

Intelligence MEMOS



From: Anindya Sen and Rosalie Wyonch
To: The Ontario Minister of Finance
Date: May 17, 2017
Re: **LCBO WORKERS STRIKE IS NOT ABOUT PUBLIC REVENUE**

Ontario Public Sector Employee Union (OPSEU) members at the LCBO have overwhelmingly voted in favor of giving their bargaining team the mandate to call a strike, if negotiations with management do not satisfactorily address concerns. A [major point of disagreement](#) in negotiations is the expansion of beer and wine retail to grocery stores, which [began in December 2015](#). OPSEU maintains that expansion will [ultimately result in the end of the LCBO](#) as we know it and the loss of significant government revenue.

The position that the government will lose revenue from grocery store sales, however, is at odds with the structure of the alcohol retail industry in Ontario. The LCBO is the only wholesale buyer of wine and spirits in the province. Bars, restaurants, and other licensed establishments must purchase their liquor and wine through the LCBO. Even a vineyard must pay the licensee markup to the LCBO if they wish to sell their own wine by the glass. The grocery stores licenced to sell beer and wine must buy it from the LCBO, meaning that wholesale retail markups are still applied and transferred to the government as revenue, less operating expenses.

The licensing of grocery stores is unlikely to reduce government revenues, as OPSEU is claiming. Research shows that [deregulation of alcohol retail in other provinces resulted in about a 7 percent increase on the per capita net income](#) of provincial liquor authorities, not including sales or liquor taxes.

There are benefits to increased competition beyond increased choice and convenience for the consumer. Retail markups in the LCBO are mandated by the government, from this markup the LCBO deducts its operating expenses and pays the remainder to the Ontario government. The LCBO does not have a competitive incentive to constrain its operating costs and [over 60 percent of expenses](#) go to the maintenance of retail outlets.

Further, [OPSEU's proposal](#) (Article 7.4 (a)) would limit the regular working hours of LCBO union employees to Monday-Friday, meaning these retail outlets would have less flexibility in serving consumers who want to buy liquor on weekends. A private retail entity has a direct incentive to contain costs and be open at the times most convenient to customers. Increasing reliance on private retailers adds increased competitive pressure to have the retail outlets run efficiently, which will ultimately result in a lower price for consumers or more government revenue since the same amount of alcohol can be sold for lower costs.

Last week, with negotiations still ongoing, the Ontario government announced that [76 more grocery stores](#) in the province will sell beer and cider, just in time for Canada Day. If employees do go on strike to protest the "[weaker and meaner](#)" LCBO, don't worry you can get beer or wine conveniently from the grocery store.

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