



November 2017 Newsletter

Major Beer Companies Seek Brew Pub Licenses

Our regulatory system is structured so there are three independent tiers: supplier, wholesaler and retailer. There can't be ownership or favorable financial ties from one tier to another. Or can there?

Below is a picture of what is happening around the country. A brew pub that was a local craft brewery is now owned by the world's largest beer company. It is a brew pub called 10 Barrel. It was started by three guys in Bend, Oregon, a town with a population of 90,000. In 2014, it was purchased by Anheuser-Busch InBev, now a foreign-owned company based in Belgium. With the money ABI has invested, 10 Barrel has been able to expand their brewing and packaging capacity and added a second brew pub in town as well as brew pubs in Boise, Portland, Denver and San Diego. And, some months ago they applied for a distillery license.



The problem is that large corporations are very "bottom-line oriented" because they work for shareholders that expect ever-increasing large profits. That set-up often leads to the problems of the "absentee owner."

Our experience with local markets dominated by such absentee owners is not good. Before Prohibition, we had the "Saloon System." It consisted of several large national alcohol companies that owned retail bars called saloons, where almost all alcohol was sold. Most were "tied

houses" meaning they could only sell that manufacturer's products. So, each company had one or more "saloons" in virtually all of our local communities. Since there was little regulation, these companies pushed their retailers to sell alcohol very aggressively. As a result, social problems of excess consumption plagued our communities for many years. These companies not only used their economic power to squeeze out local operators, but used their resources to influence legislators and local politicians. So, our three-tier regulatory system is designed to prevent the problems engendered by the absentee owner operating in all three tiers of the business.

The Problem of the Absentee Owner:

"The "tied house" system has all of the vices of absentee ownership. The manufacturer knew nothing and cared nothing about the community. All he wanted was increased sales. He saw none of the abuses and as a non-resident, he was beyond local social influence"

Fosdick & Scot, *Toward Liquor Control*, Center for Alcohol Policy, 2011

After Prohibition, there was a determination that this market scenario should never return. In his proclamation announcing the end of Prohibition, President Franklin Roosevelt said, "I ask especially that no State shall by law or otherwise authorize the return of the saloon either in its old form or in some modern guise."

Often you hear that this problem is just ancient history and wouldn't happen today. But, President Roosevelt recognized that it could return in some "modern guise."

For example, look at what market domination has done in the United Kingdom. In that country, four large supermarket chains have dominated local markets. They have flooded these markets with large quantities of cheap alcohol that is sold very aggressively. They have cut into the pub business

because people typically engage in “pre-drinking” at home before going to the pub. For several years, the UK has been in the throes of an alcohol epidemic with high rates of underage drinking, public intoxication, liver cirrhosis and other problems. All of the recent prime ministers have had plans to quell the epidemic, but haven’t been very successful because of the economic and political power of the large corporations.

Also look at other business segments and see how large national corporations have hollowed out local communities and narrowed selection. For example, there are few local plant nurseries left and the big box stores that sell plants have limited varieties. Grocery stores now sell mostly Coke or Pepsi products; local craft sodas are almost unheard of.

Markets can change quickly. Bend is a good example. It has a lot of breweries—one for every 4,500 people, according to visitbend.com. Just a few years ago there were none. It is unlikely that all will survive given the much better competing power that 10 Barrel now has.

It is unlikely that Oregon policy makers anticipated that the brew pub license would attract large companies. It was supposed to be a way for breweries to get people to try their products. But, all the big companies now have one or more formerly local, craft breweries. And, these companies seem eager to get into the retail business. In the United Kingdom, Heineken now owns over 3,000 pubs.

Our regulatory structure of three independent tiers has fostered a flourishing of local brewery, winery and distillery businesses that are highly innovative and provide a wide variety of products. This is no accident. It is largely due to the design of the regulatory system which allows large and small operators to be profitable in the same markets.

This three-tiered system has many other benefits. Tax collections are almost 100% v. other countries that lose as much as a third of the potential revenue. We have very safe products because it is a closed sale system and distributors must track all bottles and cans. The recent problems that have arisen did no harm to customers because the products were very quickly identified and pulled from retail shelves. Finally, these market regulations

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keep the public safe by preventing sales tactics that would induce high volume sales and consumption.

It would be a shame to lose the many benefits we get from this system. It is a good time for policy-makers to re-examine the state-based system and determine how to ensure that local markets continue to flourish in a safe way.

Sources:

10 Barrel Brewing Co. One Year After Its Sale to A-B InBev, October 25, 2015, BrewPublic.com.

10barrel.com.

Visitbend.com.

Fosdick and Scott, *Toward Liquor Control, The Center for Alcohol Policy*, 2011