



**Sobering Result:
The Alberta Liquor Retailing Industry
Ten Years after Privatization**

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In 1993/94 the Alberta Government implemented major policy changes involving the control, taxing, and distribution of liquor products. These changes included privatization of the retail and are housing functions, switching from an *ad valorem* (percentage of price) to a unit (flat) tax system of alcohol excise taxes, and the ending of direct control of liquor regulation and moving to a legislative and enforcement approach. Ten years later the retail industry has evolved into monopolistic competition with its inherent excess capacity and high costs. The government has lost effective control of the liquor industry which will likely continue to evolve into an oligopolistic market structure as chain stores get greater control. Against the trends in other jurisdictions, liquor consumption has increased (with its potential risks of increasing social ills), wholesale costs have risen, and retail prices have increased. Although retail prices have increased, the tax revenues to government have fallen significantly.

Conclusions:

- The retail liquor industry in Alberta has been evolving over the past decade following the change from a government monopoly to a competitive private market and the change from an *ad valorem* tax to the unit (or flat) tax markup.
- Evidence on the links between alcohol consumption and social ills is overwhelming. Absolute alcohol consumption is high in Alberta relative to the rest of Canada and has begun to climb since 1997. The potential for increased social costs is real.
- Socially responsible marketing would educate the public about such dangers as drinking and driving and fetal alcohol syndrome. The public's objective is to minimize the abuse of alcohol through the limit and control of the sale of liquor, in particular to prevent the sale to underage consumers and the intoxicated. In contrast, the objective of private firms is to sell product. A publicly-owned and controlled system of distribution does not have this inherent incompatibility of incentives.
- Private retailing of liquor has required greater regulation and enforcement costs. Some of these costs are incurred in the Ministry while others are shifted to local police departments.
- Alberta Government revenues from the sale of alcohol have stayed constant in absolute current dollars. This means that, with inflation, population growth, and growth in sales, revenues have fallen between 1993 and 2001. Prices have increased, but not to the degree they might have because the share taken as government revenue has fallen.
- The change from a government monopoly to a private market has resulted

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in a monopolistically competitive market structure. Some consumer advantages include greater convenience with the increase in number of stores, including more stores in rural small towns, and stores are open longer and later hours. The disadvantages include inefficiencies in the form of excess capacity, duplication, and redundancy, particularly in urban centres. This inefficiency generates considerable higher costs of retailing, even though wages are at half of those compared to other jurisdictions.

- The liquor retailing market has been handicapped in its ability to achieve market efficiencies by the control on the wholesale distribution and transportation costs and the restriction requiring stand-alone outlets. However, there are some economies of scale yet to exploit, facilitating the expansion of retail chains. Future directions in the industry appear to favour large grocery chains such as Safeway, the Real Canadian Superstore, the Calgary

Cooperative Association Ltd., IGA, and others.

- Prices for liquor products in Alberta are comparable to those found in British Columbia (January 2003). However, tax revenues returned to government are much lower in Alberta. This means the privatization effort has been supported and subsidized by the government through a reduction in the tax share of the final retail price. This reduction in tax revenue has limited the greater escalation of prices due to the cost increases caused by excess capacity.
- In summary, the Alberta government has lost effective control of the liquor industry, which will likely continue to evolve into an oligopolistic market structure as chain stores get greater control. Against the trends in other jurisdictions, liquor consumption has increased (with its potential risks of increasing social ills), wholesale costs have risen, and retail prices have increased. Although retail prices have increased, the tax revenues to government have fallen significantly.

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