

**Testimony Before the Alabama Alcoholic Beverage Control  
Task Force, January 12, 2016**

**Full Privatization of Liquor in Alabama  
Facts and Talking Points**

- There are about 550 privately owned and operated liquor stores in Alabama today.<sup>1</sup>
- That is more than three times the number of State owned and operated retail stores.<sup>2</sup>
- If you remember only remember one thing from this hearing it is this:
- **There are 550 privately owned and operated liquor stores in Alabama today.**
- In other words, we already have the privatization of alcohol sales in Alabama. We just also have the Alabama Government competing with those private businesses.

**Today's Regulatory and Pricing Environment:**

- The revenue distribution - the mark up and taxes – on alcohol sold by the private stores is the same as the revenue distribution for the alcohol sold in ABC stores.<sup>3</sup>
- This is because in all cases, the ABC Board serves as the exclusive wholesaler in Alabama.
  - But because the private stores must purchase from the ABC, they are at a huge competitive disadvantage when it comes to prices.
- The ABC Board currently does an excellent job regulating and working with these 550 private stores.
  - The ABC Board enforces the laws related to theft and shoplifting.
  - It enforces the laws related to selling to underage drinkers.
  - It already does this incredibly well for the 550 privately owned and operated liquor stores that are in the State today.<sup>4</sup>

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<sup>1</sup> Mac Gipson, Special to the Anniston Star, *Insight: Alcohol Use in Alabama*, September 7, 2014 (“Gipson, *Insight*”).

<sup>2</sup> There are approximately 175 State owned stores. Gipson, *Insight*.

<sup>3</sup> Cameron Smith, [al.com](#), *Last Call for Alabama's State-Run Retail Liquor Operations*, March 29, 2015 (“Smith, *Last Call*”).

<sup>4</sup> Gipson, *Insight* (“The ABC Board . . . fulfill[s] is obligation to regulate the sale and distribution of alcoholic beverages, enforce the state's alcohol laws, educate sellers and the public about alcohol issues, such as underage drinking, and to promote temperance”).

- Many of the arguments against removing the ABC Board from the retail side of selling alcohol seem to rest on a belief that Alabama is a full control state. But when it comes to the retail sale of alcohol, Alabama today is not a control state.
- Instead, the Government actively competes with 550 private businesses. And it does so with an unfair price advantage, since those private companies have to purchase their inventory from their biggest competitor - the Government.

#### **Revenue Issues Under Full Privatization:**

- Under the proposal that was made last year, the ABC Board would continue its role as the wholesaler of liquor for the State. It would only cease its retail operations.
- Because of this, and the State's continued ability to set the mark-up on liquor, it is confusing why there is a claim that the State's revenue could drop if there was full privatization of the retail market.
- The legislature and ABC could still set the price and mark-up charged to private retailers (as they do today) in order to ensure that the State continues to receive the revenue it needs. In fact, the State would actually get its revenue on the front end - when it sells to the retailer.
- Moreover, even the study commissioned by the ABC Board in order to oppose the full privatization of liquor sales found that at a minimum the State would save between \$4 and \$6 million per year.<sup>5</sup>
- This number is likely significantly more when the high costs of ABC leases are eliminated, and when the State's personnel costs are borne by private industry instead of the State.
- But even if the savings is only \$4-6 million, that is money worth saving. Especially when saving it gets the government out of competition with existing private businesses.

#### **Regulation of Consumption and Crime Under Full Privatization:**

- As noted previously, the ABC Board already regulates the sale of alcohol from the 550 privately owned stores operating in the State today. This would not change.<sup>6</sup>
- Thus, the ABC Board is experienced in enforcing issues such as selling to minors and shoplifting already, and there should be no real argument that the ABC Board cannot

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<sup>5</sup> Mac Gipson, [al.com](#), *Nothing Good Would Follow Alabama's Exit from Retail Liquor Business*, April 6, 2015 ("Gipson, *Nothing Good*").

<sup>6</sup> Smith, *Last Call*.

continue to do so when it is fully out of the retail business. In fact, arguably ABC could have more time and energy to devote to these enforcement issues.

- And today - even with the operation of those private stores, and with the availability of beer and wine in convenience and grocery stores, Alabamians still drink less than other states.<sup>7</sup>

### **Prices Under Full Privatization:**

- There has been a claim that Alabama liquor prices would rise if the ABC Board were taken out of the retail side of liquor sales because this is what happened in Washington State.<sup>8</sup> But in Washington, the State was removed from ALL aspects of alcohol sale at one time - the retail and the wholesale side.
- And Washington added additional taxes or fees to liquor when they privatized.
- The current proposals in Alabama do not seek to impose significant new fees or taxes.
- And as noted above, because the ABC Board will remain in the role of wholesaler and the Legislature will retain control of the mark-up and taxes, the State will continue be able to set the wholesale price in a manner that ensures the State continues to receive the needed revenue while not overburdening consumers.
- Plus, it is illogical to believe that increased competition from private businesses would lead to higher prices.

### **CONCLUSION**

- It would defy the laws of economics - if not the laws of physics - for the full privatization of retail alcohol sales to result in higher consumption and higher prices - but somehow lower revenue for the State. But this appears to be the argument being advanced by some.
- We already have the private sale of liquor in Alabama through the many small businesses operating in Alabama today.
- The Government - with an unfair advantage - is actively competing with those small businesses.
- It is time to get the State out of competition with these privately owned businesses.

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<sup>7</sup> Gipson, *Insight*.

<sup>8</sup> Gipson, *Nothing Good*.