



August 29, 2014

Frederick A. Higdon, Commissioner
Tony Dehner, Distilled Spirits Administrator
Stephanie Stumbo, Malt Beverage Administrator
Kentucky Department of Alcoholic Beverage Control
1003 Twilight Trail
Frankfort, KY 40601-8400

Dana Coomes
Alcoholic Beverage Control Administrator
101 East 4th Street
P.O. Box 10003
Owensboro, KY 42302-9003

RE: Request denial of Anheuser-Busch, LLC application for Distributor's license in Owensboro

Dear Commissioner Higdon and Administrators Dehner, Stumbo, & Coomes,

We write to request that you deny the Anheuser-Busch, LLC application for a Distributor's license in Owensboro, KY. Notice of intent to apply for the Distributor's license was in the August 2, 2014 Messenger-Inquirer, and listed the location as 4221 Airpark Drive, Owensboro, KY, 42301.

Alcohol Justice (formerly Marin Institute) is the U.S.-based industry watchdog, a nonprofit organization that promotes evidence-based alcohol policy to protect public health and safety. In 2009, we published ***The Big Beer Duopoly: A Primer for Regulators and Policymakers.***¹ We appreciate the chance to offer this letter, containing highlights from that report, as part of your deliberative process.

Anheuser-Busch InBev (ABI), the multinational parent corporation of Anheuser-Busch, LLC, is one of two conglomerates that control more than 90% of beer production in the U.S. Encroaching ownership of the distribution tier and increased power will ultimately expand ABI's ability to oppose and defeat important public health policy regarding alcohol prices and taxes; alcohol outlet density; and alcohol advertising and promotion, among others. After the repeal of Prohibition, the 21st Amendment to the U.S. Constitution gave states unique regulatory authority over the sale and distribution of alcohol. The intent of the 21st Amendment and the three-tier system of alcohol regulation adopted by states including Kentucky was to maintain order in the marketplace, and ensure that the community had the power to enforce local control over the decision to sell alcohol and the way alcohol was sold. The three-tier structure of separate alcohol producers, distributors, and retailers helps ensure that states have adequate oversight of alcohol sales, and helps prevent aggressive marketing and sales tactics.

The second tier of distributors is a vital component of the three-tier system. Distributors help act as a

¹ https://alcoholjustice.org/images/reports/big_beer_duopoly.pdf

buffer between potentially overzealous producers and retailers. The top priority for ABI and other publicly traded global alcohol producers is turning a profit for its shareholders and rewarding its executives, not listening to local concerns about their potentially harmful product, or placing limits on sales of that product. Owning distributors gives ABI more power to oppose reasonable public health policy regarding alcohol prices and taxes, access and availability, and promotions/advertising.

The public safety and health of Kentucky residents requires independent distributors and retailers that are free to consider how their trade practices may affect rates of alcohol-related harm in the communities they serve. Concerns about ABI circumventing the authority and role of distributorships are justified, given ABI's successful attempts to consolidate and circumvent the U.S. three-tier system. ABI has stated its interest in controlling up to 50% of its distribution in the U.S., and has forced egregious and potentially illegal contract provisions upon distributors who often have no choice but to comply. According to recent accounts, ABI already has a strong competitive advantage with 500 wholesalers, and 17 that it owns in eleven states including Kentucky: California, Colorado, Hawaii, Massachusetts, New Jersey, New York, Ohio, Oklahoma, Oregon, and Washington. ABI has reported that its revenue from sales through ABI-owned distributors is higher than revenue from third-party sales. Owning distributors serves ABI's bottom line and further increases its vertical integration of the second/distributor tier - one of the very problems that the 21st Amendment was intended to address.

The problem continues to worsen as ABI expands its control of the world beer market, while tightening its belt to pay down the \$52 billion debt incurred when ABI was created. ABI has increased vertical distribution recently in Brazil: In 2000, Brazil had 27% direct distributorship, doubled to 54% in 2008. Since 2009, analysts have repeatedly forecasted that ABI would consolidate beer distributors one by one, working toward one chief wholesaler in each market for all of its brands. CEO Carlos Brito has a history of cutting costs in other countries by increasing the amount of beer shipped directly to retailers, forcing distributors out of business. In less than four years, InBev-owned Brahma consolidated 1,500 distributors to less than 200. ABI believes in direct distribution as a way to save costs and boost profitability, and the Owensboro distributorship is its latest attempt to do just that.

Another ABI-owned distributorship in Kentucky will put pressure on remaining independent distributors in many additional ways. We request that you require ABI to state the following:

- What is the purpose of ABI buying this distributor instead of allowing the sale to an independent business?
- How many jobs at ABI breweries and ABI-owned distributors have been lost in association with cost-cutting since the merger in 2008?
- How many jobs at ABI breweries and ABI-owned distributors were lost due to alcohol tax increases or proposals in states where ABI operates?
- Have threats of job cuts appeared in any ABI distributor purchase agreements, as they did in the ABI merger agreement? (See Big Beer Duopoly report.)
- How much does ABI spend annually on lobbying and political contributions in Kentucky? Has any ABI political spending, in this and other states, focused on turning dry counties wet?
- What amount of increase in sales does ABI anticipate, including ABI brands popular with underage youth such as Bud Light Rita (alcopops), as a result of owning the Owensboro distributorship?
- Has ABI raised the prices of its beer? Has ABI fired people because the price of beer increased? Will the price of beer increase or decrease if ABI acquires this distributorship?
- Is ABI's position that it is the only qualified buyer for any distributorships selling its products in Kentucky?

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- Considering that alcohol has costs: Would a new ABI-owned distributorship in Owensboro pay more in wages to employees, and state, federal, and local taxes, than the current owner paid on January 1, 2014?

Maintaining the integrity of the three-tier system, with a second tier of independent local distributors, is necessary for ensuring the health and safety of the public. With that in mind, we request that you deny the Anheuser-Busch, LLC application for Distributor's license in Owensboro. Thank you for your consideration.

Sincerely,



Bruce Lee Livingston
Executive Director/CEO

Email BruceL@AlcoholJustice.org
Phone: 415-515-1856

Note: This letter was sent by fax to 502-564-7479 on August 29, 2014 and mailed priority same day.