



May 26, 2009

Delivered Via Email Health Reform@finance-dem.senate.gov

The Honorable Max Baucus
Chairman, Senate Finance Committee
SD-219 Dirksen Senate Office Building
Washington, DC 20510-6200

The Honorable Charles E. Grassley
Ranking Member, Senate Finance Committee
SD-219 Dirksen Senate Office Building
Washington, DC 20510-6200

Re: Brewers Association Comments on Excise Tax Option for Health Care Reform Funding

Dear Senators Baucus and Grassley:

On behalf of the 983 small brewery members of the Brewers Association (BA), I want to thank you for providing this opportunity to publicly comment on the policy options for financing reform of America's health care system that were released by the Committee last week. The Brewers Association is an organization located in Boulder, Colorado, and dedicated to promoting and protecting small and independent American brewers, their craft beers and the community of brewing enthusiasts.

Without question, the reform of America's health care system is a vital issue facing our nation and our people. Indeed, most of our BA members are small, Main Street businesses with fewer than 50 employees. Thus, they have first-hand experience in struggling to provide health care benefits for their own families and employees. Your efforts and leadership in this continuing debate – and the manner in which you have conducted it – are to be commended.

While our BA members remain very interested in the general debate on health care reform, they are acutely focused on one particular policy option raised by the Committee: the option proposing an increase in federal excise tax rates. *In short, this option would have a devastating impact on small brewers, inevitably leading to lost jobs in communities all across America and the closure of many small breweries.* Furthermore,

The Brewers Association was established in 2005 by a merger of the Association of Brewers and the Brewers' Association of America.

The Honorable Max Baucus
The Honorable Charles E. Grassley
May 26, 2009
Page 2

this proposal directly contradicts the widely supported, bipartisan legislation introduced in both the House and Senate that seeks to reduce the excise tax for small brewers.

As this debate moves forward, I urge you to reject this particular policy option. Higher excise taxes are a recipe for creating a ripple effect for economic recession. The consequences will be less innovation, fewer products in the marketplace, less beer bought by consumers, further job loss and increased business risk for a long chain of struggling businesses – including barley farmers, hop growers, equipment and supply manufacturers, distributors, delivery truck drivers, retailers, restaurants and pubs.

Increasing federal excise taxes would do little to raise the revenue necessary for health care reform. Accordingly, I hope you will consider the following important facts about the small brewing industry, its contribution to our national economy, and the great number of well-paying jobs it provides to workers in communities throughout our country.

Who are small, independent brewers?

- America's 1,483 craft brewers represent only 4% of the entire U.S. beer market by volume, with 95% (1,429) being very small, independent brewers.
- Sixty-six percent (981) are brewery restaurants, whose success is tied directly to the state of the local economy and consumer confidence.
- Thirty percent (448) are the smallest bottling breweries, who produce volumes of 15,000 barrels or less of beer a year and sell their beers in local markets.
- Small and independent brewers are local, yet nationwide – there is at least one small brewery in 344 Congressional districts, providing jobs in local communities across the country.
- These brewers are vital small businesses in communities across the country, typically employing 10 to 50 employees.

Utilizing a proof gallon-based excise tax – as proposed – will place a disproportionately heavy burden on small brewers.

- Equalizing the tax among all types of alcohol and indexing to the proof gallon will tax the smallest producers at the highest rates due to the typically higher alcohol content in the specialty, gourmet and innovative beers they brew.
- This policy option will reduce consumer interest in our products (increased excise taxes mean increased costs to consumers) because the tax is levied at the brewery and the price is successively marked up as it moves through the wholesaler and

the retailer tiers. For example a \$1 per case excise tax increase will typically cost the consumer \$1.69. Increasing costs when consumers have fewer dollars to spend is not a formula for growth.

- Brewers already pay a disproportionately higher share of taxes compared with other products. As of 2003, excise taxes represented 40.8% of the retail price of beer, while total federal, state, and local taxes equaled 24.2% of all other purchases in the United States.
- Improving our nation's economic health and achieving a stable and affordable health care system are not advanced by disproportionately taxing individual consumer products. This kind of disproportional taxation results in more businesses closed, more jobs lost and less revenue collected in the form of income, sales, use and excise taxes.

Small brewers are proven economic generators:

- Small brewers contribute more than \$3 billion in wages and benefits and more than \$2.1 billion in business, personal and consumption taxes. Small business is the key to America's economic renewal, as small businesses truly bring growth to the standard of living of all Americans in towns throughout the country. Small brewers are small businesses.
- Nationally, small and independent craft brewers provide full- and part-time employment to 98,500 Americans, up from just a few thousand 30 years ago. An excise tax increase would undermine this trend. History shows that sales declined and jobs were lost after an excise tax increase in 1991. Furthermore, it is not good policy to eliminate or discourage the creation of living wage American manufacturing jobs at a time of economic crisis.

Small brewers already face serious economic and market challenges:

- Many small brewers walk the profitability tightrope, and some will be forced to shut down due to excise tax increases making their products less competitive with other options.
- Small brewers *currently face up to \$100 million collectively in new costs* associated with pending new labeling requirements, including serving facts and allergens.
- Many small brewers continue to struggle with the consequences of a nearly 40% increase in ingredient and operational costs in 2008.

The Honorable Max Baucus
The Honorable Charles E. Grassley
May 26, 2009
Page 4

With regard to excise taxes, small brewers support the passage of the BEER Act:

- Congress should give small brewers the tools to reinvest in their businesses. In fact, industry surveys reveal that small brewers would overwhelmingly inject tax savings back into their businesses to grow production and employment. Bipartisan legislation introduced this session of Congress – H.R. 836 and S. 1058 – would give small brewers those tools by reducing the excise tax.

Again, on behalf of BA members, I want to thank you for giving me this opportunity to comment on this policy option. If you or your staffs have any questions related to this matter or the brewing industry generally, please do not hesitate to contact me. Thank you in advance for your thoughtful consideration.

Sincerely,



Charlie Papazian
President, Brewers Association