation about Atlantic Canadian liquor monopolies. With that said, we do think the facts lead to a conclusion. The system demands change.

We recommend that the Atlantic Provinces begin working together to create more of a free-market system for liquor sales and distribution. Ideally, a system should be phased in over time that first divests the governments of their retail functions, allowing the private sector to take over. Retail is the most obvious candidate for divestment because the function is relatively simple to undertake.

Following divestment of the retail element, we recommend governments extract themselves from wholesale and distribution functions as well. As we've explained above, government could be far more effective in its role as regulator if it were not also seeking profit.

The polling conducted on the Comeau case strongly suggests that Atlantic Canadians are dissatisfied with the status quo and are aware of the costly pricing imposed by provincial liquor monopolies. We recommend our four regional governments listen to this signal from the people, and begin to enact reform. Should the Supreme Court strike down interprovincial barriers, it would be advantageous for Atlantic Canadian governments to have a plan in place.

To these ends, we are confident that the example of Alberta is a model to discuss as an alternative to the status quo. Importantly, Alberta used to have a system similar to those now in place in the four Atlantic Canadian provinces. Alberta's system isn't perfect, and prices have recently risen due to increased taxes, but it is one example of a better system than we have. The fact that it has moved forward from such a

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similar point of origin proves not only that similar change here is possible, but that it can also be profitable. Consumers can benefit from increased product selection and availability, local businesses and labourers can benefit from increased retail opportunities, and producers can also benefit from the flexibility and adaptability of a more competitive retail system. The guidepost for this process should be to endorse the benefits of the free-market, to the advantage of the every day consumer.

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- **Appendix A: Details and assumptions about valuation**
- **Appendix B: Valuation**

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Endnotes

1. Under section 134(b) of the *New Brunswick Liquor Control Act,* it is illegal to bring certain quantities of alcohol across provincial borders. RSNB 1973, c. L – 10.
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12. In order to create a balanced basket of items that would appeal to a wide variety of buyers, we looked for the most popular items in each of three segments: beer, wine, and liquors. Two of our domestic wines were unavailable in Quebec, one of our imported reds was unavailable in Manitoba, and another imported red was unavailable in Nunavut. Barring these four exceptions, each of our items is readily available in every province and territory. Our sampling included one can of domestic beer, one bottle of imported beer, one bottle each of domestic red and white wine, two different imported red wines, two different imported whites, and three bottles of liquor. Data were collected from official online websites, a popular retailer's website in Alberta, and by obtaining official price lists from representatives at provincial and territorial liquor corporations. Our observed prices include applicable taxes and deposits, and no sale or quantity discounts were applied.
13. This being said, there are deals to be found in every province. Nova Scotia had the cheapest prices in the nation for both our tested whiskey and tequila.
14. Newfoundland Liquor Corporation's trend of capital spending dictated a negative valuation when the normal DCF method was applied. This would seem counter-intuitive for a corporation that profits in excess of $150M per year. It is reasonable to assume something will change with NLC's capital expenditure situation. For this number, the authors have used free cash flow as a substitute for operating cash flow to account for the situation.
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