Case #1: Canadian Briefing Note (LCBO)

P700 Business, Government and the Global Environment

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1. Introduction

The Liquor Control Board of Ontario (LCBO) is a Crown Corporation established in 1927. It operates nearly 600 stores across the province and has a monopoly on the sale of spirits in Ontario.[1] LCBO generated nearly $2.9 billion annually for the people of Ontario - including $2 billion in taxes and another $900 million in profits each year, making it the second largest government liquor distributor in the world.[2]

The former Tories planed to sell the board's revenue stream while retaining actual ownership. Now, Dalton McGuinty's Liberals was handing out a workbook to focus groups it had convened, saying that the 600 stores could be sold as franchises. There's something about the prospect of a $5.6-billion deficit that has encouraged the government to obtain funds from selling its prime asset.

However, the Ontario Liquor Board Employees' Union has been running a successful campaign against privatizing the LCBO, and at same time, National Union of Public and General Employees threw its full support behind a campaign to stop government of from privatizing the phenomenally-profitable Liquor Control Board of Ontario.

Should LCBO be privatized now? In this report, first of all, the importance of the issue is discussed, then a detailed analysis of the interests among government, business and public is presented, finally I will draw the conclusion and make a few of recommendations for privatization of LCBO.

2. Importance of the Issue

2.1. Revenue

The LCBO is a highly profitable business owned by the government of Ontario. It is also a significant component of the economy of the province. It generates $2.9 billion a year in taxes and profits. The LCBO also contributes to the economy of Ontario in salaries, rents, and the purchase of various goods and services. This sum of money has a multiplier effect on the provincial economy, larger than the original amount injected into the economy. [3]

2.2. Pricing and Marketing

The LCBO carries a very wide selection of quality-tested products throughout the province at uniform prices. The liquor control boards can, as single buyers, bargain for lower prices and greater special discounts from suppliers and carriers. The privately-owned outlets are fragmented and multiply rapidly and are therefore not centralized in their operations and distribution network. Privately-owned retail outlets also require higher rates of return on their capital costs than control boards, and these higher costs, among others, lead to higher alcohol prices under privatization.

2.3. Employment

The LCBO is a progressive employer of a committed and customer oriented workforce who are classified as permanent (amount 3362) and casual, and full-time and part-time.[4] LCBO privatization means the laying off of LCBO employees that will lead to huge losses to the treasury and economy of Ontario. Thus the union struggles to organize campaign against the privatization.

2.4. Society Influence

Privatizing the LCBO would likely lead to increased access to alcohol, increased consumption and therefore more alcohol-related costs. The significant potential consequences of the privatization of alcohol monopolies include: increased overall population consumption; increased sales to under-aged and intoxicated patrons; increased problems with monitoring and enforcement.

3. Analysis of Privatization

3.1. Government

From the aspect of government, it is a current trend that government should not put more intervention in business. Tory said in throne speech: “The government will sell businesses it should not operate and assets it should not own.” [5] Thus it is reasonable that the former and current minister planned to sell off or partly sell the LCBO. Another reason for privatization may attribute to fiscal deficit, because ministers want to cut its deficit during their terms. The sale of LCBO will obviously resolve its financial problem in short term. However, if we consider it as a financial decision in the long term, it may not be a good choice. Because LCBO is running very well now, it brings an annual dividend of $975 million to government or people of Ontario in 2002-03.[6]

3.2. Business

Many private investors would prefer to buy the franchise of LCBO or directly buy its retail shop. Because LCBO has already established its stable customer base, and have its brand recognizing advantage, it will be a little easy to develop their business in such situation. But due to limit of small scale, its operating cost would be higher than the LCBO, this may lead to high sale price of liquor. And at same reason, it may not control the quality of product as LCBO does.

Until now, too many small towns didn't get LCBO service because they couldn't support the overhead of a full-sized LCBO store. Sterling, the former minister of consumer and business services, told reporters. "With our go-ahead to offer franchises to existing retailers in very small markets, we'll improve service for residents and visitors, while preserving the LCBO's social responsibility standards." [5]

3.3. Public

Most people are satisfied the LCBO's product and service, and support the board control. Alcohol is special commodity, thus government intervention is needed at this situation, even though LCBO has monopoly status in Ontario area. All LCBO retail employees are trained to Challenge and Refuse service to anyone who appears underage and cannot provide valid ID or appears intoxicated. Last year, LCBO frontline staff challenged 1.2 million would-be customers and refused service to nearly 70,000, about two-thirds of whom appeared underage and could not provide valid ID.[7] It is difficult to imagine what will happen if all these retail shops are sold to private investors, they may consider more on their own economic benefit and neglect social liability. Increased alcohol problems such as sale to under-aged and intoxicated patron are very likely happen.

4. Recommendation and Conclusion

The privatization of LCBO is a complicated issue, because we should consider the relationship and interests among government, business, and public. On one hand, normally government should not act as a policy decision maker and business operator at same time, which will easily lead to monopoly and against good faith.[8] On another hand, we have to consider that alcohol is special commodity, which should be effectively controlled by government based on public interest. Therefore my suggestion is to partly privatize LCBO, it will decrease business monopoly in the market, but government could still occupy large part of share, so it can effectively regulate the operation of business.

There are many methods of privatization, and some ideas had been mentioned by government in LCBO history, such as franchise store in rural area, merge with Beer Store, and income trust. The main concern is to find an appropriate way to balance the interests of all parties, and make the privatization go smoothly during a period, not suddenly hit some party's interests, and untimely be accepted by all groups. In order to achieve this goal, the LCBO and ministry must be more transparent in their decision-making, and more open to consideration of public health interests.

From this point of view, government could organize a board which has enough members from different stakeholders, such as employees of LCBO, representative of Ontario citizen, expert of public health and safety, economists, private investor and government officer. They could regularly meet together to discuss the possible method of privatization and collect all kinds of opinion and feedback from society. Although this method may spend more time during policy-decision process, only when the issue is thoroughly discussed and known by public, the rational policy could be made to reflect all party's interest and untimely encounter less resistance while it is applied.

Endnotes:

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