Anheuser-Busch

BOSTON BEER co.
ESTD. 1984

Constellation Brands
BEER DIVISION

HEINEKEN

MARK ANTHONY BRANDS

MOLSON COORS beverage company

NORTH DAKOTA BREWERS GUILD

January 23, 2023

Chairman Craig Headland & Members of
the Finance and Taxation Committee
North Dakota State Capitol, Room JW327E
600 East Boulevard Avenue
Bismarck, ND 58505

Chairman Headland and members of the Finance and Taxation Committee:

Today, we write to oppose House Bill 1303, a proposal to lower the tax rates of canned cocktails made with hard liquor. We represent brewers of all sizes doing business in North Dakota.

The proposal lowers the excise tax rate for hard liquor-based canned cocktails in North Dakota from $0.66 per liter to $0.159 per liter, a 76 percent decrease, and will result in significant losses to the state treasury. Current alcohol industry data contradicts the liquor industry's claims that they will make up for lost tax revenue and bring in new revenue by taking market share from beer and hard seltzer.

As the North Dakota hospitality industry continues to recover from the COVID-19 pandemic, it is questionable how a deep tax cut to out-of-state liquor companies benefits the consumers or small businesses of the state. North Dakota small businesses and workers need all the help they can get as they struggle to recover from the pandemic, especially in the face of seven percent inflation. Will out-of-state liquor companies lower their prices to help consumers? Not likely.

Public Sector Consultants conducted a recent study (attached) that discovered prices for canned cocktail products increased in Michigan and Nebraska, two states that passed similar tax legislation. In Nebraska, consumers saw a 65 percent price surge, while Michigan consumers saw a 44 percent jump, with more money going into the pockets of out-of-state liquor companies. The liquor industry recorded a massive $3.8 billion in revenue last year, while inflation in 2022 was over seven percent for North Dakotans. These numbers make it clear the liquor industry does not need a tax cut.

According to IWSR, ready-to-drink alcohol products, including hard liquor-based canned cocktail products, are growing faster than any other major drink category since 2018 and are projected to reach an eight percent total global share by 2025. The hard liquor canned cocktail sub-category is projected to grow by almost nine percent CAGR 2020-2025.[1] Out-of-state hard liquor companies claim they are at a disadvantage in the marketplace versus beer and wine. In addition, data from industry analysts show that canned cocktails retail at a nearly 90 percent premium to seltzer and a more than 150 percent premium to beer,[2] more than enough to offset any excise difference.

Additionally, this legislation undermines the public safety risks associated with liquor and. Beer has long been recognized as the beverage of moderation, and policymakers and the public understand that beer and liquor are very different products. The liquor industry says it is for responsible drinking, but its 40-year campaign to put beer and liquor on the same shelf would suggest otherwise. Consumers know a vodka martini is different than a beer. The average alcohol content of a beer is just below five percent. The average alcohol content of a liquor drink is more than 36 percent. Liquor companies are using canned cocktails to blur the lines and push for a tax rate that significantly downplays the differences between beer and liquor, directly undermining the responsible drinking campaigns that hard liquor claims to support.

Lastly, and very importantly, because of the significant differences in production, it makes sense for beer to be taxed at a different rate than hard liquor. Beer and liquor are produced and brought to market in very different ways. Per liter of pure alcohol, beer costs 2.5 times more than liquor to make.[3] Beer also has higher distribution costs than liquor. The brewing process and the quality of the ingredients that go into the process are critical to the finished product. Brewing is a more intense and time-consuming process than distilling. Similarly, beer is bulky, heavy, perishable, and fragile and needs protection from light, heat, and oxygen, making it more costly to store and distribute.

We urge the Legislature to oppose HB 1303. Hard-earned North Dakota taxpayer dollars could be spent on more critical issues facing the state rather than giving a handout.

Thank you for the opportunity to express our collective opinion on HB 1303.

Respectfully submitted on behalf of:

Anheuser-Busch
Boston Beer Company
Constellation Brands Beer Division
HEINEKEN USA
Mark Anthony Brands, Inc.
Molson Coors Beverage Company
North Dakota Brewers Guild

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[1] https://www.theiwsr.com/driven-by-consumer-demand-rtd-volume-share-expected-to-double-in-next-five-years-in-top-markets/
[2] NielsenIQ
[3] John Dunham and Associates