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United States Senate Committee on the Judiciary

Subcommittee on Antitrust, Competitive Policy, and Consumer Rights

"Ensuring Competition Remains on Tap: The ABInBev/SABMiller Merger and the State Of Competition in the Beer Industry"

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On behalf of the Iowa Brewers Guild, the 54-member strong trade organization of commercial breweries in Iowa, I would like to express my concern over the proposed Anheuser-Busch InBev (ABI) acquisition of SABMiller that is currently under the review of the Senate Judiciary Committee's Subcommittee on Antitrust, Competitive Policy, and Consumer Rights.

Our disquiet is twofold. If this $106 billion dollar deal—the largest brewery merger of all time—is allowed to proceed, growing craft breweries in Iowa and across the United States fear difficulty with access to both market and raw materials.

A licensed and regulated alcohol beverage distribution system was designed following the repeal of Prohibition to curtail overly aggressive sales and marketing practices. Our guild members have created new Iowa brands and helped the U.S. craft beer industry grow from zero to 11% of the market (and over 4,000 breweries) since the 1970s, and access to market via an independent wholesale tier has been and will continue to be absolutely vital to the success of the craft beer industry.

From 1961 until 1985, Iowa only possessed one brewery; today, there are roughly 60 breweries creating jobs and driving tourism in our state. While the Iowa brewing scene has grown in recent years, our 60 breweries only possess around one percent of Iowa's market share while ABI possesses nearly 60 percent of the Iowa beer market. Nationwide, craft beer now represents 11% of the market, while in Iowa the total craft beer share (which includes out-of-state craft beers) is around six percent.

Our colleagues in the wholesale tier in Iowa and around the country have embraced the diversity that craft beer offers their portfolios in a time when palates are shifting, and consumer knowledge and demand are asking that these beers be made available to them. Like many brewery owners I have spoken to, independent wholesalers have also expressed their apprehension about the power a larger ABI would hold over the market and especially the distribution tier.

Market Access

With deep pockets already allowing ABI to hold sway over many wholesalers and economies of scale that allow no craft brewer to compete on price or marketing incentive, the amount of influence a combined company of this magnitude would have over market access is particularly startling. This is especially the case given ABI's past actions toward vertical integration in countries like Brazil and current efforts to procure wholesalers here in the U.S.

Currently the United States' fastest growing wholesaler, ABI has acquired 12 independent distributors in nine states since 2012. (California, Colorado, Hawaii, Massachusetts, New York, Ohio, Oklahoma, Oregon, and Washington). In addition, according to a June 2008 article in the St. Louis Business Journal, Busch family members personally own additional ABI distributorships in Florida, Texas, and Missouri. One of the three Florida wholesalers boasts 74% market share, while Krey Distributing

Company maintains 72% market share in Missouri's St. Charles and Lincoln counties. The latter made headlines in the St. Louis Post-Dispatch in March of 2013 when it dropped six craft breweries from its portfolio—the craft brands had come into Krey hands a year prior when Krey took control of the Grey Eagle and Lohr distributorships in a so-called "alignment" deal.

While Krey asserted that these brands were underperforming, Wolfbrau House of Beer owner Ryan Wolf indicated in the article that Krey wouldn't deliver the craft beers he ordered. "I haven't had a single case of 2nd Shift [Brewing Company's beers] in here in almost a year despite the fact that I ordered three varieties every week, week after week, for six months," he told the Post-Dispatch. "I eventually gave up."

Due to my proximity and friendship with the owners of Nebraska Brewing Company (one of the affected breweries), I'm privy to how their situation was handled—poorly—and at this time, they no longer sell their award-winning beers in the St. Louis market.

Ninkasi Brewing Company of Eugene, Oregon is another example of a craft producer who saw their sales plummet when ABI took over two of their distributors. Ninkasi managed to correct the problem by signing on with new wholesalers, but franchise laws make this type of move both difficult and expensive.

Washington state's beer market has been hit especially hard by ABI's aggressive tactics after it acquired Anheuser-Busch Sales of Washington (ABSW). ABSW once had a vibrant craft portfolio in one of the nation's lowest market share areas for ABI products, Seattle, but under its new ownership today, that portfolio has been eroded of virtually all non-ABI-owned craft beer producers, as well as larger players like Corona.

According to Heather McClung, the Washington Brewers Guild board president, ABSW is alleged to have shut out competition through (an illegal) paid "alliance" with a major entertainment group to ensure that only ABI beers or ABI-sanctioned beers be served at the majority of concert venues in greater Seattle, while a (legal) paid sponsorship of the football stadium has resulted in allegedly (illegal) "undue influence" in the selection of beers offered at the stadium.

McClung indicated to me that ABSW's aggressive tactics have grown so egregious that they have now drawn the attention of and an investigation by the Washington State Liquor and Cannabis Board.

Truly independent wholesalers have taken notice of the rise of the craft beer segment and have worked to shed exclusivity agreements with ABI, and to partner with craft breweries on distribution. While wholesalers profit on ABI and SABMiller brands by selling high volume, they have discovered that diversifying their portfolio with craft brands helps them to capture income from higher profit margins. As National Beer Wholesalers Association (NBWA) Senior Vice President Paul Pisana mentioned to me last week: "They [ABI] are not buying distributors to sell more craft beer. Whereas independent distributors are trying to sell more craft beer."

Just as my organization has concerns about this buyout and the aggressive behavior against which our licensed and regulated distribution system was put in place to protect, so do wholesalers around the country.

In Iowa, the executive committee of the Iowa Wholesale Beer Distributors Association (IWBDA) allowed me to relay their message to this committee:

> *"The primary mission of the IWBDA is to advocate for Iowa's independent beer distributors and Iowa's three-tier system of alcohol distribution, which has provided market access, wide distribution, and exceptional promotion of domestic, import, and craft beer in Iowa and across the country.*
>
> *IWBDA is proud of the sustained growth of beer in Iowa and the incredible beer selection available to Iowa consumers.*
>
> *Therefore, IWBDA urges state and federal officials to thoroughly review any consolidation that may impact the Iowa and U.S. beer market for production, distribution, and retail sale. Exceptions to the three-tier system should be resisted, and any approval of consolidations should require assurances that the independence of distributors will be maintained in order to ensure market access, fair promotion, and responsible sale of beer in Iowa."*

In addition to your committee's investigation into this proposed purchase, state regulators in California are examining ABI's announcement in September that it was purchasing two wholesalers in San Jose and Oakland. And just last week, I was contacted by the Iowa Attorney General's office, as they are also scrutinizing *this* proposal's impact within our state.

The IBG is pleased to see this additional oversight, as we've seen that the "independent" middle tier of the three-tier system isn't always fully independent when it comes to large and dominant suppliers such as ABI.

Raw Materials

While market access is an ongoing battle that small craft brewers have infiltrated by offering a wide range of locally-produced, flavor-forward products, the ability to produce or package them could soon be hindered if the merger is allowed. This megabrewery would have an even greater impact on brewing inputs such as malted barley, hops, and packaging materials like bottles and cans.

If this buyout proceeds, ABI's profits from 56% of the global beer market could allow ABI to buy up an entire year's hop crop (or simply a key varietal or two) and kill the craft sector in one fell swoop. This could actually happen inadvertently if ABI were to significantly increase production of a hop-forward beer such as Goose Island IPA. ABI breweries such as Craft Brew Alliance's (CBA) family of Widmer Brothers Brewing

Company, Redhook Brewery, and Kona Brewing Company are already experiencing difficulty in sourcing necessary hop quantities for the beers they produce.

“We’ve had contracts for years on Simcoe, and that hop [variety is] becoming wildly difficult for us to get, so some recipes are going to have to change,” said CBA Head of Innovation Brewing Ben Dobler, in an Australian Brews News article published on November 25 of this year.

While malt production can easily be increased, it is a costly per-acre investment (and three years for the hops to reach maturity) to establish new hop acreage. This year, we saw a 52.4% increase in hop acres harvested over 2012 numbers, but the rapid growth of the industry, the time it takes for the acreage to mature, weather variables for this agricultural product, and the fact that craft brewers use approximately 10 times more hops compared to industrial lagers primarily produced by ABI and SABMiller, the future of hop supplies for beer are tenuous without an aggressive player seeking to wipe out a growing sector of the market.

In addition to the ingredients used in making beer, small brewers face additional raw material access issues, and, unfortunately, this is nothing new. Decades before our present craft brewing industry existed, small brewers collaborated in the interest of procuring raw materials. Way back in 1942, the Small Brewers Committee, a precursor to the Brewers Association of America, met for the first time in Chicago to discuss the raw materials supply and other common concerns. One of the earliest issues the committee fought for was for access to tin crowns to seal beer bottles.

Seventy-three years later, similar worries exist, as many small brewers have struggled to maintain a supply of aluminum cans for packaging their product.

As the craft brewing industry grows in Iowa, (a recent economic impact study has projected that it will triple in five years), Iowa breweries may run into problems as they look to grow their businesses if this acquisition proceeds. As an organization, the Iowa Brewers Guild values healthy competition, but a merger of this magnitude could impact supply access and threaten the independent wholesaler tier of the system, and I don’t think that’s an accident. There’s a difference between a snowball and an avalanche, and if this merger proceeds, it could represent the snowball thrown from atop the mountain that leaves destruction in its wake further down the mountainside.

With the craft brewing industry representing true job and sales growth in an otherwise flat sector, I’d like to urge this committee to protect the United States’ craft brewing industry, the jobs it has created, and the economic growth it has brought to Main Streets across Iowa and the rest of the United States by recommending aggressive antitrust oversight of the ABI acquisition by the Department of Justice.